



HOUSE COMMITTEE ON FINANCE
The Honorable Sylvia Luke, Chair
The Honorable Ty J.K. Cullen, Vice Chair

H.B. NO. 118, PROPOSED H.D. 1, RELATING TO GOVERNMENT

Hearing: Tuesday, February 26, 2019, 11:00 a.m.

The Office of the Auditor **offers the following comments on** H.B. No. 118, Proposed H.D. 1, which repeals Section 23-14, Hawai'i Revised Statutes (HRS), which requires the Auditor to conduct annual reviews of "any rapid transportation authority in the State" that receives moneys from a surcharge on the Hawai'i general excise tax, transient accommodation tax revenues, or both. Because we will require a consultant with requisite construction knowledge to assist with the annual review (as further described below), we require an annual appropriation for that purpose. If the Legislature believes that our annual review of invoices that the Department of Accounting and General Services (DAGS) has certified for payment from the Mass Transit Special Fund is unnecessary, we agree that Section 23-14, HRS, should be repealed and support H.B. No. 118, Proposed H.D. 1.

In 2017, the Legislature passed Act 1, First Special Session 2017, to provide additional State revenues to the Honolulu Authority for Rapid Transportation (HART) to complete the Honolulu Rail Transit Project. Act 1, codified, in part, as Section 40-81.5, HRS, also requires HART to submit invoices for payment to DAGS, which is tasked with verifying that the costs are eligible for payment under Section 46-16.8(e), HRS.

Act 1 also amended Chapter 23, HRS, to require the Auditor to, in essence, assess DAGS' work by confirming that the costs for which HART seeks reimbursement are, in fact, eligible to be paid using State revenues. Specifically, Section 23-14, HRS, requires an "annual review" by the Auditor to determine (1) whether expenditures by any rapid transportation authority comply with the criteria established by Section 46-16.8(e), HRS, and (2) whether the authority follows accounting best practices in submitting its expenditures.

Section 46-16.8(e), HRS, authorizes HART to use the surcharge on the State general excise tax only for "capital costs" associated with construction of the rail project, but expressly prohibits using the surcharge revenues to build or repair public roads; to support an existing public transportation system; for operating costs or maintenance costs of the rail system; and for HART's administrative, operating, marketing, or maintenance costs, including personnel costs.

Review of the authority's expenditures for the "capital costs" described above requires specialized knowledge in construction practices and invoicing. For example, construction contractors' invoices often include a list of "tasks" and "subtasks" for which the contractor seeks payment. Meaningful review of the invoiced tasks requires technical knowledge of each task, its

corresponding subtasks, and how these tasks are typically invoiced in the construction industry—knowledge which our office does not have for construction projects of this scale and complexity.

Notwithstanding, our office remains prepared to conduct this review. However, we have concerns that this work will require us to retain appropriate subject matter experts to assist us in this review and our review may duplicate certain work being performed by DAGS' staff pursuant to Act 1.

Thank you for considering our testimony related to H.B. No. 118, Proposed H.D. 1.