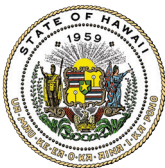

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 19-05
January 2019



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
<http://auditor.hawaii.gov>

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts of the Department of Transportation.

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Transportation.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Transportation.

Leslie H. Kondo
State Auditor

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Chapter 1

Introduction

This review encompasses the special funds, revolving funds, trust funds, and trust accounts administered by the State of Hawai‘i, Department of Transportation (DOT). Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review each State department’s special, revolving, and trust funds every five years. Specifically, the Auditor’s review must include:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund’s performance standards as established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending balance for each fiscal year.

This is our sixth review of DOT’s revolving funds, trust funds, and trust accounts.¹ However, it is our second review of their special funds, since Act 130, Session Laws of Hawaii (SLH) 2013, amended Section 23-12, HRS, to require we review special funds along with revolving funds and trust funds. Although not mandated by Section 23-12, HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving, and trust funds, are subject to minimal legislative scrutiny. We last examined these funds and accounts in 2013.

In this report, we reviewed 377 funds and accounts administered by DOT and report on 46 of them – specifically, 14 special funds, 21 revolving funds, 5 trust funds, and 6 trust accounts.

¹ Prior to 2013, Section 23-12, HRS, did not require reviews of departments’ special funds.

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special funds

Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State’s Accounting Manual, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

Revolving funds

Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.” Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans.

Trust funds

Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” Trust funds invoke a fiduciary responsibility of state government to care for and use only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments are to be held for the beneficiaries of the pension fund. Another example is tenants’ security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services (DAGS) defines a trust account as a separate holding or clearing account for State agencies. Trust accounts also serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special and revolving fund criteria

In 2002, the Legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, state that special and revolving funds may only be established by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by: (a) the purpose of the program to be supported by the fund; (b) the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and, (c) an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue – as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;
- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account must be established by statute. The criteria used to review trust funds and trust accounts are the extent to which each fund and account:

- Continues to serve the purpose and intent for which it was originally created; and
- Meets the definition of a trust fund or trust account, respectively.

The first criterion is derived from the objectives of Section 23-12, HRS, which requires the Auditor to evaluate the original intent of each fund and account and the degree to which each fund and account achieves its stated purpose. The second criterion assesses whether a fund is held by the State only for the benefit of those with a vested interest in the assets or an account is held as a separate or clearing account.

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of DOT.
2. For each special fund, revolving fund, trust fund, and trust account, determine whether the fund or account meets the respective criteria.
3. Provide a five year (FY2014 – FY2018) unaudited financial summary for each fund and account reviewed.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by DOT during the five-year period under review (FY2014 – FY2018). Funds and accounts included those established by statute as well as by administrative authority.

To identify funds subject to this review, we used a variety of sources, including our prior reviews, accounting reports from DAGS, non-general fund reports, legislative budget briefing documents, and other records. To gain an understanding of fund operations, we reviewed applicable agency administrative rules and interviewed key fiscal and program personnel, as necessary.

We obtained a summary statement for each fund that reflects total fund transactions in the preceding five fiscal years (July 1, 2013 to June 30, 2018), including beginning fund balances, total revenues, amount of interest earned, total expenditures, transfers, and ending fund balances for each fiscal year. We requested explanations for discrepancies

between ending balances for FY2013 reported in our last review and opening balances reported for FY2014. We did not audit DOT's financial data, which are provided for informational purposes only.

Procedures were performed on each fund using relevant criteria as stated above. We reviewed fund information for consistency with the intent of each fund's use and to ascertain the relationship between charges on users and expenditures. We reviewed and compared fund balances to financial activity and projected program needs and standards. We reviewed information on performance standards established for the funds or accounts and performed other procedures as necessary.

Where appropriate, we relied on our prior reports, including Report No. 14-05, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation*.

Our review was conducted in November and December 2018. Recommendations were made where applicable.

Difficulties Encountered

We experienced difficulties during our review of the Highways Division's special funds, revolving funds, trust funds, and trust accounts. We are required by statute to evaluate DOT's funds and accounts every five years.

During our entrance conference in June, we provided each DOT division (Administration, Airports, Harbors, and Highways) with an inventory of the funds and accounts that we understood each division maintains based on information from FAMIS and asked the divisions to confirm the accuracy of the inventory. The divisions were then asked to provide certain information about each fund and account through questionnaires that we provided.

The Highways Division is the only division that did not respond to our request to confirm its inventory of funds and accounts. In addition, the issues that we encountered with the Highways Division included the following:

- The division did not complete all its responses to the questionnaires until early December, six months after the questionnaires were provided, and only after numerous requests and reminders.
- Many of the division's responses were incomplete or inaccurate, which caused further delays. We were forced to repeatedly follow up with the division to obtain accurate information about certain funds and accounts.

- We experienced communication problems with the division throughout the process of our review. Specifically, telephone calls were not returned; emails requesting information were ignored or the division's responses were incomplete; and the division refused our requests to document and clarify information about its funds and accounts that were represented during telephone conversations.
- The division's Fiscal Management Officer responded to our request for current information about the division's funds and accounts by demanding that we copy the information that was reported five years ago.

We invested significant time and resources to complete our review of the department's funds and accounts. The Highways Division's participation and cooperation in our review of its funds and accounts needs to improve.

Of equal concern, based on the incomplete and inaccurate information that we were provided, it does not appear that the Highways Division has an understanding of all its funds and accounts. Because the moneys held in the funds and accounts are not subject to the level of legislative scrutiny involved with the general fund appropriations, it is critical that the division know each of its funds and accounts and be able to provide complete and accurate information about the moneys in those funds and accounts.

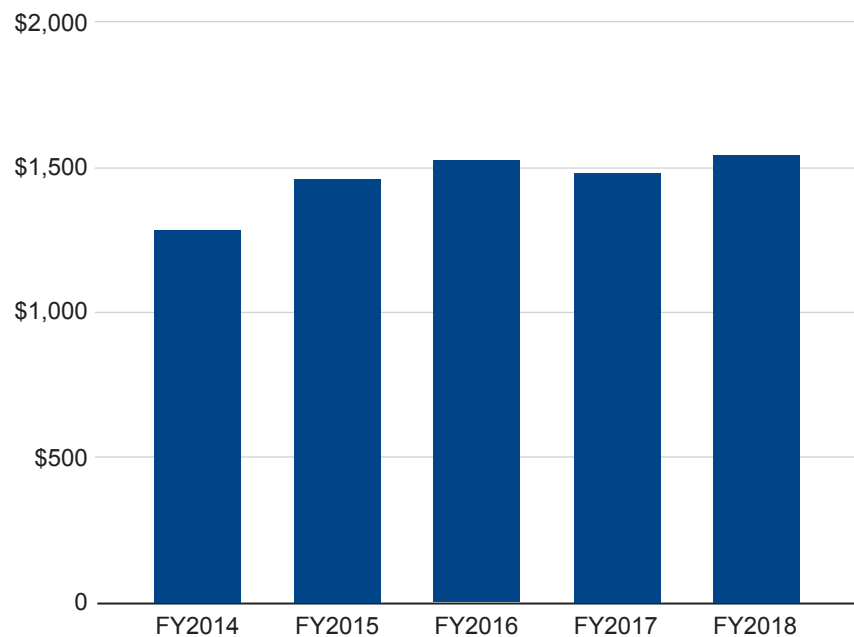
Chapter 2

Department of Transportation

This section presents the results of our review of 14 special funds, 21 revolving funds, 5 trust funds, and 6 trust accounts. Fund fiscal year-end balances amounted to at least \$1.2 billion per year during the period reviewed. We present the funds and accounts in four sections of our report, one for each of DOT's divisions: Administration (DOT Administration), Airports (DOT Airports), Harbors (DOT Harbors), and Highways (DOT Highways).

Exhibit 2.1 summarizes the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for DOT Non-General Funds
FY2014 – FY2018 (in millions)



Source: Office of the Auditor

Substantial amounts were also collected and expended by the funds annually. In FY2018, the special funds, revolving funds, trust funds, and trust accounts collected more than \$1.2 billion and spent or transferred more than \$1.1 billion.

Exhibit 2.2 presents totals for the combined revenue and interest, expenses and transfers, and ending fund balances for the different fund types for FY2018.

Exhibit 2.2
DOT Fund and Account Totals by Type, FY2018

Fund Type	Revenue and Interest	Expenses and Transfers	FY2018 End Cash Balance
Special Funds	\$1,006,885,265	\$916,986,367	\$1,017,246,894
Revolving Funds	187,620,612	194,302,162	437,744,101
Trust Funds and Trust Accounts	19,342,752	39,397,693	84,432,436
Total	\$1,213,848,629	\$1,150,686,222	\$1,539,423,431

Source: Office of the Auditor

For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of a special fund, revolving fund, trust fund, or trust account. We do not assess the effectiveness of programs and their management. The funds are presented in alphabetical order by division.

Exhibit 2.3 presents DOT's funds that did not meet criteria and should be evaluated for continuance, closed, or reclassified.

