

Matthews, LaStar (FTA)

From: Tahir, Nadeem (FTA)
Sent: Thursday, July 16, 2009 1:48 AM
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)
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: (B) (6)]
Sent: Wed 7/15/2009 11:07 PM
To: Tahir, Nadeem (FTA)
Cc: (B) (6)
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 FY 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

8/6/2009

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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,



8/6/2009

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(B)(6)

From:
Sent: Wednesday, October 01, 2008 12:44 PM
To: Ronald.Fisher@dot.gov
Subject: RE: Financial Plan

Attachments: Comparison of Financial Plans.doc
Ron,

I'm not sure how easy it will be to follow this, but at least you'll be able to see where changes were made.

From: Ronald.Fisher@dot.gov [mailto:Ronald.Fisher@dot.gov]
Sent: Wednesday, October 01, 2008 5:45 AM
To:
Subject: FW: Financial Plan

Do you have a copy of this in mark-up mode so I can see the changes that have been made to the original, meaning I don't need to read the whole document again?
Thanks,
Ron

From:
Sent: Tuesday, September 30, 2008 8:44 PM
To: Fisher, Ronald <FTA>
Subject: Financial Plan

Ron,

Per Toru's request, attached is the Financial Plan version that Toru sent to Ben Porter for his current review. This version of the plan is consistent with what is in the ADEIS.

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Matthews, LaStar (FTA)

From: (B)(6)
 Sent: Wednesday, October 01, 2008 2:23 PM
 To: (B)(6)
 Cc: Tonya (FTA)
 Subject: Re: Financial plan for Honolulu High Capacity Transit project

(B)(6)

I'd like to set up a conference call with the person who developed the GET surcharge forecast. Based on what I've seen in the COR forecasts as well as the GET surcharge collections history reported by DBEBT, it is hard for me to understand how 17% increase between FY08 and FY09 can occur. Also, I am puzzled as to why the GET surcharge forecast wasn't updated with the more recent COR forecast in July (unchanged in September) that reflects a rapid slowdown that started to be noticeable in the latter months of FY 2008.

I'd really appreciate it if we could have the call today. Shouldn't take long.

thanks,

(B)(6)

On Sep 24, 2008, at 5:41 PM, (B)(6) wrote:

(B)(6)

The responses to your requests 1, 2, 4 and 7 are in the spreadsheet entitled FTA Financial Plan supporting tables 18Sep08.xls.

The response to request 5 is the spreadsheet entitled HHCTCP FTA New Starts Finance Template 9-18-2008.xls.

In response to request 3, attached is the current Bus Fleet Management Plan; the fleet replacement schedule in it is out of date -- that's what I'm working on now -- I'll send you an updated one once I'm finished.

The best source for request 6 is the City's current Capital Budget Document, which is too large to email. It can be downloaded at <http://www.co.honolulu.hi.us/budget/execbgt/fy09cipbudgetbook.pdf> You also need to download the Capital Budget ordinance which includes some changes to the proposed budget <http://www.co.honolulu.hi.us/budget/execbgt/ord0813.pdf>

(B)(6)

8/6/2009

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(B)(6)

From: (B)(6)
Sent: Wednesday, September 24, 2008 1:18 PM
To: (B)(6)
Cc: (B)(6); Tonya Holland; (B)(6)
Subject: Re: Financial plan for Honolulu High Capacity Transit project

(B)(6)

I wanted to check in with you regards your progress in providing the information I requested. Could you please provide a timeline?

thanks.
(B)(6)

On Sep 11, 2008, at 5:58 PM, (B)(6) wrote:

I am sending your e-mail to (B)(6) to respond directly to you.

From: (B)(6)
Sent: Thursday, September 11, 2008 1:06 PM
To: (B)(6)
Cc: (B)(6); Tonya Holland
Subject: Re: Financial plan for Honolulu High Capacity Transit project

Toru:

Thanks for the PDF file of your financial plan.

I need additional information before I can undertake my review. I would appreciate you sending the items below as soon as possible:

- 1) Excel spreadsheets of Table 2-4 (p. 2-6); Table 2-9 (p. 2-16); Figure 2-9 (p. 2-24); Tables 3-3 and 3-4 (p. 3-16); and Table 4-2 (p. 4-6).
 - 2) History and forecasts of highway and general fund revenues, separately, underlying the chart shown on Figure 3-8 (p. 3-13). Please disaggregate by source of revenue.
 - 3) Bus Fleet Management Plan, including fleet replacement schedule.
 - 4) 3 years historical data on operating and capital sources & uses.
 - 5) New Starts project finance template.
 - 6) Current capital improvement program documentation.
 - 7) GET surcharge revenue for second calendar quarter of 2008 (Apr-Jun).
- Please feel free to contact me if you have any questions.

best regards,

(B)(6)

On Sep 9, 2008, at 7:47 PM, (B)(6) wrote:

(B)(6)

I realized that I had not sent the requested report to you so here it is. This is the latest report.

(B)(6)

From: t
Sent: Friday, September 05, 2008 12:42 PM
To:
Cc: Tonya Holland;
Subject: RE: Financial plan for Honolulu High Capacity Transit project

(B)(6)

From:
Sent: Friday, September 05, 2008 12:28 PM
To:
Cc: Tonya Holland
Subject: Financial plan for Honolulu High Capacity Transit project
Dear

I am writing to request your financial plan for this year's New Starts rating for the Honolulu High Capacity Transit project. Please send it to me at the address below, and please waive the signature requirement. I would appreciate receiving as much of the documentation as practical in an electronic format, and would especially appreciate receiving any tables or spreadsheets in Excel format - that will speed my review.
thanks very much,

(B)(6)

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<HHCTCP_DRAFT Financial Plan_12AUG2008_COMPLETE.pdf>

<FTA Financial Plan supporting tables 18Sep08.xls><HHCTCP FTA New Starts Finance Template 9-18-2008.xls>

Matthews, LaStar (FTA)

From: (B)(6)
Sent: Thursday, May 01, 2008 3:23 PM
To: (B)(6)
Cc: Day, Elizabeth (FTA)
Subject: Re: questions on Honolulu HCT financial plan

Thank (B)(6)s. I'll look these over and will get back to you if I have any further questions.

best regards,

(B)(6)

On May 1, 2008, at 12:07 PM, (B)(6) wrote:

(B)(6)

From: (B)(6) [mailto:...]@...
Sent: Tuesday, April 29, 2008 9:37 AM
To: (B)(6)
Cc: Elizabeth Day
Subject: Re: questions on Honolulu HCT financial plan

Hi (B)(6). 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,

(B)(6)

<image002.gif>

On Apr 29, 2008, at 11:00 AM, (B)(6) wrote:

Aloha kakahiaka (good morning) (b)(6). 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),

(b)(6)

From: (b)(6)
Sent: Monday, April 21, 2008 8:27 AM
To: (b)(6)
Cc: Elizabeth Day
Subject: questions on Honolulu HCT financial plan

(b)(6)

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,

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

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8/6/2009

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