From: Tahir, Nadeem (FTA)
To: Day, Elizabeth (FTA); Rogers, Leslie (FTA); Ryan, James (FTA); Nguyen, Kim (FTA); Luu, Catherine (FTA); Carranza, Edward (FTA); Carranza, Edward (FTA); Welbes, Matt (FTA)
Sent: 7/15/2009 7:48:00 PM
Subject: FW: GET Revenue Forecasts

This is further explanation by Honolulu of the local revenue as it relates to the financial plan. For your info.

From: Simon Zweighaft [mailto:Zweighaft@infraconsultllc.com]
Sent: Wed 7/15/2009 11:07 PM
To: Tahir, Nadeem (FTA)
Cc: Hamayasu, Toru; Scheibe, Mark; Kurio, Phyllis
Subject: GET Revenue Forecasts

Hi Nadeem:

It's my understanding that some concerns remain at FTA about strength of the revenue side of our Financial Plan and the effect that the slower economy will have on our excise tax forecasts. Let me point out to you that our general excise tax (GET) revenue forecasts were revised in the May 1, 2009 version of the Plan to take into account the weakness in the overall economy which has been exhibited since the first revenue plans were put together for this project. The DEIS, released in October 2008 included a GET forecast of $4.054 million and this May 2009 Plan shows a forecast of $3.316 million. The table below illustrates the top level considerations of the most current plan:

Table 2-4 Total Sources and Uses of Funds for the Project (YOE, millions)

Sources of Funds F Y 2009-2030		**Uses of Funds FY 2009-2030**	
Project Beginning Cash Balance	$ 154	Capital cost	$ 5,005
Net GET Surcharge Revenues	3,316	Interest Payment of Long Term Debt	254
FTA Section 5309 New Starts	1,550	Finance Charges on Short Term Debt	41
FTA Section 5307 Formula Funds (including ARRA)	305	Other Finance Charges	17
Interest on Cash Balance	9	Project Ending Cash Balance	16
Total Sources of Funds FY 2009-2030	**$ 5,334**	**Total Uses of Funds**	**$ 5,334**

The most recent tax collection picture is addressed. Appendix E to the Financial Plan goes into considerable detail as to how the economists have made these forecasts. It is not a simple matter, but as noted on page 29 of the Financial Plan, "*With less than one quarter remaining in FY2009, the growth rate in GET revenues is expected to equal -5.5% by fiscal year end, consistent with the economic recession that occurred in this timeframe. This is expected to be followed by a year of low, positive nominal growth in FY2010 equal to 1.0%, but this growth will remain negative in real terms.*" A recovery in revenues is forecast for 2011 with a normal rate of growth returning in the middle of the decade. In preparing these forecasts, Appendix E notes that the economists noted that the forecast model consists of a series of regression models, which use historical data to estimate coefficients and forecasts from Global Insight, Moody's Economy.com, the IMF, the United Nations Statistical Handbook. This was not a casual exercise.

As to the plan for other revenues if the recession is protracted and the GET forecasts are not realized, the Financial Plan presents three mitigating scenarios to be considered (page 5-4). These scenarios include a variety of measures such as 1) reducing the amount of GET surcharge revenues retained by the State from 10% to 5%, 2) extending the period during which 5307 formula funds are directed towards the Project, 3) use of a contribution from the Airport for a portion of the project on Airport property, and 4) obtaining investment from private sources for funding of up to 3 stations which might otherwise be deferred. Additionally, of course, the prospect of some increase to the Federal New Starts Share is considered. Other actions that might be considered are reductions in project costs through design modifications and possibly the concept of extending the Excise Tax duration.

We recognize in consideration of the issues raised in the Jacobs Risk Assessment Spot report, that we are at this time very close to a fully balanced plan. The plan includes a commitment to consider other strategies if it turns out that revenues continue

to fall over a longer period of time than is forecast by the economic models. Of course if the recession is more protracted, then we also expect construction costs not to rise as quickly as has been forecast. At this time we will soon be receiving our first guideway bids and will conduct a full bottoms-up estimate early in Preliminary Engineering, using in part the results of those bids to either confirm or adjust the capital costs forecasts. With that information, we can then conduct a reconsideration of our financial plan and will have as much as 6 more months of additional data on revenues (and updated relevant forecasts) which also can be used to refine and present a fully balanced plan.

I hope this clarifies the City's position and intent to present a fully balanced plan as a part of our Preliminary Engineering program.

Regards,

Simon