Exhibit 2.3 DOT Funds Not Meeting Criteria

Fund Name	Fund Type	FY2018 Ending Balance (rounded)	No longer serves original purpose and/or does not serve a need	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Inappropriate financing mechanism	Not financially self-sustaining	Does not meet special fund, revolving fund, trust fund, or trust account definition
Airports Division							
Airport Sinking Fund for Retire Term Bond	Revolving	\$0					✓
Airport System Debt Service Reserve Account	Revolving	96,893,000					✓
Airport System Interest Account	Revolving	24,890,000					✓
Airport System Major Maintenance, Renewal, and Replacement Account	Revolving	60,000,000					✓
Airport System Serial Bond Principal Account	Revolving	40,755,000					✓
Debt Service Funded Coverage	Revolving	22,338,000					✓
Reserve for Airline Rate Mitigation	Revolving	0					✓
Reserve for Operating and Maintenance Expenses	Revolving	91,017,000					✓
Harbors Division							
1997 Certificate - Harbor Interest Account	Revolving	6,191,000					✓
1997 Certificate - Harbor Principal Account	Revolving	13,185,000					✓
7th Supplemental Certificate 2010A Debt Service Reserve Fund Principal	Revolving	11,455,000					✓
Aloha Tower Fund	Special	0	✓				
Harbor Extraordinary Renewal/Replacement Reserve Account	Revolving	10,898,000					✓
Risk Management Fire and Casualty Losses - Harbors	Trust Fund	713,000	✓				✓
Highways Division							
Highway Senior Debt Service Reserve Account	Revolving	7,827,000	✓				✓
Highway Senior Interest Account	Revolving	9,982,000					✓
Highway Senior Principal Account	Revolving	21,505,000					✓
Highways Accrued Payroll Overhead	Revolving	44,000					✓
Highways Construction Administration Clearing Account	Revolving	1,510,000					✓
Motorcycle and Motor Scooter Operators Education Fund	Special	462,000			✓		
Safe Routes to School Program Special Fund	Special	675,000		✓*			
Special Deposits - Highways	Trust Account	7,899,000					✓
State Highway Fund	Special	0	✓	✓	✓	✓	✓
Transportation Improvement Special Fund	Special	9,741,000	✓		✓		
Total		\$437,980,000					

*There is a partial nexus between the program and the source of revenue.

Source: Office of the Auditor

Administration Division

This section presents the results of our review of funds and accounts of DOT Administration.

Aloha Tower Fund (special fund)

Section 206J-17, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$552	\$899	\$682	\$1,462	\$1,860
Revenues*	615	0	1,000	1,000	1,000
Interest	0	8	6	10	11
Expenditures	(268)	(225)	(226)	(612)	(618)
Transfers	0	0	0	0	0
Ending Balance	\$899	\$682	\$1,462	\$1,860	\$2,253
Encumbrances	\$0	\$0	\$0	\$0	\$0

*According to DOT Administration, there were no revenues in FY2015 due to the abatement of rent as the result of on-going negotiations relating to the use of Aloha Tower.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2012, the fund was established to place the Aloha Tower Development Corporation (ATDC) under DOT for administrative purposes. ATDC was established primarily to develop the Aloha Tower complex (Aloha Tower) in Honolulu, an area encompassing Piers 5 to 23 of Honolulu Harbor. The purpose of the program supported by the fund is to better serve the economic, maritime, and recreational needs of the people of Hawai‘i by developing, redeveloping, or improving Aloha Tower. Revenues are from an annual rent of \$1 million that ATDC receives from Hawai‘i Pacific University, its current lessee. Expenditures include an annual minimum base payment of \$225,000 to DOT Harbors for losses in revenue due to the curtailment of maritime activities.

In 1993, DOT Harbors entered into a lease with ATDC for portions of Aloha Tower. The lease requires ATDC to reimburse DOT Harbors for losses in revenue during the term of the lease caused by any action of ATDC or the developer of Aloha Tower, and to provide replacement facilities for maritime activities at no cost to DOT Harbors. A subsequent lease amendment not only requires a minimum annual base payment of \$225,000, but also requires an equity participation payment in an amount of 50 percent of the difference between ATDC’s total revenues and total operating expenses for a fiscal year (the equity payment) to reduce the amount owed to DOT Harbors for losses in revenue prior to July 1, 2004.

ATDC subleased lands surrounded by Piers 8 and 9 and a portion of lands surrounded by Pier 10 to a developer, which requires the developer to reimburse DOT Harbors for all losses in revenue and increased expenses incurred by DOT Harbors from its continued operations at Piers 8, 9, and 10.

During FY2015, the State entered into a successor memorandum of understanding with ATDC and Hawai'i Lifestyle Retail Properties, LLC (HLRP), whereby ATDC agreed to retroactively abate rent in the amount of \$1 million under the lease between ATDC and HLRP for FY2015, in consideration for the construction of student and faculty residences and various spaces for Hawai'i Pacific University. Consequently, ATDC did not receive any rent revenue during this period and was unable to make any equity participation payments to DOT Harbors. As of June 30, 2015, the balance of the note amounted to \$3,760,567.

***Bid Bond Deposits –
Administration
(trust fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$188	\$64	\$49	\$7	\$67
Revenues	326	166	10	60	9
Interest	0	0	0	0	0
Expenditures	(411)	(181)	(52)	0	(59)
Transfers*	(39)	0	0	0	0
Ending Balance	\$64	\$49	\$7	\$67	\$17
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer of interest income to the Amtrak Trust Fund for return to the appropriate federal agency.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 1990, the fund is used to fulfill DOT's requirement to provide bid security under Section 103D-323, HRS. Bid security is required for contracts exceeding \$25,000 and are to be in the form of a bond provided by a surety company authorized to do business in the State or the equivalent in cash. Bid security shall be in an amount equal to at least 5 percent of the amount of the bid and deposited and held in the fund until action is warranted for amounts to be distributed in accordance with the State Procurement Code. Bid securities provide protection against the failure or refusal of an offeror to execute the contract for the work bid or to supply the necessary performance and payment bonds as required. Revenues are from bid bond deposits for contracts that are put out to bid. Expenditures include the return of bid securities to bidders, as specified in the invitation for bids.

**General Administration
(special fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$7,342	\$10,162	\$11,516	\$6,669	\$9,550
Revenues	388	492	228	196	227
Interest	0	0	0	0	0
Expenditures	(12,030)	(13,481)	(14,007)	(14,276)	(14,980)
Transfers*	14,462	14,343	8,932	16,961	16,504
Ending Balance	\$10,162	\$11,516	\$6,669	\$9,550	\$11,301
Encumbrances	\$1,894	\$1,667	\$1,773	\$1,358	\$1,856

*Transfers in the amount of quarterly allotments are received from DOT Airports, Harbors, and Highways throughout the year in the form of assessment revenues in accordance with Section 36-30, HRS. At the end of each fiscal year, the unencumbered ending cash balance of the General Administration appropriation is transferred back to the divisions through the same pro-rata share they had been assessed. Additionally, transfer loans approved by DAGS may be from this fund to DOT Administration's federal grant appropriations that operate on a reimbursable basis at the beginning of each year and are paid back by year end.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Administratively created in 1977, the fund is used to account for the DOT Airports, Harbors, and Highways' pro rata share of administrative expenses for their special funds. DOT Administration consists of the Office of the Director of Transportation (Director, Deputy Directors, Community Affairs Office, and Office of Special Compliance), Departmental Staff Services Offices (Personnel, Business Management Office, Computer Systems and Services Office, Contracts Office, Programs, and Planning & Budget Office), and the Statewide Transportation Planning Office. Collectively, these offices provide overall administrative support for all DOT divisions. Revenues are from a percentage of DOT Airports, Harbors, and Highways' State allotted appropriations to cover their share of the cost of the general administration expenses. Each division transfers its pro-rata share to DOT Administration on a quarterly basis. Any unencumbered balances are transferred back to respective divisions at the end of each fiscal year. Expenditures include all operating expenses of salaries and wages, maintenance of buildings and grounds, utilities, general office expenses, equipment, business process improvement projects, and payment to other agencies for subject matter expert services. Moneys in this account may also be used for loans approved by DAGS. Such loans are made from this fund to DOT Administration federal grant appropriations that operate on a reimbursable basis at the beginning of each year and are paid back to the fund by year end.

**O'ahu Transportation
Management Area
Metropolitan Planning
Organization Revolving
Fund
(revolving fund)**

Section 279D-5, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$501	\$111	\$402	\$1,087	\$557
Revenues	863	2,031	1,895	464	642
Interest	0	0	0	0	0
Expenditures	(1,253)	(1,740)	(1,210)	(994)	(710)
Transfers	0	0	0	0	0
Ending Balance	\$111	\$402	\$1,087	\$557	\$489
Encumbrances	\$30	\$40	\$196	\$354	\$373

*The financial data above reflects a consolidation of this revolving fund and the O'ahu Metropolitan Planning Organization Expenditure Clearing Account. Under Section 279E-5, HRS, the Clearing Account served as the O'ahu Metropolitan Planning Organization's fund. However, the establishment of this revolving fund repealed and replaced the Clearing Account. Despite the repeal of the Clearing Account in June 2015, DOT Administration continues to use the account due to a previously encumbered contract, and at the end of FY2018, the Clearing Account held \$1,500 in encumbered moneys. In our prior fund review, in Report No. 14-05, the Clearing Account was excluded from our review based on the conclusion that it was not a DOT fund.

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Statutorily created in 2015, the fund is used to hold dues, revenues, grants, and appropriations associated with the O'ahu Metropolitan Planning Organization (O'ahuMPO). O'ahuMPO was established in compliance with federal law to act as a decision-making agency and to receive certain federal funds for the purpose of carrying out a continuing, cooperative, and comprehensive transportation planning process. Participating agencies include the City and County of Honolulu (City), the State, and the Honolulu Authority for Rapid Transportation. Pursuant to the "*Comprehensive Agreement Dated July 20, 2015*," O'ahuMPO entered into an administrative supplemental agreement with DOT to act as its "host agency," assigning responsibility for administrative tasks between O'ahuMPO and DOT wherein DOT is reimbursed for its administrative work. Revenues are from member financial dues, revenues from the operations of O'ahuMPO, appropriations by the Legislature, gifts, grants, and any other moneys available to the fund. Dues received from O'ahuMPO members fund the 20 percent local share of project costs not covered by federal funds. Expenditures may include any O'ahuMPO expenditure, except as otherwise provided by federal law.

