



HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

**Finance Committee Meeting
July 7, 2011, 8:00 AM
Mission Memorial Annex Conference Room
550 South King Street
Honolulu, Hawaii**

PRESENT: Don Horner Carrie Okinaga
Keslie Hui David Tanoue
Ivan Lui-Kwan Wayne Yoshioka
Glenn Okimoto

ALSO IN ATTENDANCE: Toru Hamayasu Dennis Galolo
Phyllis Kurio Scott Ishikawa
Joyce Oliveira Jeanne Mariani-Belding
Gary Takeuchi Gene Park
Jack Shigeru Hamada Ken Banao

I. Call to Order

At 8:06 A.M., the meeting of the Finance Committee was called to order by Committee Chair Don Horner.

II. Public Testimony

Mr. Horner called for public testimony. No public testimony was offered.

III. Review of Financial Policies of the Board of Directors of the Honolulu Authority for Rapid Transportation

Mr. Horner requested a change of order in the agenda, and suggested that the Committee address the Review of the Financial Policies first. There were no objections to the Chair's request.

Mr. Horner noted that the Finance Committee faces the challenge of reviewing a capital budget, which is a slice of the financial plan, even though such a financial plan hasn't been formally adopted by the Board. He indicated his strong desire that the Finance Committee review the Financial Plan in context before looking at other questions. Mr. Horner also noted that while Section III of the Financial Policies indicates who creates the Financial Plan, it is unclear who approves the Financial Plan, and proposed

that the Committee recommend to the full Board the adoption of the April 2011 Financial Plan.

Interim Executive Director Toru Hamayasu suggested that the Committee consider adopting the Financial Plan as a draft until the FTA provides comments or completes its review. Mr. Horner recommended that Mr. Hamayasu report on the status of the FTA review at the next Finance Committee meeting so the Financial Plan can be approved.

Committee Vice Chair Keslie Hui asked whether there is a legal requirement for HART to formally adopt the Financial Plan before it is sent to the FTA for acceptance.

Deputy Corporation Counsel Gary Takeuchi referred questions on the FTA acceptance process to the Interim Executive Director.

Committee Member Carrie Okinaga noted that the Finance Committee can leave it to the full Board to approve the Financial Plans, pending acceptance or comments from the FTA.

Mr. Horner stated that the budgets must be reviewed within the context of the Financial Plan, and suggested that the Interim Executive Director return in August with a presentation on the budgets. Mr. Horner recommended that the Committee recommend approval of the budgets in the meantime.

Committee Member Ivan Lui-Kwan noted that when the budgets were approved, they went to the City Council for vetting, and indicated that the Board members should receive the same opportunity. Mr. Hui concurred with Mr. Lui-Kwan's suggestion.

Mr. Horner suggested that the Committee add a definition for "contingency" to the Financial Plan and Financial Policies, and that the Committee recommend rules relating to contingencies. Mr. Hui replied that rules on contingencies can be added later, once a definition of the term is identified.

Mr. Horner recommended that the term "Baseline Budget" be defined in the Financial Policies as it is in the Financial Plan.

Mr. Horner called for the Committee to come to some agreement on what would be constituted by the "Baseline Budget," pointing to the rough average cost of \$15M per station, not counting inflation or contingency, as an example.

Mr. Lui-Kwan noted that contingency is not listed as a line item on the operating or capital budgets, and, as such, suggested that the Committee examine Section III (E) of the Financial Policies.

Mr. Hamayasu proposed to keep the maximum project cost to \$5.3B, and further proposed that any change to the \$3.6B figure be brought to the Board for approval.

Committee Member Glenn Okimoto suggested that the definition for “Baseline Estimate” in the Financial Policies be based on the Draft April 2011 Financial Plan Worksheet column entitled “Base Year Dollars w/o Contingency.” Mr. Horner concurred. Mr. Hui clarified that the Base Year Dollars will be considered as April 2011 Dollars.

Mr. Horner proposed that Section III (A) of the Financial Policies be amended to state: “The Financial Plan shall be approved by the HART Board,” and that similar language be adopted for the Business Plan.

Mr. Hui proposed that a definition of “Capital Project(s)” be added to the Financial Policies.

Mr. Horner concurred, and proposed that the Interim Executive Director develop such a definition in line with existing Federal language.

Mr. Horner noted that there are variations to the baseline number due to inflation, two types of contingencies, and because bids come in lower than estimated, and as such, it is possible that there may be excess dollars left over. Mr. Hui and Mr. Lui-Kwan concurred with these concerns.

