Note: On August 25, 2011, the Board of Directors of the Honolulu Authority for Rapid Transportation voted to adopt amendments to the Financial Policies. The amended Financial Policies can be found in Attachment A of the Minutes of the August 25, 2011 Board of Directors Meeting.

Honolulu Authority for Rapid Transportation

RESOLUTION NO. 2011- 2

RELATING TO THE FINANCIAL POLICIES OF THE BOARD OF DIRECTORS OF THE HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

WHEREAS, the Honolulu Authority for Rapid Transportation (HART) has been established pursuant to Article XVII of the Revised Charter of the City & County of Honolulu 1973, as amended (Charter); and

WHEREAS, it is in the public interest to ensure that the tax dollars and other income that support HART's business activities are utilized as efficiently and effectively as possible in the conduct of the Authority's business activities; and

WHEREAS, the Board desires to maintain compliance with applicable federal and state laws and applicable provisions of the Revised Charter of the City and County of Honolulu and applicable ordinances of the Revised Ordinances of Honolulu, if any; and

WHEREAS, the Board desires to utilize sound business and accounting practices in managing the Authority's financial affairs; and

WHEREAS, the Board desires to ensure accountability and transparency in the conduct of Authority's financial affairs;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of HART as follows:

1. That the Financial Policies, shown in Exhibit A attached hereto and made a part hereof by reference, be and hereby are, adopted as the policy of HART; and
2. That the Executive Director is authorized to implement the policies described in Exhibit A and to ensure that Authority staff and contractors, as appropriate, adhere to these policies
3. That this Resolution shall take effect immediately upon its adoption.

ADOPTED by the Board of the Honolulu Authority for Rapid Transportation on JUL - 1 2011.

Exhibit A – Financial Policies of the Honolulu Authority for Rapid Transportation

Board Chair

ATTEST:

Board Administrator

Honolulu Authority for Rapid Transportation

STAFF SUMMARY

TITLE: Adopting a Set of Financial Policies for the Authority			STAFF CONTACT: Ron Tober	DATE: July 1, 2011
Type:	Goal	Focus Area	Reference Notes	
X Action/Approval	☐ Project Delivery	☐ Livability/Land Use	Article XVII, Revised Charter of Honolulu	
☐ Information	☐ Service Delivery	☐ Partnerships	Act 247 (2005), State of Hawaii	
☐ Follow-up	☐ Resource Stewardship	X Agency Admin.	FTA grant requirements	

1. Purpose: By approving this action the Board will establish a comprehensive set of financial policies designed to provide a framework for the management and oversight of the financial affairs of the Authority.

2. Background/Justification: In order for the Authority to carry out its mission to plan, build, operate and maintain a fixed guideway transit system the agency must utilize sound financial and business management practices. The proposed set of Financial Policies shown in Exhibit A hereto are intended to provide direction to Authority management and to help guide decision-making by the Board in this critical area of responsibility. Given the importance of maintaining the integrity of the Authority's financial affairs, it is fitting that one of the first major policy actions of the Board is to adopt a comprehensive set of financial policies.

3. Procurement Background: Does not apply.

4. Financial/Budget Impact: This action is focused on the financial affairs of the Authority. There is no direct financial impact from the action itself. However, the policies established by the action will have a major impact on how the agency controls expenses and ensures that the tax revenues and other income received are being utilized in a cost effective and efficient manner.

5. Policy Impact: This action will establish new policy for the Authority guiding the financial affairs of the agency. It establishes requirements for budgeting and financial planning including the use of a long term Financial Plan and annual Business Plans. It delineates the authority and responsibilities of the Executive Director in managing budgets. It establishes a framework for accounting and funds management and for revenue and other income received by the Authority. It sets forth initial policy on investments, the use of debt and the management of physical assets. Finally, it establishes policy for financial reporting and auditing.

6. Public Involvement: One of the policy objectives embedded in the Financial Policies is ensuring transparency in the conduct of the agency's financial affairs. The reporting requirements set forth in the Policies are intended to help achieve this objective.

7. Alternatives: The Board could choose to modify specific aspects of the proposed Financial Policies or not adopt a set of Financial Policies.

8. Exhibits: None.

Certified and Recommended by:

F. Damayan

DTS Deputy Director

Note: On August 25, 2011, the Board of Directors of the Honolulu Authority for Rapid Transportation voted to adopt amendments to the Financial Policies. The amended Financial Policies can be found in Attachment A of the Minutes of the August 25, 2011 Board of Directors Meeting.

Exhibit A

FINANCIAL POLICIES OF THE HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

I. PURPOSE

The Financial Policies described herein are designed to provide a comprehensive framework for the management and oversight of the financial resources of the Honolulu Authority for Rapid Transportation (HART). The policies provide guidelines for decision-making by the Board of Directors and management staff on how HART's financial resources shall be utilized to fulfill the agency's mission.