**Western Association
of State Highway and
Transportation Officials
Quality Award Program
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance*	\$3	\$3	\$3	\$3	\$3
Revenues	3	3	3	3	3
Interest	0	0	0	0	0
Expenditures	(3)	(3)	(3)	(3)	(3)
Transfers	0	0	0	0	0
Ending Balance	\$3	\$3	\$3	\$3	\$3
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Monetary gifts for the fiscal year are awarded the following August, resulting in a balance being carried forward each fiscal year.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2009, the account is used to hold moneys received from the Western Association of State Highway and Transportation Officials (WASHTO). Revenues are from WASHTO, which provides up to \$3,000 per fiscal year to DOT to support or establish a quality award program that recognizes achievements in transportation safety and other outstanding accomplishments by DOT employees. Expenditures include monetary awards of \$750 to teams from each of the four DOT divisions which is equally distributed among team members.

Airports Division

This section presents the results of our review of funds and accounts of DOT Airports.

Airport Revenue Fund (special fund)

Section 248-8, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$317,086	\$342,641	\$346,560	\$356,504	\$372,343
Revenues	331,626	347,519	363,328	402,564	449,773
Interest	0	0	0	0	0
Expenditures	(320,021)	(333,481)	(353,561)	(387,320)	(438,170)
Transfers (net)**	13,950	(10,119)	177	595	23,784
Ending Balance	\$342,641	\$346,560	\$356,504	\$372,343	\$407,730
Encumbrances	\$111,199	\$136,908	\$230,111	\$217,831	\$200,802

*This fund is a parent account and the original source of revenue for 82 sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts, which were not included in our prior fund review in Report No. 14-05.

**Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Created in 1947, the fund is used to collect revenues to maintain, operate, preserve, and keep the statewide airport system in good repair and working order; to conduct business efficiently and at reasonable costs; and to make all payments of principal and interest on all revenue bonds issued for an undertaking or loan program in support of the statewide airport system. Section 261-7, HRS, requires the State to operate the airports system on a self-sustaining basis. DOT is authorized pursuant to Section 261-7, HRS, to impose and collect rates and charges for the airports system services and properties to generate revenues to fund operating expenses. The fund is used to account for the acquisition, operation, maintenance, and capital improvement of the 15 airports statewide. All monies received by DOT Airports are deposited into the fund. Transfers of these moneys are made to various operating and reserve accounts to fund DOT Airports' programs.

***Airport Sinking Fund
for Retire Term Bond
(revolving fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Section 39-53, HRS, authorizes any department to issue revenue bonds of the State in the amounts authorized by the Legislature to finance the cost of the acquisition, purchase, construction, reconstruction, improvement, betterment, or extension of any undertaking authorized by law. Section 39-61, HRS, states that the undertaking shall be, and always remain, self-sustaining and that the department issuing the revenue bonds must have sufficient revenue to carry out the covenants of the certificate authorizing the issuance of the revenue bonds.

Administratively created in 1969, the fund was established by the 1969 “Certificate of the Director of Transportation Providing for the Issuance of State of Hawai‘i Airport Systems Revenue Bonds” (1969 Certificate). Pursuant to the 1969 Certificate, DOT Airports has committed to its bondholders that it will enforce and collect fees, rates, rents, and charges for the undertaking that will be pledged for the payment of the debt. The 1969 Certificate provides that amounts deposited in the Airport Revenue Fund be transferred to the Interest Account, Serial Bond Principal Account, Sinking Fund Account, Debt Service Reserve Account, and the Airports System Major Maintenance, Renewal, and Replacement Account for the payment of debt service on bonds. DOT Airports asserts that the 1969 Certificate requires separate accounts as unlawful use of airport revenue for non-airport related activities would be considered revenue diversion and jeopardize the continuance of receiving federal funds. There were no revenues or expenditures from the fund during our review period. According to DOT Airports, they are not required to transfer monies to the fund for current bonds outstanding until July 2021. The fund should be reclassified as a trust account.

**Airport System Debt
Service Reserve
Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$96,893	\$96,893	\$96,893	\$96,893	\$96,893
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$96,893	\$96,893	\$96,893	\$96,893	\$96,893
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1969, the fund was established by the 1969 Certificate and receives transfers from the Airport Revenue Fund as a reserve for the payment of interest, principal, and premium on bonds. There were no revenues or expenditures from the fund during our review period. The fund should be reclassified as a trust account.

**Airport System Interest
Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$23,069	\$21,672	\$20,758	\$35,446	\$27,943
Revenues	43,034	41,516	60,347	50,416	48,597
Interest	0	0	0	0	0
Expenditures	(43,811)	(42,275)	(40,736)	(52,685)	(49,507)
Transfers (net)*	(620)	(155)	(4,923)	(5,234)	(2,143)
Ending Balance	\$21,672	\$20,758	\$35,446	\$27,943	\$24,890
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1969, the fund was established by the 1969 Certificate and receives transfers from the Airport Revenue Fund for the payment of interest on outstanding bonds. The fund should be reclassified as a trust account.

***Airport System Major
Maintenance, Renewal,
and Replacement
Account
(revolving fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$59,980	\$59,899	\$60,000	\$60,000	\$60,000
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(101)	(27)	0	0	0
Transfers (net)*	20	128	0	0	0
Ending Balance	\$59,899	\$60,000	\$60,000	\$60,000	\$60,000
Encumbrances	\$55	\$0	\$0	\$0	\$0

*Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1969, the fund was established by the 1969 Certificate and is used as a reserve account for bond payments and major maintenance, repairs, renewal, and replacements. The fund receives transfers from the Airport Revenue Fund. Expenditures include costs to make up deficiencies in the interest, serial bond principal, and sinking fund accounts, and for major maintenance, repairs, renewal, and replacements that are not annually recurring in nature. The fund should be reclassified as a trust account.

**Airport System
Serial Bond Principal
Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$40,305	\$34,210	\$35,725	\$37,290	\$38,935
Revenues	34,210	35,725	37,290	38,935	40,755
Interest	0	0	0	0	0
Expenditures	(40,305)	(34,210)	(35,725)	(37,290)	(38,935)
Transfers	0	0	0	0	0
Ending Balance	\$34,210	\$35,725	\$37,290	\$38,935	\$40,755
Encumbrances	\$0	\$0	\$0	\$0	\$0

*This fund is a parent account and the original source of revenue for two sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1969, the fund was established by the 1969 Certificate and receives transfers from the Airport Revenue Fund for the payment of principal on outstanding bonds. Expenditures include principal due on airport serial bonds. The fund should be reclassified as a trust account.

**Debt Service Funded
Coverage
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$24,223	\$19,311	\$19,311	\$22,338	\$22,338
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)*	(4,912)	0	3,027	0	0
Ending Balance	\$19,311	\$19,311	\$22,338	\$22,338	\$22,338
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1994, the fund was established by the 1969

Certificate and is used to hold an amount equal to 25 percent of the annual debt service on the airport system's revenue bonds outstanding for the current fiscal year. The fund receives transfers from the Airport Revenue Fund. There were no revenues or expenditures from the fund during our review period. The fund should be reclassified to a trust account.

***Energy Savings
Performance Contract
– Outside State
Treasury
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2015 – 2018 (in thousands)

	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$40,779	\$24,306	\$69,085
Revenues	172,977	8,090	51,576	608
Interest	0	0	0	0
Expenditures	(132,198)	(24,563)	(6,797)	(20,581)
Transfers	0	0	0	0
Ending Balance	\$40,779	\$24,306	\$69,085	\$49,112
Encumbrances	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2015, the account collects proceeds to cover capital costs of energy performance contracts to develop energy saving projects at Hawai'i's airports. Section 36-41, HRS, authorizes State agencies to enter into multi-year energy performance contracts to implement energy conservation or alternate energy measures in State facilities. In 2012, DOT selected a vendor to develop the energy saving projects at Hawai'i's airports and issued a series of Certificates of Participation (COP) to provide funds for the project. Revenues are exclusively from net proceeds of the COPs. Expenditures include all capital costs of the energy savings project.

***Prepaid Airport Use
Charge Fund
(trust fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$40,672	\$21,798	\$8,592	\$9,245	\$10,350
Revenues	0	28,184	4,654	1,105	6,553
Interest	0	0	0	0	0
Expenditures	0	(41,390)	(4,001)	0	(4,500)
Transfers*	(18,874)	0	0	0	0
Ending Balance	\$21,798	\$8,592	\$9,245	\$10,350	\$12,403
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 1977 as a special fund, the fund accounts for moneys paid by signatory airlines in excess of the amounts annually required under the airport-airline lease. A separate Prepaid Airport Use Charge Fund memorandum of agreement (MOA) specifies the handling of the excess moneys. Revenues are from excess amounts required under the MOA and may be related to airport landing fees, aeronautical rental, aviation fuel tax, and airports system support charges. Expenditures include improvements to the general operations of the State airport systems.

In our prior fund review, in Report No. 14-05, we determined that the fund did not meet the criteria of a special fund because moneys in the fund are the property of signatory airlines and may not be used for any purpose other than those set forth in the MOA.

**Rental Motor Vehicle
Customer Facility
Charge Special Fund
(special fund)**

Section 261-5.6, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$78,165	\$127,792	\$182,170	\$216,240	\$143,352
Revenues	55,299	99,277	69,216	111,125	95,180
Interest	0	0	0	0	0
Expenditures	(5,672)	(44,900)	(35,146)	(141,013)	(145,306)
Transfers (net)**	0	1	0	(43,000)	43,059
Ending Balance	\$127,792	\$182,170	\$216,240	\$143,352	\$136,285
Encumbrances	\$231,018	\$184,795	\$256,602	\$284,968	\$189,216

*This fund is a parent account and the original source of revenue for 35 sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts which were not included in our prior fund review in Report No 14-05.

