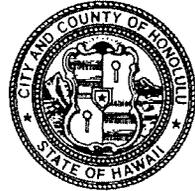


DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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CITY COUNCIL
HONOLULU, HAWAII



PETER B. CARLISLE
MAYOR

MICHAEL R. HANSEN
DIRECTOR

March 14, 2011

The Honorable Ernest Y. Martin, Chair
and Members of the Budget Committee
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Martin:

Subject: Budget Communication No. 4
Public Transit Authority Budget Submission

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We appreciate the opportunity to explain why we are presenting the proposed Fiscal Year (FY) 2012 transit authority budget in a manner that is not expressly for approval or disapproval by the City Council, and is independent from the executive budgets.

As you know, on November 2, 2010, the voters in the 2010 General Election overwhelmingly approved Charter amendments to create a "semi-autonomous public transit authority responsible for the planning, construction, operation, maintenance and expansion of the City's fixed guideway mass transit system." By operation of those Charter amendments, come July 1, 2011 – the start of FY12 – the Honolulu Authority for Rapid Transportation (HART) will be the semi-autonomous body charged with those responsibilities.

The construction and operation of the rail project will be funded principally from four sources: (1) GET surcharge monies, (2) federal grant monies, (3) City General Fund appropriations, and eventually (4) fare box revenues. In the construction stage, and FY12 is definitely part of that stage, no monies will be used from the latter two categories, and expenses will come solely from the surcharge monies and certain federal grant funds.

By operation of Section 17-114 of the Charter as amended by the voters in the 2010 General Election, a "Transit Fund" will be established into which all monies dedicated for the fixed guideway system, including by definition surcharge monies, will be automatically transferred on July 1. The surcharge monies were initially authorized

in 2005 for use for "operating or capital costs of a locally preferred alternative for a mass transit project" and for expenses in complying with the Americans with Disabilities Act for the transit project (HRS Section 46-16.8(c)(1)), and the City Council passed enabling legislation, also in 2005 (Ordinance 05-027, authorizing use of those surcharge monies for the same purposes). Pursuant to Section 17-108 of the Charter as amended by the voters in the 2010 General Election, HART will have management and control over the monies in the transit fund. At that point, the City Council will no longer hold the purse strings on the Transit Fund; the transit authority will have that responsibility. The FY12 budget for the transit authority, funded fully from the monies in the Transit Fund, will have to be approved by the HART board, since the transit authority maintains management and control over the Transit Fund starting July 1. Because of this, we did not submit the FY12 HART budget to the Council for its approval.

With respect to your specific question about why the HART budget was not made part of the Mayor's FY12 operating and capital budgets, because the Transit Fund will be under the control of the transit authority after July 1, and no General Fund appropriations will be needed by the transit authority for FY12, we believe that it would be improper to include the transit authority's operating or capital budgets as part of the Mayor's FY12 Executive Operating Budget and Capital Budget. Had the HART's budget been included, the Council could have approved of the expenditures, but would not have had control or approval authority over the revenue source, i.e., the Charter-created Transit Fund. And had the executive budgets been approved with a HART component, after July 1 there would be a portion of the Mayor's operating and capital budgets that might have been inconsistent with (and superseded by) the budget approved by the transit authority board. This may have even drawn into question the validity of the FY12 executive operating and capital budgets.

We are aware that some members of the Council may be questioning the meaning of Section 17-106 of the Charter as amended by the voters in the 2010 General Election. That Section provides that the transit authority shall submit to the Council via the Mayor by December 1 of each year the line item appropriation requests for its (1) operating and (2) capital budgets. Under that provision, the Council shall approve the transit authority's line item appropriation requests, with or without amendments. Although not express, we believe that because the Transit Fund monies are under the management and control of the transit authority after July 1, the appropriations mentioned in this provision pertain exclusively to General Fund appropriations over which the Council will have full control to approve or approve with amendments. Again, for FY12, there are no General Fund monies to be requested by the transit authority, and therefore, there are no line item appropriations for the City Council to approve with or without amendments.

It is our belief that in approving the Charter amendments establishing the semi-autonomous transit authority with control over the Transit Fund monies, the public believed that the non-elected transit authority board would be the body making the budget decisions regarding the Transit Fund.

The transit authority will need approval of the Council for all bond sales; for eminent domain (the Council has the right to object); for the sale, exchange or transfer of its real property or any interest therein; to change, extend or add to the fixed guideway system alignment; and for any General Fund appropriations (which there is no question that the rail project will require in future years, unless another funding source materializes). The Administration is committed to honoring not just the checks and balances that have been institutionalized by the Charter amendments setting up the transit authority, but also to making sure that the Council is receiving sufficient information about the progress of the transit project. Therefore, the Administration intends to propose to the HART board when it is established that the transit authority commit to provide the Council with regular briefings so that the Council may be assured that the project is on track.

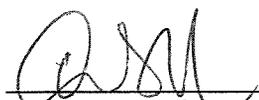
We look forward to discussing with you the details of the transit authority budget on March 17, 2011. As previously agreed, those details will be submitted to you today. If you have any questions in the meantime, please let me know. Thank you.

Sincerely,



Michael R. Hansen, Director
Budget and Fiscal Services

APPROVED:



Douglas S. Chin
Managing Director