A. Policy Objectives

1. Ensure the cost-effective allocation and use of HART's financial resources.
2. Comply with applicable federal and state laws, applicable provisions of the Revised Charter of the City and County of Honolulu, and applicable ordinances of the Revised Ordinances of Honolulu, if any.
3. Utilize sound business and accounting practices in managing HART's financial affairs.
4. Ensure accountability and transparency in the conduct of HART's financial affairs.

B. Legal Authority

1. Article XVII, Revised Charter of Honolulu.
2. Federal Transit Administration grant requirements.
3. Act 247 (2005), State of Hawaii.

II. DEFINITIONS

Appropriation	Approval to incur expenses and obligations for specific purposes
BANs	Bond Anticipation Notes; repaid from the issuance of longer term debt
Baseline Budget	Approved budget benchmark for a capital project; equivalent to the Baseline Cost Estimate (BCE)
BFS	Department of Budget & Fiscal Services, City & County of Honolulu
Board	Board of Directors, the policy-making body of HART
Budget Transfer	A shift of expense authority from one organizational unit to another or from one expense category to another subsequent to adoption of a final budget by the Board
CAFR	Comprehensive Annual Financial Report
Capital Expenses	Items costing $5,000 or more and having a service life of more than one year that includes non-recurring costs for equipment purchased for HART's use, or that are required to construct a transit facility or system including costs of land acquisition and relocation; planning

	and design services; construction and construction management; equipment; and furnishing the facility or system
Debt Service	Payment of principal and interest on any debt obligation
Director	The Executive Director of HART or his/her designee
Fares	Operating income derived from the passengers using a transit facility or system whether in cash or electronic form
Fiscal Year	July 1st thru June 30th annually
FFGA	Full Funding Grant Agreement between the FTA and a major investment project sponsor
FTA	Federal Transit Administration of the U.S. Dept. of Transportation
FTE	Full Time Equivalent; the fractional equivalent of one full time employee working a forty-hour work week for one calendar year
GANs	Grant Anticipation Notes; to be repaid from FTA grant funding
GET	State of Hawaii General Excise Tax
HHCTCP	Honolulu High-Capacity Transit Corridor Project
Operating Expenses	Recurring costs associated with the day-to-day operation of HART including the costs of agency operations, the delivery of transit service, debt service, administrative overhead expenses, direct reimbursements and non-recurring equipment costs of less than $5,000.
Operating Income	Revenue from all sources, including farebox revenues, property rentals, advertisements, parking fees and concession revenues
Operating Ratio	Operating Income from all sources divided by Operating Expenses
Reserve	An account used to segregate a portion of revenues for future use
Organizational Unit	Department, division or office responsible for a specific function or activity within the agency

III. BUDGETING AND FINANCIAL PLANNING

A. Financial Plan

In order to ensure the financial integrity and stability of HART, the Director will prepare and periodically update a long range Financial Plan for implementing and eventually operating the HHCTCP. The Financial Plan will include both capital and operating components. The purpose of preparing and updating the Plan is to demonstrate the financial capacity to implement and operate the HHCTCP. The Plan will include updated forecasts of income from the County GET surcharge; federal and state grants; private sources; contributions from other public entities; agency operations; and operating subsidies and General Obligation bond proceeds from the City and County of Honolulu. The Plan will also include updated information on HHCTCP capital costs and projections of future operating costs. Finally, the Plan will project cash flow needs for the agency and the extent and timing of debt financing needed to pay capital expenses.

B. Business Plan

The Director shall prepare an annual Business Plan which will provide information for the upcoming fiscal year on: activities, projects and contracts; key economic and work program assumptions; performance targets and results; staff and organizational plans; and operating and capital financial information. The annual Business Plan will include a projection of key financial and operating information for a two-year period beyond the subject fiscal year. A preliminary annual Business Plan will form the basis for the Operating and Capital Budgets proposed for the fiscal year as described in sections III.C and D below. A final Business Plan for a fiscal year based upon the final Operating and Capital Budgets adopted by the Board will be issued by the Director each July.

C. Operating Budget

The Director shall prepare and submit to the Board by September 15th a proposed Operating Budget for the upcoming fiscal year. The proposed Operating Budget will include all operating expenses and non-capital expenditures listed by organizational unit as well as sources of income to cover these expenses. The proposed Operating Budget will include income and expense information including actual information for the preceding fiscal year; projections for the current year; the proposal for the budget year; and projections for following two years. It will also delineate the number of FTEs proposed for the budget year in comparison to the current approved staffing level. The Board will review this submission, make modifications as it deems appropriate, and approve a proposed Operating Budget by November 1st. If the Board-approved proposed Operating Budget includes revenues from the City and County of Honolulu, the Director shall submit a line-item appropriation request, in the amount of such revenues, for the upcoming fiscal year to the City Council through the office of the Mayor of the City and County of Honolulu by December 1st. The Board will review, and if necessary, revise, the proposed Operating Budget and, following a public hearing, shall adopt a final Operating Budget for the upcoming fiscal year by June 30th.

