From:	Ben Porter
To:	Kurio, Phyllis
CC:	Elizabeth Day
Sent:	5/1/2008 9:22:45 AM
Subject:	Re: questions on Honolulu HCT financial plan

Thanks Phyllis. I'll look these over and will get back to you if I have any further questions.

best regards,
Ben Porter

On May 1, 2008, at 12:07 PM, Kurio, Phyllis wrote:

Hello, Ben. Attached are Honolulu's responses. Thank you very much for your patience.

Aloha,
Phyllis
phone: (808) 768-8347

From: Ben Porter [mailto:bporter@porter-inc.com]
Sent: Tuesday, April 29, 2008 9:37 AM
To: Kurio, Phyllis
Cc: Elizabeth Day
Subject: Re: questions on Honolulu HCT financial plan

Hi Phyllis. When I sent you the questions, I had not made an adjustment for the strike. Later, when preparing a review draft for FTA, I made an adjustment but found after reading your e-mail that I had still understated the adjustment to 2004 boardings. I believe the table below presents a reasonable estimate of the elasticity, at -0.06. This is a fairly low elasticity, so I would now say that your market is very inelastic, though not totally insensitive to fare increases.

Thank you for raising the question.

best regards,
Ben Porter

<image002.gif>

On Apr 29, 2008, at 11:00 AM, Kurio, Phyllis wrote:

Aloha kakahiaka (good morning), Ben. Before our responses are submitted please provide guidance on item #4, fare increases: "The financial plan assumes substantial fare increases in 2009 (+31%) and 2019 (+71%). Neither of these increases assume diversion of riders. The most recent fare increase (2004, +25%) resulted in an 11% ridership loss, indicating a fairly steep price elasticity (-0.43). Why was zero price elasticity assumed in the financial plan?"

There was a 34-day strike in FY 2004 that started in late August 2003. We believe that the strike had a bigger effect on ridership than the 2 fare increases. Was the strike taken into account in your analysis? Would it be helpful if we provide estimated monthly ridership data in our response?

Mahalo (thank you),
Phyllis
phone: (808) 768-8347

From: Ben Porter [mailto:bporter@porter-inc.com]
Sent: Monday, April 21, 2008 8:27 AM
To: Kurio, Phyllis
Cc: Elizabeth Day
Subject: questions on Honolulu HCT financial plan

Phyllis:

I am the Financial Management Oversight Contractor assigned to provide a financial rating report for the Honolulu HCT project. I have been working from the financial plan dated November 2007 that was prepared by PB Consult.

The financial plan was fairly complete and I have been able to complete a preliminary analysis.

There are, however, several important issues that arose from my review, and I would like to have your response before the rating is finalized:

1) Debt capacity: pages 2-28 and 2-29 of the financial plan indicate that the City has adopted affordability guidelines for the issuance of debt (e.g., debt service not to exceed 20% of City operating budget, or 20% of general fund revenues). The text of the report did not explicitly state what these current limits are, nor what the prospective limits are, but Figure 2-14 presented this information in graphical form. At 2019, the graph indicates that the City would have an affordable debt service capacity of about $245 million, and that about $90 million of that amount would be absorbed by current outstanding debt, leaving a net capacity of about $155 million. The HCT project's debt service in 2019 is projected to be $278 million, which is well above the net debt capacity. Would you please confirm that I am interpreting these numbers correctly? And if this is the case, what action is necessary by the City to enable this higher level of debt?

2) Debt service forecast: Does the debt service presented in Figure 2-16 include HCT project debt service only? Page 2-27 indicates that the City will issue G.O. debt to construct bus facilities, and to purchase equipment and rolling stock. Is this debt service included in the financial plan? Where?

3) GET excise tax revenues: Please provide calendar year 2007 actual GET excise tax revenues. I know this will not map accurately to the fiscal year data presented in the financial plan, but it would be useful to have a full 12 months' data to confirm the accuracy of the tax base estimate.

4) Fare increases: The financial plan assumes substantial fare increases in 2009 (+31%) and 2019 (+71%). Neither of these increases assume diversion of riders. The most recent fare increase (2004, +25%) resulted in an 11% ridership loss, indicating a fairly steep price elasticity (-0.43). Why was zero price elasticity assumed in the financial plan?

5) City operating subsidy: In 2019, the City operating subsidy is projected to be $252 million. Discounted at 3% annually, this approximates $182 million in today's dollars. In 2007, the actual operating subsidy was $117 million. The net increase ($65 million) is about 7% of the City's 2007 general fund revenues. Please explain how this additional funding would be generated.

I am available at your convenience to clarify or explain these questions.

thank you,
Ben Porter

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<Response to FMOC 20008-05-01.doc>