From: Ben Porter
To: Scheibe, Mark
CC: james.ryan@dot.gov; Dmccoy@milligancpa.com; Hamayasu, Toru
Sent: 8/31/2009 9:33:24 AM
Subject: Re: additional questions regarding Honolulu HCT financial plan

Mark:

Thanks for your response.

I still want to see the Phase I costs. Please send the annual estimated costs for Phase I for the period 2009 through its completion.

Also, I need clarification on the total project cost. The financial plan states that the project cost, net of financing, is $5,120 million (Table 2-1). This total is consistent with the cash flow presented in Appendix A to the financial plan, for the period 2009-2019. The New Starts finance template you sent me shows a total project cost of $5,348 million, with financing costs of $290 million, so by deduction the project cost net of financing would be $5,058 million. Thus, there is a $62m difference between the project cost presented in the financial plan and that presented in the New Starts finance template. Please explain this difference.

thanks,
Ben Porter

On Aug 28, 2009, at 7:11 PM, Scheibe, Mark wrote:

Ben,

Our responses are noted below in red. The attached spreadsheet addresses question 6.

Mark

From: Ben Porter
To: Toru Hamayasu
Cc: Scheibe, Mark; Jim Ryan ; Donna McCoy, CPA
Sent: Wed Aug 26 16:15:15 2009
Subject: additional questions regarding Honolulu HCT financial plan
Dear Mr. Hamayasu:

I appreciate the County's quick response to my questions that were e-mailed on 8/18.

I have a few additional questions, listed below, to which I would appreciate your prompt attention.

1. Regarding the HCT GET surcharge revenue forecast, the financial plan text states that the current forecast is consistent with that of the Council on Revenues (COR). However, when I reviewed both the March forecast and August forecast of the COR, their year-to-year growth rates in state-level GET revenues are consistently lower than I calculate from the HCT GET surcharge forecast included in your August 2009 financial plan submittal. The table below shows a comparison of the most recent HCT and COR forecasts for fiscal years 2010-2015. From an examination of State and Honolulu County historical revenues, I find that the State and Honolulu GET revenues are

highly correlated, so I would expect that the HCT GET revenue forecast would more closely match the COR forecast, if in fact they are consistent. Would you please explain how the HCT GET surcharge forecast is "consistent" with the COR forecast, and also why the annual growth rates are different?

<image001.gif>

As noted on Page 2-5 of the August 2009 Financial Plan, growth rates consistent with the Council on Revenues were assumed only for FY 2010 (the May 1, 2009 Financial Plan assumed growth rates consistent with the Council on Revenues for FY 2009 and FY 2010; the FY 2009 revenue in the August plan is actual). As described on Page 2-6, Oahu specific growth rates were developed for use in FY 2011 through FY 2023. The GET surcharge revenue forecasts presented in the financial plan also explicitly include the GET surcharge revenue generated by Rail Transit project expenditures. Excluding project-generated GET surcharge revenue, the FY 2009 receipts by the City equal 163.64 million, while the FY 2010 receipts by the City equal 163.04 million, a 0.4% decline.

2. The plan states that Phase 1 of the Project will be 100% locally funded. Please provide annual capital costs, net of financing, for Phase 1. Do you intend that Phase 1 not be part of the FFGA? If Phase 1 is part of the FFGA, then on what basis would Section 5309 New Starts funds be applied to it?

While the first construction phase will likely be mostly locally funded (no FFGA until 2011), the City intends to request a letter of no prejudice for that segment. The FTA is aware of this. Therefore the first phase of the project would not be excluded from FFGA and 5309 funds would apply to the whole Project.

3. Are the bonds to be issued for the Project general obligation bonds or "self-supporting" bonds? If the latter, can you provide an example of similar bonds issued by Honolulu that did not require a debt service reserve or a minimum debt service coverage ratio for the issuance of additional bonds? Do you anticipate the HCT GET surcharge revenues to be pledged as a credit for the bonds?

The bonds are structured as GO bonds that are supported by the full faith and credit of the City. They are, however, considered as self-supported bonds for the purpose of the City's affordability guidelines. These two nomenclatures are not mutually exclusive. Examples of other self-supported GO Bonds include GO Bonds issued for certain sewer projects, solid waste projects, housing projects or H-Power waste-to-energy project.

4. The plan assumes $500 million in short-term financing. What kind of approval is required? How is this debt to be secured? If it is to be secured by the HCT GET surcharge, is it to be subordinate to the other debt to be issued for the Project?

The City and County of Honolulu already has a short term financing program in place in the form of tax exempt commercial paper currently capped at $250 million. The $500 million in short term debt assumed for the Project could be an extension of that plan or could represent an access to a line of credit or other short-term financing mechanisms, including grant anticipation notes. The short term debt is assumed to be rolled over until ultimately being refinanced into longer term debt which is backed by GET surcharge revenues. We fully intend to continue working with the Department of Budget and Fiscal Services as the Project advances to ensure that the financing structure represents a solution that meets the City's overall financial policies.

5. The plan assumes that 33% of bus and HandiVan capital costs will be funded from Section 5309 Bus grants. What is the basis for this assumption?

The assumption used work done in the Alternatives Analysis that showed the amount received from 5309 for bus discretionary to be about $6.25 million a year on average between 1996 and 2007. The costs identified for bus discretionary in the financial plan average about $19.5 per year between 2010 and 2030. The 33% reflects historical revenue levels compared to future expenditures. Admittedly, allocations to Honolulu for bus acquisitions have been lower since 2007, but based on the past revenue levels, the assumptions seemed reasonable for planning purposes. This assumption will be further refined in preliminary engineering. The bottom line is that any reduction in the 5309

contribution will increase the need for GO bonds proceeds.

6. Please provide the annual revenue vehicle hours to be operated on the fixed guideway system.

Please see attached spreadsheet.

Thank you for your consideration. Please feel free to call me if you have any questions.

best regards,
Ben Porter

Porter & Associates, Inc.
4102 Corliss Avenue North
Seattle, WA 98103-8433
office 206.632.1660
mobile 206.349.4417

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