
From: Day, Elizabeth (FTA)
To: Rogoff, Peter (FTA); McMillan, Therese (FTA); Borinsky, Susan (FTA)
CC: Steinmann, Richard (FTA); Lynch, Ryan (FTA); Brown, Sonia (FTA); Welbes, Matt (FTA); Rogers, Leslie (FTA); Ryan, James (FTA)
Sent: 9/17/2009 3:37:29 AM
Subject: Honolulu financial evaluation

FTA received a draft financial assessment and rating of the Honolulu project from its contractor in early September. The overall financial rating is "Medium", which is sufficient for entry into preliminary engineering. However, the assessment expresses concerns with the plan that would need to be addressed during PE and prior to FD including:

- The general excise tax (GET) revenue forecast continues to have downside risks that could reasonably result in revenues that are inadequate to support debt service payments for the project. Although the forecast has been lowered from a previous submittal, it is higher than a recent forecast prepared by the Council on Revenues (a group that advises the Governor of Hawaii), and exceeds the long-term growth rate of the GET tax base in Honolulu County.
- The debt financing assumptions for the project maximize the leverage that could be gained from the GET surcharge revenue stream, leaving little if any upside to debt capacity. The Project-related debt will also push the City to its limit of affordability for general obligation debt.
- The operating plan has some optimistic features - operating cost estimates are understated relative to near-term trends (for City operations) and peers (for rail operations); the increase in operating subsidies would require a proportionately greater share of funds to be transferred from the City's General Fund and Highway Fund than has historically been the case. It is questionable whether the operating subsidy required by the project could be absorbed by the City without tangible cuts in City services or increases in other taxes.

Essentially, the very strong ratings the financial plan receives on NS share, commitment of funds, and current condition of the agency offset the poor ratings on the reasonableness of the assumptions used in the financial plan. If you would like to discuss further how FTA arrives at financial ratings, I would be happy to explain it.

The New Starts team is currently working on the PE approval package for the Honolulu project. Thus far, we are still able to meet the schedule previously discussed.

-----Original Message-----

From: Rogoff, Peter (FTA)
Sent: Thursday, September 17, 2009 7:59 AM
To: Day, Elizabeth (FTA); McMillan, Therese (FTA); Borinsky, Susan (FTA)
Cc: Steinmann, Richard (FTA); Lynch, Ryan (FTA); Brown, Sonia (FTA); Welbes, Matt (FTA)
Subject: Re: The new starts biweekly

OK. Separately, Susan, can you get me an update on how the evaluation of Honolulu's financial plan is progressing? Many thanks. -P.