**Transfers to various expending accounts to fund customer facility charge projects.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2008, the fund holds proceeds from the rental motor vehicle customer facility charge (CFC). A CFC charge of \$4.50 per customer, per day or any portion of a day, is collected from all rental motor vehicle customers who benefit from the use of any type of rental motor vehicle facility or service provided by DOT at a State airport. The purpose of the program supported by the fund is to build new rental motor vehicle customer facilities at State airports to better serve Hawai‘i’s visitors and residents. Revenues are from CFC charges. Expenditures include the enhancement, renovation, operation, and maintenance of existing rental motor vehicle customer facilities and related services at the State airports.

**Reserve for Airline
Rate Mitigation
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device

to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1994, the fund was established by the 1969 Certificate and receives transfers from the Airport Revenue Fund to adjust for operating revenue shortfalls to prevent the need to increase airport-related fees to airlines and tenants. There were no revenues, expenditures, or activity in the fund during our review period. The fund should be reclassified as a trust account.

***Reserve for Future
Cash Capital
Improvement Projects
(revolving fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$57,639	\$53,214	\$58,105	\$34,174	\$27,349
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)*	(4,425)	4,891	(23,931)	(6,825)	(8,584)
Ending Balance	\$53,214	\$58,105	\$34,174	\$27,349	\$18,765
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Administratively created in 1994, the fund serves as a reserve account for cash available to fund existing or future DOT Airports' capital improvement projects and receives transfers from the Airport Revenue Fund. Revenues are from airport landing fees, concessions, aeronautical rental, aviation fuel tax, airports system support charges, non-aeronautical revenues, and other miscellaneous revenue. Expenditures include planning, design, construction, and project-funded staff costs relating to capital improvement projects.

**Reserve for Operating
and Maintenance
Expenses
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$67,111	\$69,420	\$77,858	\$84,064	\$84,064
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)**	2,309	8,438	6,206	0	6,953
Ending Balance	\$69,420	\$77,858	\$84,064	\$84,064	\$91,017
Encumbrances	\$0	\$0	\$0	\$0	\$0

*This fund is the parent account and the original source of revenue for two sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts.

**Transfers between various DOT Airports' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1994, the fund was established by the 1969 Certificate and receives transfers from the Airport Revenue Fund to maintain a reserve equal to 25 percent of the budgeted annual operating and maintenance expenses for the current fiscal year. There were no revenues or expenditures from the fund during our review period. The fund should be reclassified as a trust account.

**Temporary Deposits –
Airports
(trust fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$6,491	\$5,867	\$6,171	\$7,387	\$8,453
Revenues	851	985	1,648	1,451	1,130
Interest	0	0	0	0	0
Expenditures	(1,475)	(681)	(432)	(385)	(457)
Transfers	0	0	0	0	0
Ending Balance	\$5,867	\$6,171	\$7,387	\$8,453	\$9,126
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created, the fund is a holding account for security deposits for rental property and

from users of airport services and facilities. Revenues are from security deposits collected. Expenditures include the refund of security deposits to customers.

Harbors Division

This section presents the results of our review of funds and accounts of DOT Harbors.

1997 Certificate – Harbor Interest Account (revolving fund)

Administratively established

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$9,549	\$8,934	\$8,625	\$8,270	\$6,897
Revenues	18,135	17,361	16,662	14,939	12,437
Interest	0	0	0	0	0
Expenditures	(18,750)	(17,670)	(17,017)	(16,312)	(13,143)
Transfers	0	0	0	0	0
Ending Balance	\$8,934	\$8,625	\$8,270	\$6,897	\$6,191
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1997, this fund was established by the 1997 “Certificate of the Director of Transportation Providing for the Issuance of State of Hawai‘i Harbor System Revenue Bonds” (1997 Certificate) pursuant to Section 39-61, HRS. DOT Harbors is authorized to issue harbor revenue bonds upon securing the required legislative appropriations for its capital improvements program. Pursuant to its 1997 Certificate, DOT Harbors has committed to its bondholders that so long as any of the revenue bonds remain outstanding, it will enforce and collect fees, rates, rents, and charges for the services, facilities and commodities of the undertaking that will yield net revenue which will be pledged for the payment of the debt and deposited into the Harbor Special Fund. The 1997 Certificate requires that DOT Harbors establish three accounts including a Harbor Interest Account, Harbor Principal Account, and Harbor Debt Service Reserve Account. This fund is used as the debt service account for the bond interest payable for the DOT Harbors revenue bonds. The fund receives monthly deposits from the Harbor Special Fund. Expenditures include interest payments due on DOT Harbors revenue bonds. The fund should be reclassified as a trust account.

**1997 Certificate –
Harbor Principal
Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$10,550	\$11,288	\$11,838	\$12,408	\$13,200
Revenues	13,841	14,055	14,740	15,658	15,955
Interest	0	0	0	0	0
Expenditures	(13,103)	(13,505)	(14,170)	(14,866)	(15,970)
Transfers	0	0	0	0	0
Ending Balance	\$11,288	\$11,838	\$12,408	\$13,200	\$13,185
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1997, the fund was established by the 1997 Certificate. The fund is used as the debt service account for the bond principal payable for the DOT Harbors revenue bonds. The fund receives monthly deposits from the Harbor Special Fund. Expenditures include principal payments due on DOT Harbors revenue bonds. The fund should be reclassified as a trust account.

**7th Supplemental
Certificate 2010A Debt
Service Reserve Fund
Principal
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$11,455	\$11,455	\$11,455	\$11,455	\$11,455
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$11,455	\$11,455	\$11,455	\$11,455	\$11,455
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it was inappropriately created and functions more like a trust account. In 2002, the Legislature set the requirements for establishing and continuing revolving funds. Section 37-52.4, HRS, states that revolving funds may only be established by statute. Administratively created in 2010, the fund was established by the 7th Supplemental Certificate for the 1997 Certificate which provides for the issuance of State of Hawai'i Harbor System Revenue Bonds pursuant to Section 39-61, HRS. This fund

was established by the State of Hawai'i Harbor System Revenue Bonds, Series 2010A, as a reserve for principal payments. The fund may be used to repay principal amounts should the situation arise in which DOT Harbors does not have sufficient cash balances to make the required principal payments on the Series 2010A bonds. The fund receives money from the Harbor Special Fund for payment of bond principal. There were no revenues, expenditures, or activity in the fund during our review period. Although inappropriately created as a revolving fund, the fund continues to serve its purpose and should be reclassified as a trust account.

***Aloha Tower Fund
(special fund)***

Section 206J-17, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$4	\$4	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	(4)	0	0	0
Ending Balance*	\$4	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

*The ending balance for FY2015 – FY2018 is \$6.02 (interest earned after the transfer was completed) which does not show due to rounding and which DOT Harbors asserts will be transferred to DOT Administration's Aloha Tower Fund in FY2019.

This fund does not meet the criteria of a special fund because it no longer serves the purpose for which it was originally created and it should be closed. Statutorily created in 2011, the fund was used to place Aloha Tower Development Corporation (ATDC) temporarily with DOT Harbors until the establishment of an appropriation account with DOT Administration. Revenues were from rent and interest earned. Expenditures were related to ATDC, including annual equity payments to DOT Harbors for lost revenue resulting from the curtailment of maritime activities around Aloha Tower.

In our prior fund review, in Report No.14-05, DOT Harbors asserted that the balance would be transferred to the Aloha Tower Fund administered by DOT Administration and that this fund would be closed in FY2014. DOT Harbors now asserts that it will transfer the balance of \$6.02, and this fund will be closed in FY2019. The remaining balance in this fund should be transferred and the fund closed because it no longer serves the purpose for which it was originally created.

**Harbor Board Stores
Revolving Fund
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2016 (in thousands)

	FY2014	FY2015	FY2016
Beginning Balance	\$23	\$22	\$22
Revenues	126	0	0
Interest	0	0	0
Expenditures	(127)	0	0
Transfers*	0	0	(22)
Ending Balance	\$22	\$22	\$0
Encumbrances	\$0	\$0	\$0

*Transfer to the Harbor Special Fund.

This fund was closed after the balance was transferred to the Harbor Special Fund in FY2016. Administratively created prior to 2002, the fund was used to track and replenish supplies which primarily consisted of fuel for vehicles and equipment used by DOT Harbors in operating and providing services at harbors. Revenues were from the Harbor Special Fund. Expenditures included operational supplies for the harbors.

**Harbor Extraordinary
Renewal/Replacement
Reserve Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$10,898	\$10,898	\$10,898	\$10,898	\$10,898
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$10,898	\$10,898	\$10,898	\$10,898	\$10,898
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1997, the fund was established by the 1997 Certificate. This fund provides assurance to third-party investors who purchased harbor revenue bonds that DOT Harbors can and will remit on a timely basis the funds required to pay the bond principal payments and periodic interest. Expenditures, if any, include making up any

deficiencies with respect to payments for harbor revenue bonds. The fund has had no activity during our review period because there were no such deficiencies regarding payments for harbor revenue bonds. The fund should be reclassified as a trust account.

**Harbor Special Fund
(special fund)**

Section 266-19, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$147,040	\$201,089	\$237,747	\$272,816	\$245,298
Revenues	111,809	111,183	121,001	132,064	152,551
Interest	0	0	0	0	0
Expenditures	(78,988)	(84,284)	(86,129)	(88,729)	(108,096)
Transfers (net)**	21,228	9,759	197	(70,853)	29,820
Ending Balance	\$201,089	\$237,747	\$272,816	\$245,298	\$319,573
Encumbrances	\$37,140	\$37,719	\$45,395	\$46,740	\$78,225

*This fund is a parent account and the original source of revenue for 98 sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts which were not included in our prior fund review in Report No. 14-05.