D. Capital Budget and Six-Year Capital Program

The Director shall prepare and submit to the Board by September 15th a proposed six-year Capital Program and a proposed Capital Budget for the upcoming fiscal year. The proposed Capital Program will include a projection of all capital projects and contractual obligations for the ensuing six year period. The proposed Capital Budget will include all capital expenses and sources of income to cover these expenses in the upcoming fiscal year. The proposed Capital Budget will include at minimum information on the status of the budget for all capital projects being implemented by HART reflecting expenditures to date, contractual obligations outstanding, remaining budget, percent of project completion and schedule information. The Board will review this submission, make modifications as it deems appropriate, and approve a proposed Capital Budget by November 1st. If the Board-approved proposed Capital Budget includes revenues from the City and County of Honolulu, the Director shall submit a line-item appropriation request, in the amount of such revenues, for the upcoming fiscal year to the City Council through the office of the Mayor of the City and County of Honolulu by December 1st. The Board will review, and if necessary, revise, the proposed Capital Budget and, following a public hearing, shall adopt a final Capital Budget for the upcoming fiscal year by June 30th.

E. Budget Control and Amendments

The Director is responsible for ensuring that the Operating and Capital Budgets adopted by the Board are properly managed and adhered to by HART staff and consultants. The Director shall submit to the Board a budget amendment request for any expense or outlay that causes total expenses and outlays to exceed the amounts provided for (1) in either

the annual Operating and Capital Budgets adopted by the Board or (2) in the approved Baseline Budget for the HHCTCP or (3) a capital project included in the Six-Year Capital Program.

Within the Operating Budget adopted by the Board, the Director will have the following authority during the fiscal year:

1. Transfer expense budget authority from one organizational unit to another;
2. Transfer expense budget authority from one expense category to another; and
3. Transfer FTE authority from one organizational unit to another provided the total number of FTEs approved by the Board is not exceeded.

Budget or FTE transfers that would result in the adopted Operating Budget being exceeded must be submitted in the form of a budget amendment to the Board for prior approval. The Director shall report to the Board at least quarterly on any budget or FTE transfers he/she has authorized.

The Director will have the following authority in managing the Capital Budget during the fiscal year:

1. Award contracts in accordance with applicable laws and policy provided that the contract award does not result in the exceedance of the approved Baseline Budget for a capital project;
2. Transfer budget authority from one project element or contract to another provided that the approved annual Capital Budget appropriation and the approved Baseline Budget for the project are not exceeded; and
3. Manage material contract changes in accordance with established procedures for configuration control, change order disposition, risk or contingency management.

IV. ACCOUNTING/FUNDS MANAGEMENT

A. Major Fund Structure

All revenues shall be deposited with the BFS Treasury Division in the Transit Fund which is dedicated for use exclusively by HART, and described in Section 17-114 of the Charter.

There will be four types of subsidiary fund accounts within this Transit Fund as follows:

1. Transit Operating Fund (#290) will pay for operating expenses authorized by the adopted Operating Budget.
2. Transit Capital Fund (#690) will pay for capital expenditures authorized by the adopted Capital Budget.
3. Capital Improvement Bond Fund (#695) will pay for capital expenditures authorized by the adopted Capital Budget.
4. Grants Fund (#693) will pay for capital expenditures authorized by the adopted Capital Budget.

B. Use of City Financial Systems

Until otherwise determined, HART will utilize the financial systems and processes used by the City and County of Honolulu to manage cash receipts, investing, payroll, accounts payable and receivable, and general accounting. The Director will be responsible for exploring the feasibility and advisability of HART obtaining its own financial system in the future to handle these business activities. HART's financial system must interface with the City's accounting system.

C. Cash Management

The Director or his/her designee shall determine the timing of cash flow necessary to pay HART's legal obligations. Excess cash shall be invested by the BFS Treasury Division in interest-bearing securities. The Director or his/her designee will work with BFS representatives to determine the types and timing of investments that will minimize credit risk while maintaining a competitive yield.

V. REVENUE AND OTHER INCOME

A. County GET Surcharge

The County GET Surcharge of 0.5% has been in place since January 1, 2007. It is scheduled to expire on December 31, 2022. The BFS Treasury Division reports quarterly to HART the dollar amounts transferred to the City and County of Honolulu's bank account by the State Department of Taxation.