Mr. Horner proposed authorizing the Executive Director to either: 1) Spend contingency funds as necessary, or 2) Spend up to 10% in contingency, and require further approval to exceed that contingency. Mr. Hamayasu explained that the contingency is built in.

Mr. Lui-Kwan expressed his support for the 10% threshold, and suggested that, similar to existing City operations, staff provide schedules supported by work progress.

Mr. Horner proposed that the Board authorize the Executive Director to spend a base budget and a 10% contingency, but require the Executive Director to make a formal request to the Board for more.

Mr. Hui asked if a 10% leeway will also be instituted on cost savings. Mr. Horner recommended that the 10% leeway work in both directions, such that if a \$100M bid comes back at \$90M, the Executive Director can apply the savings elsewhere, but if the \$100M bid comes back at \$89M, the Executive Director will have to make a formal request to the Board to apply the savings elsewhere.

Mr. Horner expressed concern on Section IV (B) of the Financial Plan, which allows HART to obtain its own financial system for accounting purposes. As such, Mr. Horner recommended that the Executive Director receive Board approval before moving HART off the City’s accounting systems. The recommendation received no objections.

Mr. Horner expressed concern on Section IV (C) of the Financial Plan, dealing with investment of excess cash, and recommended that the third sentence be stricken, to ensure investment safety.

Committee Member Wayne Yoshioka raised concerns on Section V (B) of the Financial Policies, which indicate that transfers between the bus and rail must be free. Mr. Horner recommended striking the language on free transfers from Section (V) B and expressed his desire to have a joint discussion on fare structure and revenue with representatives from OTS. Mr. Hui indicated his desire to explore a tiered fare structure in the future. Mr. Hamayasu noted that changes to fare policy may have implications on ridership models, as the current simulation assumes free transfers.

Mr. Horner observed that Section V (D) suggests there are no plans to generate revenue from advertising in stations or trains. Mr. Horner also observed that the station designs do not incorporate spaces for vendors or vending machines, so no revenue is assumed from those activities. Mr. Hamayasu stated that revenues from advertising were not included in the Financial Policies, but were discussed in the Financial Plan.

Mr. Hui asked whether ad space will be available in the train vehicles. Mr. Hamayasu replied that ad space is possible, but no revenue is assumed because an advertising policy does not currently exist.

Ms. Okinaga asked whether the Board reserves the right to the revenue from advertising in the Core Systems contract.

Mr. Horner recommended that the Board incorporate language to ensure that any revenue from advertising is retained.

Mr. Horner raised concerns about Section VI (E) on lease financing, indicating that he has no problems giving the Executive Director the authority to lease, but would recommend requiring Board approval for any leasing. Mr. Horner also recommended striking the last clause of the last sentence of the section, after the comma. Mr. Horner further recommended inserting language into Section VII (A) to permit the Executive Director to exercise authority over contract awards, change orders, and contingency usage, subject to the 10% Board approval requirement.

IV. Review of FY2012 Business Plan – Draft Business Strategy

Mr. Horner recommended that the Business Plan be revisited at the next meeting of the Finance Committee. There were no objections.

V. Review of FY2012 Operating and Capital Budgets

Mr. Horner requested a monthly report on incoming GET money, which would include a comparison with how much was projected to have been raised.

Mr. Lui-Kwan asked when the execution of the FFGA is anticipated. Mr. Hamayasu replied September or October 2012.

Mr. Hamayasu noted that if the FY2012 Federal appropriation comes in \$5M higher, he will approach the Board to ask permission as to where to put the extra money.

Mr. Horner asked whether railcars would be purchased in FY12. Mr. Hamayasu replied that only components for cars would be purchased in FY12.

Mr. Horner suggested that the Financial Policies indicate that "Land Acquisition be done in accordance with Federal processes."

Mr. Horner also requested a schedule of properties by TMK to be acquired, including a list of owners. Mr. Hamayasu agreed to produce a list of properties/parcels to be purchased with FY12 land acquisition funds.

Mr. Horner also requested a report detailing components of Operating and Maintenance costs, such as number of FTE required, number of HPD officers, etc.

VI. Adjournment

Having completed all Committee business, Mr. Horner called for any further public testimony or comments.

Mr. Jack Shigeru Hamada queried the Committee whether the City Council has any control over HART's decision-making.

At 10:36 A.M., Mr. Horner called for the meeting of the Finance Committee to be adjourned. There were no objections, and the meeting was adjourned.

Respectfully Submitted,



Tyler Dos Santos-Tam
Board Administrator

Approved:



Don Horner
Chair, Finance Committee

AUG 11 2011

Date