**Transfers between various DOT Harbors' accounts, except for contributions to DOT Administration's General Administration fund for pro-rated departmental expenses.

This fund meets criteria of a special fund and continues to serve the purpose for which it was originally created. Created in 1941, the fund is used to hold moneys derived from harbor properties for transfer to various operating accounts and capital improvement accounts. DOT Harbors operates and maintains ten commercial harbors on six islands and is responsible for generating sufficient revenue to operate and maintain the commercial harbors system. This fund is also the original source of revenue for various operating allotments to implement the operating budget appropriated by the Legislature—funding payroll, other current expenses including debt service, repair and maintenance, and the costs of purchases of equipment and vehicles for the 11 programs comprising the water transportation program—and allotments that fund small-scale construction projects that improve or that add to existing facilities that do not require the issuance of harbor revenue bond debt. Revenues are from a wide range of user fees and charges, including port entry, dockage, wharfage, small craft and vessel fees, and rents from long term leases and month-to-month revocable permits for the exclusive use of premises. Expenditures include all operating expenses including personnel services, maintenance, equipment and vehicle replacements, fuel, utilities, services on a fee, insurance, ceded lands payments to the Office of Hawaiian Affairs, the central services surcharge transferred to DOT Administration, and debt service payments.

The operating allotment sub-accounts provide funding for the eleven programs comprising the water transportation program. The cash capital improvement project sub-accounts are funded by the cash from this fund.

***Hurricane Iniki
Insurance Proceeds
(special fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2015 (in thousands)

	FY2014	FY2015
Beginning Balance	\$100	\$100
Revenues	0	0
Interest	0	0
Expenditures	0	0
Transfers*	0	(100)
Ending Balance	\$100	\$0
Encumbrances	\$0	\$0

*Transfer to the Harbor Special Fund.

This fund was closed after the balance was transferred to the Harbor Special Fund in FY2015. The fund was inactive since 2006 and no longer served the purpose for which it was originally created. Administratively created in 1997, the fund was used to account for insurance proceeds received for damages sustained from Hurricane Iniki which struck the State in 1992. Revenues were from insurance proceeds received for claims of hurricane damages. Expenditures included hurricane repairs.

In our prior fund review, in Report No. 14-05, we recommended DOT Harbors transfer the remaining balance to the Harbors Special Fund and close this fund due to its inactivity.

**Office of Hawaiian
Affairs Ceded Lands
Proceeds – Harbors
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$1,642	\$1,642
Revenues	11,509	12,684	13,643	13,539	10,000
Interest	0	0	0	0	0
Expenditures	(11,509)	(12,684)	(12,001)	(13,539)	(10,000)
Transfers	0	0	0	0	0
Ending Balance*	\$0	\$0	\$1,642	\$1,642	\$1,642
Encumbrances	\$0	\$0	\$0	\$0	\$0

*DOT Harbors asserts that the ending balance in FY2016 was the result of a processing error which will be corrected in FY2019.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2006, the account is used to fulfill DOT Harbors' requirement to set aside 20 percent of revenues received from the use of ceded lands due the Office of Hawaiian Affairs (OHA) pursuant to Act 178, SLH 2006, and in accordance with Executive Order No. 2006-06. Revenues are from 20 percent of revenues paid to DOT Harbors for the use of ceded lands. Expenditures include payments to OHA for its share of revenues generated from the use of ceded lands.

**Risk Management Fire
and Casualty Losses –
Harbors
(trust fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$713	\$713	\$713	\$713	\$713
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$713	\$713	\$713	\$713	\$713
Encumbrances	\$1	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a trust fund because it acts more like a trust account and no longer serves the purpose for which it was originally created and it should be closed. Administratively created in 2006, the fund is used to set aside insurance proceeds from the Risk Management Office for damages at Kawaihae Harbor resulting from the 2006 Kiholo Bay earthquake. This fund has been idle and inactive since FY2012. DOT Harbors anticipates no further activity for this fund and

acknowledges that it is in the process of determining into which fund the remaining balance should be transferred. Revenues were from insurance proceeds resulting from claims for damages to State property due to the 2006 earthquake. Expenditures included repairs for earthquake damages. The fund should be closed because it no longer serves the purpose for which it was originally created.

***Temporary Deposits –
Harbors
(trust fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$2,798	\$1,914	\$1,923	\$2,246	\$3,510
Revenues	0	327	393	1,279	755
Interest	0	0	0	0	0
Expenditures	(884)	(318)	(70)	(15)	(1,254)
Transfers	0	0	0	0	0
Ending Balance	\$1,914	\$1,923	\$2,246	\$3,510	\$3,011
Encumbrances	\$2	\$2	\$2	\$2	\$2

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 1959, the fund is used to hold security deposits required for leases, permits, and other contracts for the use of harbor properties. Revenues are from moneys remitted by lessees and permittees that serve as security deposits for the use of harbor properties. Expenditures include returning the security deposit to lessees and permittees upon satisfaction of contractual terms and conditions.

Highways Division

This section presents the results of our review of funds and accounts of DOT Highways.

Civil Identification Card Fee Special Fund (special fund)

Section 286-312, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$488	\$1,020	\$1,956	\$2,558	\$2,937
Revenues	1,125	2,003	1,647	1,515	1,591
Interest	0	0	0	0	0
Expenditures	(955)	(1,067)	(1,045)	(1,136)	(1,130)
Transfers*	362	0	0	0	0
Ending Balance	\$1,020	\$1,956	\$2,558	\$2,937	\$3,398
Encumbrances	\$0	\$0	\$0	\$0	\$2

*Transfer from the State Identification Revolving Fund held at the Department of the Attorney General.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2013, the fund is used to support the civil identification card program which sets forth the kind of documentation required and procedures to be followed in issuing driver's licenses, and non-driver's or civil identification cards. Revenues are from fees assessed for the processing and issuance of identification cards. Expenditures include reimbursements to counties for costs incurred in the administration of the identification card program.

Deposits – Plans and Specifications (trust account)

Administratively established

Financial Data for Fiscal Years 2014 – 2015 (in thousands)

	FY2014	FY2015
Beginning Balance	\$32	\$32
Revenues	0	0
Interest	0	0
Expenditures	0	0
Transfers*	0	(32)
Ending Balance	\$32	\$0
Encumbrances	\$0	\$0

*The remaining balance was transferred to the Special Deposits – Highways trust account and closed in FY2015.

This account was closed after the remaining balance was transferred to the Special Deposits – Highways trust account in FY2015. Administratively created in 1988, the account was used to record deposits from prospective bidders for plans and specifications. Revenues were from deposits collected. Expenditures included deposit refunds when the plans and specifications were returned. In our prior fund review, in Report No. 14-05, the account was deemed inactive and DOT Highways stated that it would close the account after a determination was made on the remaining balance.

Highway Development Special Fund (special fund)

Section 264-122, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$2,307	\$83	\$1,420	\$2,349	\$1,767
Revenues	83	1,337	520	18	1,745
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)*	(2,307)	0	409	(600)	0
Ending Balance	\$83	\$1,420	\$2,349	\$1,767	\$3,512
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers for Kapolei interchange projects.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2004, the fund is used to receive deposits of impact fees to fund state highway improvements. Revenues are from impact fees assessed by the City and County of Honolulu (City). Expenditures include costs associated

with highway improvement projects that serve new or more intensive development within the City. According to DOT Highways, the City collects Ewa Highway Master Plan impact fees to help pay for the capital costs of planned regional highway development.

**Highway Senior Debt
Service Reserve
Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$9,846	\$9,846	\$9,846	\$9,846	\$7,827
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures*	0	0	0	(2,019)	0
Transfers	0	0	0	0	0
Ending Balance	\$9,846	\$9,846	\$9,846	\$7,827	\$7,827
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Refund of escrow deposits related to the issuance of the Series 2016 Bonds.

This fund does not meet the criteria of a revolving fund and should be closed because it no longer serves the purpose for which it was originally created. The fund also functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds. Administratively created in 1994, this fund was established by the 1993 “*Certificate of the Director of Transportation Providing for the Issuance of State of Hawai‘i Highway Revenue Bonds*” (1993 Certificate) pursuant to Section 39-61, HRS. DOT Highways is authorized to issue revenue bonds upon securing the required legislative appropriations for its capital improvements program. Pursuant to its 1993 Certificate, DOT Highways has committed to its bondholders that it will enforce and collect fees, rates, rents, and charges for the undertaking that will be pledged for the payment of the debt. The 1993 Certificate originally required DOT Highways to establish three accounts, including a Highway Senior Interest sub-account, Highway Senior Principal sub-account, and a Highway Senior Debt Service Reserve sub-account. This fund was originally used as the debt service account for the bond interest and principal payable for the DOT Highways revenue bonds. This fund receives monies from the State Highway Fund. Expenditures included refunds of escrow deposits associated with the Series 2016 Bonds issuance pursuant to the terms of the bond.

The 1993 Certificate was amended upon the issuance of the Series 2016 Bonds which eliminated this reserve account and expanded the use of moneys in this account to be used not only for debt service of DOT Highway’s revenue bonds, but also to fund capital projects and

other purposes deemed advisable by DOT Highways. The fund no longer serves the purpose for which it was originally created and should be closed and the remaining balance should be returned to the State Highway Fund.

***Highway Senior
Interest Account
(revolving fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$10,053	\$9,560	\$31,864	\$9,792	\$10,819
Revenues	19,036	41,793	19,779	20,346	20,349
Interest	0	0	0	0	0
Expenditures	(19,529)	(19,489)	(41,851)	(19,319)	(21,186)
Transfers	0	0	0	0	0
Ending Balance	\$9,560	\$31,864	\$9,792	\$10,819	\$9,982
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1994, this fund was established by the 1993 Certificate. The fund is used as the debt service account for the bond interest payable for the DOT Highways revenue bonds. The fund receives monies from the State Highway Fund. Expenditures include interest payments due on DOT Highways revenue bonds. The fund should be reclassified as a trust account.