B. Fare Policy

The Board, following a public hearing, shall fix and adjust the rates and charges for the HHCTCP. Fares are required to generate revenue to cover a portion of HART's operating expenses, such that fares, in conjunction with all other revenues received for the HHCTCP, are sufficient or nearly sufficient as possible to support the HHCTCP and HART. Fare types and levels must be rational, understandable and explainable to achieve customer acceptance. They also must be set to help achieve and maintain an Operating Ratio that is consistent with the Financial Plan. Current plans call for fares charged on the rapid transit line being implemented under the HHCTCP to be the same as fares charged on services provided by The Bus. In addition, transfers between train and bus services will be free. More specific policy in this area will be developed in the future.

C. Fare Revenue Handling

Policy in this area will be developed in the future.

D. Advertising and Concessions

Policy in this area will be developed in the future.

E. Use and Rental of Property

Policy in this area will be developed in the future.

F. Debt Financing

In accordance with section VI.B below and upon approval of the Board, the Director may seek City Council approval to issue debt instruments to provide cash as needed to meet HART's obligations related to the implementation of the HHCTCP.

G. Federal Assistance

HART will seek federal financial assistance in the funding of the HHCTCP, other capital projects and its operations. The City and County of Honolulu will be the designated grant recipient for any funds HART receives from the FTA under an FFGA, by specific appropriation or formula or discretionary grant programs (collectively, "FTA funds"). Until otherwise determined, BFS will process drawdown requests for FTA funds, the proceeds of which will be deposited in the appropriate Transit Fund subsidiary fund account.

H. Contributions from Private Sources or Other Public Entities

HART will pursue opportunities with private and public sector interests that will benefit from the implementation of the HHCTCP and HART's capital projects. Such contributions could take the form of direct cash contributions, donation of rights-of-way, structured payments over time or the actual construction of project elements as examples.

VI. ASSET AND LIABILITY MANAGEMENT

A. Investment Policy

In the event that it is decided that HART will manage its own investments, the agency shall follow the investment policy of the City & County of Honolulu except that the investment maturity shall not exceed three years, and investments in financial derivatives are expressly prohibited.

B. Debt Management Policy

HART will utilize a mixture of long-term general obligation bonds and medium- and short-term debt to help finance construction of the HHCTCP. The medium- and short-term debt will be used to bridge the gap between the timing of capital expenditures and the receipt of revenues. The medium term debt will take the form of BANs or GANs. The short-term debt will be in the form of Tax Exempt Commercial Paper. All debt will be issued by the Treasury Division of BFS. All debt shall be retired by fiscal year 2023. The issuance of Certificates of Participation (COPS) is not available to HART under its current financial structure.

C. Real Property and Structures

All real property acquired by HART and all structures constructed or acquired by HART shall be held in the name of the City and County of Honolulu. HART shall be responsible for the use and condition of the real property acquired for the HHCTCP. Property records shall be kept in accordance with FTA requirements for capital assets.

D. Equipment

All equipment acquired by HART shall be properly maintained and records kept in accordance with FTA requirements. Annual reports to the Board shall include all equipment inventories and their condition. If equipment is lost or stolen, a police report shall be prepared.

E. Lease Financing of Assets

HART will consider the desirability of entering into a lease financing arrangement through private placement with a bank or financial institution for assets it acquires such as the rail vehicles being acquired for the HHCTCP. Such an arrangement must provide clear financial advantages to HART in the form of cash management or leveraging of resources, and must result in HART owning the asset at the end of the lease period.

VII. FINANCIAL REPORTING AND AUDITING

A. Periodic and Annual Reporting

The Director shall present monthly and quarterly financial reports to the Board covering budget versus actual information for both the operating and capital budgets. In addition, the Director will provide monthly procurement reports to the Board covering contract awards, change order activity and capital project contingency usage. An audited annual financial report shall be presented to the Board, the Mayor and the City Council. HART financial statements shall be submitted to BFS for inclusion in the City and County of Honolulu's CAFR. Internal reports will be on a cash basis consistent with the City and County of Honolulu's system until such time as HART acquires its own financial system that would enable reporting on an accrual accounting basis.

B. FTA Reporting

The Director will submit all FTA-required progress reports and quarterly narrative grant reports on a timely basis.

C. External Audit

HART shall engage the services of an independent certified public accountant to conduct an annual financial audit. The independent auditor will prepare the information to be included in the City and County of Honolulu's CAFR. The audit results will be reported to the Board, the City Council and the Mayor.

As designated grant recipient, the City and County of Honolulu's independent auditor will perform the Single Audit in conformance with OMB A-133 requirements.

D. Internal Audit Function

Policy in this area will be developed in the future.