**Highway Senior
Principal Account
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$19,155	\$20,295	\$0	\$0	\$13,420
Revenues	28,825	11,595	13,640	51,210	48,850
Interest	0	0	0	0	0
Expenditures	(27,685)	(31,890)	(13,640)	(37,790)	(40,765)
Transfers	0	0	0	0	0
Ending Balance	\$20,295	\$0	\$0	\$13,420	\$21,505
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as an accounting device to separately hold and clear debt service payments on revenue bonds, but it continues to serve the purpose for which it was originally created. Administratively created in 1994, the fund was established by the 1993 Certificate. The fund is used as the debt service account for the bond principal payable for the DOT Highways revenue bonds. The fund receives monies from the State Highway Fund. Expenditures include principal payments due on DOT Highways revenue bonds. The fund should be reclassified as a trust account.

**Highways Accrued
Payroll Overhead
(revolving fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$319	\$274	\$1,348	\$1,239	\$11,511
Revenues	51	56	97	84	34
Interest	0	0	0	0	0
Expenditures	(5,871)	(4,342)	(12,161)	(11,257)	(19,450)
Transfers*	5,775	5,360	11,955	21,445	7,949
Ending Balance	\$274	\$1,348	\$1,239	\$11,511	\$44
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers from the State Highway Fund for advances pursuant to Section 264-16, HRS.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as a clearing account and accounting device, but it continues to serve the purpose for which it was originally created. Administratively created in 1983, the fund is an operational clearing account to effectively account for program costs and appropriations. Revenues are reimbursements from third parties that

may partially fund highway projects. Expenditures include payments of employee benefits. The fund should be reclassified as a trust account.

**Highways Construction
Administration
Clearing Account
(revolving fund)**

Section 264-16, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$345	\$534	\$1,171	\$691	\$319
Revenues	355	328	86	183	2
Interest	0	0	0	0	0
Expenditures	(5,511)	(5,271)	(3,316)	(8,780)	(13)
Transfers*	5,345	5,580	2,750	8,225	1,202
Ending Balance	\$534	\$1,171	\$691	\$319	\$1,510
Encumbrances	\$43	\$36	\$65	\$94	\$84

*Transfers are from the State Highway Fund; however, DOT Highways did not provide any details regarding these transfers.

This fund does not meet the criteria of a revolving fund because it functions more like a trust account that serves as a clearing account and accounting device, but continues to serve the purpose for which it was originally created. Statutorily created in 1982, the fund is an operational clearing account to effectively account for program costs and appropriations. Revenues are from reimbursements of expenditures charged against this fund and transfers from the State Highway Fund. Expenditures include labor overhead and other labor related costs such as workers' compensation, vacation pay-outs, and fringe benefits. The fund should be reclassified as a trust account.

**Highways –
Department of
Hawaiian Home Lands
North/South Road
Project
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$3,661	\$1,178	\$1,183	\$499	\$503
Revenues	7	5	6	4	0
Interest	0	0	0	0	3
Expenditures	(2,490)	0	(690)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$1,178	\$1,183	\$499	\$503	\$506
Encumbrances	\$714	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2007, the account is used when the Department of Hawaiian Home Lands (DHHL) is involved in highways projects managed by DOT Highways. DOT Highways asserts that this account is used exclusively for the North/South Road project. DOT Highways further asserts that the construction of the North/South Road project has been completed but that the settlement process with DHHL is ongoing and that the remaining balance will be returned to DHHL once the settlement process has been completed. Revenues are from deposits made by DHHL for project expenses. Expenditures include payroll, land improvements, and other project related expenses.

**Motorcycle and Motor
Scooter Operators
Education Fund
(special fund)**

**Section 431:10G-107,
HRS**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$193	\$240	\$296	\$353	\$410
Revenues	53	62	62	61	56
Interest	0	0	0	0	0
Expenditures	(6)	(6)	(5)	(4)	(5)
Transfers*	0	0	0	0	1
Ending Balance	\$240	\$296	\$353	\$410	\$462
Encumbrances	\$2	\$2	\$0	\$0	\$0

*Transfer from State Highway Fund for expenditures.

This fund does not meet the criteria of a special fund because DOT Highways acknowledges that the program supported by the fund can be successfully implemented using the general fund appropriation process, but it continues to serve the purpose for which it was originally

created. Statutorily created in 2002, the fund is used to support the driver's education program for operators of motorcycles or motor scooters. Revenues are from an annual \$2 underwriter's fee assessed upon each insured motorcycle or motor scooter. Expenditures include the administration of a driver's education program for operators of motorcycles or motor scooters.

***Photo Enforcement
Revolving Fund
(revolving fund)***

***Act 240, SLH 2000
(Repealed)***

Financial Data for Fiscal Years 2014 – 2015 (in thousands)

	FY2014	FY2015
Beginning Balance	\$0	\$0
Revenues	0	0
Interest	0	0
Expenditures	0	0
Transfers*	0	0
Ending Balance	\$0	\$0
Encumbrances	\$0	\$0

*The balance of \$386 is not shown due to rounding. In FY2015, the balance of \$386 was transferred to the State general fund and this fund was closed.

This fund was closed in FY2015 after the remaining balance was transferred to the State general fund pursuant to Act 27, SLH 2011. Statutorily created in 2000, the fund was used to pay contractors and purchase county police oversight and services necessary to support the State's three-year demonstration project implementing a photo red light imaging or photo speed imaging detector system to improve traffic enforcement. Revenues were from fines obtained from citations and summons initiated as a result of the traffic enforcement demonstration project. Expenditures included payments to contractors and the purchase of county police oversight and services necessary for the implementation of the traffic enforcement demonstration project.

***Safe Routes to School
Program Special Fund
(special fund)***

Section 291C-4, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$418	\$844	\$837	\$987	\$765
Revenues	629	707	734	647	784
Interest	0	0	0	0	0
Expenditures	(205)	(712)	(589)	(869)	(874)
Transfers (net)*	2	(2)	5	0	0
Ending Balance	\$844	\$837	\$987	\$765	\$675
Encumbrances	\$0	\$43	\$583	\$291	\$0

*Transfers to and from the State Highway Fund for operating and maintenance labor charges.

This fund does not meet the criteria of a special fund because of its partial nexus with the program it supports and DOT Highways acknowledges that the program supported by the fund can be successfully implemented using the general fund appropriation process, but it continues to serve the purpose for which it was originally created. Statutorily created in 2012, the fund is used to collect and distribute moneys for the Safe Routes to School (SRTS) program. The program was established to enhance traffic safety around Hawai‘i’s schools, enable and encourage children to walk and bicycle to school, and make bicycling and walking to school a safer and more appealing transportation alternative. Revenues are from \$25 SRTS surcharges collected for speeding in school zones and \$10 surcharges collected from other speeding and traffic violations. Expenditures include the distribution of moneys to the counties for the SRTS program.

While there is a clear nexus between the \$25 surcharge collected for speeding in school zones, the nexus is tenuous regarding the \$10 surcharge for other traffic violations. In our prior fund review, in Report No. 14-05, we also stated a partial nexus due to the \$10 surcharge from other speeding and traffic violations. DOT Highways stated their disagreement with our observation, asserting that the Legislature determined there was a nexus per Act 317, SLH 2012, and as both types of surcharges are part of the sustainable revenue source established by the Legislature, taking away either would substantially reduce the required funding for the program and defeat the purpose of the law. DOT Highways further asserted that speeding violations generally affects the safety of motorists and pedestrians.

***Special Deposits –
Highways
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$19,043	\$16,115	\$13,975	\$12,600	\$10,160
Revenues	736	205	1,179	129	281
Interest	0	0	0	0	0
Expenditures	(3,664)	(2,377)	(2,554)	(2,569)	(2,542)
Transfers*	0	32	0	0	0
Ending Balance	\$16,115	\$13,975	\$12,600	\$10,160	\$7,899
Encumbrances	\$9,432	\$8,287	\$9,294	\$7,052	\$4,739

*Transfer from Deposits – Plans and Specifications trust account which closed in FY2014.

This account does not meet the criteria of a trust account because it functions more like a trust fund that receives trust deposits for designated vendors who have a vested beneficial interest, but it continues to serve the purpose for which it was originally created. Administratively created in 1979, the account is used to hold trust deposits from various utility companies and other vendors who are involved in projects managed by DOT Highways. DOT Highways establishes the amount of the deposit based upon the scope of work to be completed. Revenues are from deposits collected from utility companies and other vendors. Expenditures include project expenses such as labor and land improvements. Upon project completion, unused funds are returned to the designated vendor who deposited the funds.

We note that, until forfeited or returned, deposits are the property of the vendor and should be accounted for accordingly. The account should be reclassified as a trust fund.

**State Highway Fund
(special fund)**

**Sections 248-8 and
248-9, HRS**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$95,403	\$100,843	\$134,568	\$155,729	\$139,326
Revenues	254,854	293,575	276,159	312,414	301,681
Interest	700	1,130	1,809	2,674	2,286
Expenditures	(237,716)	(220,440)	(218,894)	(267,640)	(257,376)
Transfers**	(12,398)	(40,540)	(37,913)	(63,851)	(63,600)
Ending Balance	\$100,843	\$134,568	\$155,729	\$139,326	\$122,317
Encumbrances	\$122,800	\$140,904	\$147,453	\$129,962	\$101,646

*This fund is a parent account and the original source of revenue for 37 sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts, which were not included in our prior fund review in Report No. 14-05.

**Transfers to operating allotment appropriation expenditure accounts, capital improvement project expenditure accounts, various DOT Highways special funds, trust and clearing accounts, payments on revenue bonds, debt service reserve funds, and administrative costs.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Created in 1932, the fund is used to support the acquisition, planning, design, construction, operation, repair, and maintenance of Hawai‘i’s highway system. Revenues are from fuel taxes, vehicle weight taxes, vehicle registrations, rental motor vehicle surcharges, fines, penalties, safety sticker sales, permit fees, rental income, and interest. Expenditures include the acquisition, planning, designing, reconstruction, operation, maintenance, and repair costs for State highways; reimbursements to the general fund for general obligation bonds; direct labor; reimbursements to other State agencies; and principal and interest on revenue bonds.

**State Highway Fund
(special fund)****Administratively
established****Financial Data for Fiscal Year 2016 (in thousands)**

	FY2016
Beginning Balance	\$0
Revenues	0
Interest	0
Expenditures	(500)
Transfers*	500
Ending Balance	\$0
Encumbrances	\$0

*Transfer from the State Highway Fund to the O‘ahu Transportation Management Area Metropolitan Planning Organization Revolving Fund. This fund was created and closed in FY2016.

This fund did not meet the criteria of a special fund because it was inappropriately created. In 2002, the Legislature set the requirements for establishing and continuing special funds. Section 37-52.3, HRS, states that special funds may only be established by statute. Administratively created in 2016, the fund was used to transfer \$500,000 from the State Highway Fund to the O‘ahu Transportation Management Area Metropolitan Planning Organization Revolving Fund administered by DOT Administration. Upon completion of the transfer, the fund was immediately closed.

We note that DOT Highways inappropriately created this special fund after 2002 and that it was used for a single transaction then immediately closed. In creating this fund, “S-337 State Highway Fund,” DOT Highways duplicated another of its existing special funds by the same name but with a different account number, “S-321 State Highway Fund”, raising questions about their understanding of the original intent and purpose of the two funds.

**Transportation
Improvement Special
Fund
(special fund)**

Section 264-19, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$7,847	\$8,821	\$9,741	\$9,741	\$9,741
Revenues	974	920	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$8,821	\$9,741	\$9,741	\$9,741	\$9,741
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund does not meet the criteria of a special fund because DOT Highways acknowledges that the program supported by the fund can be successfully implemented using the general fund appropriation process and the fund may no longer continue to serve the purpose for which it was originally created. Statutorily created in 1997, the fund is used to fund qualified transportation projects and to receive reimbursements from private developers who have been advanced public funds to fulfill the conditions of land-use development relating to transportation. Nevertheless, DOT Highways asserts that this fund was used solely for improvements specifically related to the Makakilo, Mililani, and Kunia interchanges during the period of our review. While the limited use of the fund falls within the scope of the statute's broader purpose, DOT Highways asserts that this fund is used exclusively for these specific interchange projects, raising questions about whether the fund continues to serve the purpose for which it was originally created. Revenues are from developer reimbursements. Expenditures may include such sums as necessary to advance transportation projects, including administrative expenses.

The fund should be closed because the program supported by the fund can be successfully implemented using the general fund appropriation process and the fund may no longer continue to serve the purpose for which it was originally created.

Chapter 3

Observations on the Department of Transportation's Reporting and Accounting for Funds

As we reported in our *Study of the Transfer of Non-general Funds to the General Fund*, Report No. 12-04, special, revolving, and other types of non-general funds collectively represent about half of the State's operating budget – moneys that are not subject to the same level of legislative scrutiny as the general fund. Accurate and complete reporting of all funds, as required by law, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. Fund reports are one of the primary means through which the Legislature tracks non-general funds. The reports are used to monitor fund balances and identify excess moneys for possible transfer to the general fund.

During our review of the special funds, revolving funds, trust funds, and trust accounts of DOT, we noted inconsistent adherence to statutory requirements and reporting of financial transactions and balances. In addition, we identified twenty-seven accounts totaling approximately \$120 million that had no financial activity during our review period, resulting in unused moneys.

Inactive Accounts Result in Unused Moneys of Approximately \$120 million

We noted some sub-accounts of three special funds, three revolving funds, and one trust fund with remaining balances which total approximately \$120 million as of June 30, 2018, had no financial activity during our review period. DOT should close the trust fund and the special fund sub-accounts and transfer these moneys to their appropriate fund. Leaving significant amounts of money in idle accounts is an inefficient use of public funds. DOT represents that the revolving funds, which should be reclassified as trust accounts, are required to hold debt service payments relating to revenue bonds.

Exhibit 3.1 presents a summary of these inactive accounts with remaining balances.

Exhibit 3.1 DOT Inactive Accounts with Remaining Balances

Fund Name	Fund Type	FY2018 Ending Balance (rounded)
Airports Division		
Airport Revenue Fund	Special	
Miscellaneous Airport Projects Statewide Construction	Sub-account	\$9,000
Miscellaneous Airport Projects Statewide Design	Sub-account	46,000
Airport System Debt Service Reserve Account	Revolving	96,893,000
Subtotal		\$96,948,000
Harbors Division		
7th Supplemental Certificate 2010A Debt Service Reserve Fund Principal	Revolving	\$11,455,000
Harbor Extraordinary Renewal/Replacement Reserve Account	Revolving	10,898,000
Harbor Special Fund	Special	
Barbers Point Harbor	Sub-account	105,000
Commercial Harbor Sewer System Improvement, Statewide - Design	Sub-account	9,000
Construction Management Support, Statewide - Construction	Sub-account	26,000
Facilities at Piers 19-29, Honolulu Harbor, O'ahu - Design	Sub-account	33,000
Harbor Planning, Statewide - Plans	Sub-account	44,000
Harbor Planning, Statewide - Plans	Sub-account	17,000
Hilo Harbor Improvements, Hawai'i - Design	Sub-account	2,000
Improvements to Facilities/Piers 1 and 2, Honolulu Harbor, O'ahu - Construction	Sub-account	1,000
Improvements to Facilities/Piers 1 and 2, Honolulu Harbor, O'ahu - Design	Sub-account	20,000
Kahului Harbor Improvements, Maui - Design	Sub-account	5,000
Kahului Harbor Improvements, Maui - Design	Sub-account	4,000
Miscellaneous Improvements to Facilities at O'ahu Ports, O'ahu - Construction	Sub-account	5,000
Miscellaneous Improvements to Facilities Neighbor Island Ports - Construction	Sub-account	51,000
Miscellaneous Improvements to Facilities O'ahu Ports - Design	Sub-account	1,000
Nāwiliwili Harbor Improvements, Kaua'i - Design	Sub-account	54,000
Replacement of Timber Fenders, Statewide - Design	Sub-account	4,000
Barge Terminal Improvements, Kahului Harbors, Maui - Construction	Sub-account	182,000
Water Transportation Facilities and Services Support	Sub-account	18,000
Risk Management Fire and Casualty Losses - Harbors	Trust Fund	713,000
Subtotal		\$23,647,000
Highways Division		
State Highway Fund	Special	
Emergency Rel-Remediate Various State Routes, O'ahu	Sub-account	\$11,000
Kea'au - Pahoia Road Shoulder Land Conv, Hawai'i - Design	Sub-account	21,000
Traffic Operations Improvements to Int/Highways, Kaua'i - Construction	Sub-account	12,000
Subtotal		\$44,000
Total		\$120,639,000

Source: Office of the Auditor

DOT Did Not Report Non-General Funds as Required by Law

Section 37-47, HRS, requires departments to submit to the Legislature an annual report of each non-general fund account including information such as the intended purpose of the fund, current program activities supported by the fund, and financial data. The Director of Finance annually issues a memorandum requesting all departments to complete and submit Form 37-47, *Report on Non-General Fund Information*, to the Department of Budget and Finance for each of their non-general funds. The Department of Budget and Finance compiles a report of all non-general fund accounts and submits it to the Legislature prior to the start of each legislative session.

Section 37-52.5, HRS, requires the Judiciary and any department that administratively establishes a new fund or account to submit a report to the Legislature. The report must be filed within 30 working days of a fund or account's creation and should include a justification for the fund or account and identification of its sources of revenue. In addition, prior to the start of each legislative session, the law also requires each department to submit to the Legislature a listing of all administratively established funds or accounts along with a statement of their revenues, expenditures, encumbrances, and ending balances for each fund or account.

During our review of DOT's non-general funds, we noted non-compliance with statutory requirements to report financial activity and balances, as required by Section 37-47, HRS, as well as fund information for administratively established funds and accounts under Section 37-52.5, HRS.

In addition, DOT Highways reported funds inconsistently on an individual and combined basis and did not include specific details of the individual funds. For example, the name of the fund on the non-general fund report called "*Revolving & OHA*" included five revolving funds (three funds were related to the 1993 bond certificate and two funds were operational clearing accounts), none of which were related to OHA. Furthermore, when identifying appropriation account numbers listed on its non-general fund report, DOT Highways uses "*etc.*" to identify its account numbers rather than providing a full listing of all account numbers being reported.

As shown in Exhibit 3.2, DOT had non-general funds with balances totaling more than \$9.7 million and administratively created non-general funds with balances totaling more than \$112.1 million that were not reported to the 2018 Legislature as required by Sections 37-47 and 37-52.5, HRS, respectively.

Exhibit 3.2

DOT Non-General Funds and Administratively Created Funds Not Reported to the Legislature

Fund Name	Fund Type	HRS 37-47 (Non- General)	FY2017 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2017 Ending Balance (rounded)
Administration Division					
Bid Bond Deposits - Administration	Trust Fund			✓	\$67,000
General Administration	Special			✓	9,550,000
Western Association of State Highway and Transportation Officials Quality Award Program	Trust Account			✓	3,000
Airports Division					
Airport Sinking Fund for Retire Term Bond	Revolving	✓	\$0		
Harbors Division					
1997 Certificate - Harbor Interest Account	Revolving			✓	6,897,000
1997 Certificate - Harbor Principal Account	Revolving			✓	13,200,000
7th Supplemental Certificate 2010A Debt Service Reserve Fund Principal	Revolving			✓	11,455,000
Harbor Extraordinary Renewal/Replacement Reserve Account	Revolving			✓	10,898,000
Office of Hawaiian Affairs Ceded Lands Proceeds - Harbors	Trust Account			✓	1,642,000
Risk Management Fire and Casualty Losses - Harbors	Trust Fund			✓	713,000
Temporary Deposits - Harbors	Trust Fund			✓	3,510,000
Highways Division					
Highway Senior Debt Service Reserve Amount	Revolving			✓	7,827,000
Highway Senior Interest Account	Revolving			✓	10,819,000
Highway Senior Principal Account	Revolving			✓	13,420,000
Highways Accrued Payroll Overhead	Revolving			✓	11,511,000
Highways Department of Hawaiian Home Lands North/South Road Project	Trust Account			✓	503,000
Special Deposits - Highways	Trust Account			✓	10,160,000
Transportation Improvement Special Fund	Special	✓	9,741,000		
Total			\$9,741,000		\$112,175,000

Source: Office of the Auditor

DOT Created Funds Inappropriately

Section 37-52.3, - 52.4, HRS, states that special funds and revolving funds can only be established pursuant to an act of the Legislature. DOT created two funds inappropriately.

- 7th Supplemental Certificate 2010A Debt Service Reserve Fund Principal, a revolving fund administratively created in 2010 by DOT Harbors (page 26); and
- State Highway Fund, a special fund administratively created in 2016 by DOT Highways (page 44).

Office of the Auditor's Comments on the Affected Agency Response

Comments on Agency Response

WE DISCUSSED OUR REPORT at an exit conference with representatives from the Department of Transportation (DOT), including each of the department's divisions, and provided a draft of the report to DOT for its review and comment. DOT provided a written response to the draft report, which is reproduced in its entirety as Attachment 1.

Airports Division

Airports Division agreed with our findings and recommendations. Airports Division said that it intends to reclassify the revolving funds we identified as not meeting the statutory criteria for a revolving fund to trust accounts; review the sub-accounts to the Airport Revenue Fund for Construction and Design that had no activity during our review period and close sub-accounts that are no longer needed; and include the Airport Sinking Fund for Retirement Term Bond in its Non-General Funds reports to the Legislature, as required by statute.

Harbors Division

Harbors Division acknowledged our findings and recommendations regarding its revolving funds we identified as not meeting the statutory criteria for a revolving fund. Harbors Division intends to implement the recommendations to reclassify those revolving funds to trust accounts and reported that the balance of the Aloha Tower Fund was transferred and the fund subsequently closed.

Harbors Division suggested some minor technical edits to the report, which we have incorporated. We note that these edits are for clarification purposes only and do not impact our analysis of Harbors Division's funds.

In its response, Harbors Division did not address our finding regarding the Risk Management Fire and Casualty Losses – Harbors trust fund, which we found should be closed. Moreover, Harbors Division did not address our observations regarding inactive accounts and non-compliance with statutory requirements for reporting. We must emphasize that they should close the inactive sub-accounts and comply with statutory reporting requirements.

Highways Division

Highways Division agreed with our findings and recommendations regarding its revolving funds we identified as not meeting the statutory criteria for

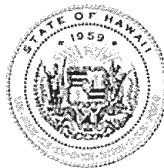
a revolving fund and states that it will evaluate reclassifying them as trust accounts.

Highways Division acknowledged that the Safe Routes to School Program Special Fund and the Motorcycle and Motor School Operations Education Fund can be funded through the general fund appropriation process. Highways Division said that the revenue for these funds are transferred from other State agencies' special funds and, therefore, questions whether the general fund appropriation process is applicable. This additional information did not impact our final analyses as the current source of revenue is immaterial if this program were to be funded through the general fund appropriation process as Highways Division concedes is possible. We also note that Highways Division did not provide this information to us in their response to questionnaires about its funds, during multiple discussions about its funds, or at the exit conference. In the report (at pages 5-6), we document the difficulties that we encountered in obtaining information from Highways Division, including the less-than-complete responses and information we were provided about its funds. For us to thoroughly assess a department's funds, it is important that we receive complete and timely information.

Highways Division disagreed with our conclusion that the Safe Routes to School Program Special Fund does not meet the criteria of a special fund due to partial nexus between the program and source of revenue. We recognize the Legislature's desire to secure a source of funding to make the Safe Routes to School Program permanent, however, as we explained in the report, we did not find convincing evidence of sufficient nexus between the program and one of the sources of revenue, which is one of the statutory criteria required of a special fund.

Highways Division did not object to our determination that the Special Deposits – Highways trust account should be reclassified to a trust fund and that the Highway Senior Debt Service Reserve Account and Transportation Improvement Special Fund should be closed because these funds no longer serve their original purpose. We assume that the Highways Division intends to follow our recommendations with respect to that account and those funds. Finally, although Highways Division did not address our observations regarding inactive accounts and non-compliance with statutory requirements for reporting, we must emphasize that they should close the inactive sub-accounts and comply with reporting requirements.

DAVID Y. IGE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097
January 11, 2019

JADE T. BUTAY
DIRECTOR

Deputy Directors
ROSS M. HIGASHI
EDWIN H. SNIFFEN
DARRELL T. YOUNG

IN REPLY REFER TO:
BUS 6.1422

Mr. Leslie H. Kondo
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Mr. Kondo:

Subject: Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation

We appreciate the opportunity to respond to your draft report entitled, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation* which was provided on January 3, 2019. We have reviewed the draft report and offer the following comments.

Airports Division

The Airports Division agrees with the findings and recommendations. Upon finalization of the report, we will work with DAGS to set up the appropriate Trust Accounts. We will move the balances from the Revolving Accounts as recommended by the Legislative Auditor and noted in Exhibit 2.3.

Upon finalization of the report, we will follow-up on the various Sub-accounts to the Airport Revenue Fund (Special) for Construction and Design and close any unnecessary sub-accounts, noted in Exhibit 3.1 which amounted to \$9,000 and \$46,000, respectively. These accounts are reviewed on an annual basis and subsequently tested by our financial statement auditors. The \$96,893,000 Airport System Debt Service Reserve Account (Revolving) relates to revenue bond debt service required balances that are maintained for all Airport System Revenue Bonds outstanding. This account was inactive during the period since the balance was in compliance with the bond certificate. Changes can only be made when new bonds are issued. We issued new Airport System Revenue Bonds on August 22, 2018, therefore there will be activity in the account in the next report for FY 2019.

We will include the Airport Sinking Fund for Retire Term Bond in future Non-General Funds reports to the Legislature noted in Exhibit 3.2. NOTE: The Airport Sinking Fund has a zero balance and no activity therefore will not have any effect on the amounts reported to the Legislature. We inadvertently excluded it from the Non-General Funds report.

Harbors Division

The Harbors Division understands the findings and recommendations of the Office of the Auditor regarding the Revolving Accounts and will undertake the actions to implement those recommendations to reclassify the Revolving Accounts and their related balances to Trust Accounts.

The remaining balance of \$6.02 in the Aloha Tower Fund was transferred by the Harbors Division on November 19, 2018 via FAMIS JV JS2180, resulting in the closure of this fund.

The following are proposed edits underscored: add the following to the end of the second sentence at the top of page 29 “because there were no such deficiencies regarding payments for harbor revenue bonds.” The last full sentence on page 29 proposed edit to read, “...Office of Hawaiian Affairs, the central services surcharge, transfers to provide funding for the DOT Administration, and debt service payments.”

Highways Division

The Highways Division agrees with the findings and recommendations of the Revolving Accounts and will reevaluate reclassification as Trust Accounts.

We acknowledge that the Safe Routes to School Program Special Fund and the Motorcycle and Motor Scooter Operators Education Fund funds could be successfully implemented using the general fund budget/appropriation process, however, the revenue for these funds are transferred from the Department of Commerce and Consumer Affairs (DCCA) and the Judiciary as a special fund. Therefore, the general fund appropriation process may not be applicable since the source of fund is a special fund.

Moreover, the draft report states that the Safe Routes to School Program Special Fund \$10 surcharge for other speeding and traffic violations does not meet the criteria of a special fund.

As mentioned in the draft report, this finding was found in Report No. 14-05. We disagree with this finding. In 2012, the Legislature determined there was a nexus between the \$10 surcharge on all moving violations and the Safe Routes to School Program.

The Safe Routes to School Program requires transportation infrastructure and non-infrastructure funding to enhance traffic safety around Hawaii’s schools, while at the same time provide funding to encourage children to walk and bike to school. To allow successful implementation of the Safe Routes to School Program, the Legislature Enacted Act 317, SLH 2012 (codified in Hawaii Revised Statutes § 291C-3) to provide a sustainable means for generating revenue for such a program without taking general funds away from other needed programs. Both the \$10 surcharge on other various traffic violations and the \$25 surcharge for speeding violations in a school zone are parts of the sustainable revenue source.

Taking away either one of the revenue sources would substantially reduce the required funding for the Safe Routes to School Program and would defeat the original purpose of the law. Speeding violations whether within the school zone or not, generally affects the safety of

Mr. Leslie H. Kondo
Page 3

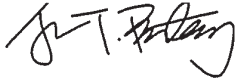
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motorists and pedestrians. Using the two surcharges collected to promote and implement safety measures is affirmed in the legislative committee

report for the bill enacted as Act 317.

Questions may be directed to Tammy Lee, Business Management Officer, at (808) 587-1990.

Sincerely,

A handwritten signature in black ink, appearing to read "Jade T. Butay", written in a cursive style.

JADE T. BUTAY
Director of Transportation