Department of Transportation Services
City and County of Honolulu
Responses to FMOC Questions Regarding
Honolulu High-Capacity Transit Corridor Project's Financial Plan

Question #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?

Response

The debt capacity chart on page 2-29 is relevant to the discussion of G.O. debt, excluding self-supported bonds (see Question #2). The City has a dedicated source of revenues from the one-half percent General Excise and Use Tax (GET) surcharge that can be fully pledged for the repayment of debt service incurred from the issuance of debt related to the implementation of the New Starts project.

Question #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?

Response

No, only the debt service related to the implementation of the New Starts project is included in Figure 2-16. The City has been consistent in its use of G.O. bond financing for replacing and growing its bus and paratransit fleet. The debt service for these G.O. bonds is covered from the City's General Fund. The financial analysis assumes that the City would keep funding ongoing capital expenses using the same funding sources as before.

Question #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.

Response

The Table below shows the net GET surcharge revenues received by the City from the State of Hawaii for the first five quarters since the start of collection

GET Surcharge Received from State of Hawaii

Earned	Surcharge Revenues	
Period	Quarterly	Cumulative
2007 Q1	$12,793,494.09	$ 12,793,494.09
2007 Q2	$35,630,888.59	$ 48,424,382.68
2007 Q3	$44,603,289.21	$ 93,027,671.89
2007 Q4	$40,634,977.80	$133,662,649.69
2008 Q1	$39,980,317.88	$173,642,967.57

In April 2007 the State of Hawaii indicated that "approximately 15 percent of tax returns received through March 2007 left blank the section where taxpayers report their county surcharge." This is evident from the first quarter numbers shown above. The State has expressed its commitment to recover the uncollected amounts.

Question #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?

Response

While the financial plan assumes fare increases in 2009 and 2019, these merely allow the fare to "catch up" with inflation. Honolulu's experience has been that fare increases have had little or no impact on ridership. The 11 percent decrease in ridership in FY2004 is mostly attributable to a 34-day bus strike which ended on September 29, 2003. The table below presents the estimated monthly ridership two months before the July 1, 2003 fare increase and two months after the October 1, 2003 fare increase. Oahu Transit Services, Inc. (the City's bus management services contractor) estimates the total FY 2004 unlinked passenger trips would have numbered 67.7 million if the strike had not occurred.

2003	Estimated Passengers*	Comments
May	5,358,043	
June	5,359,248	
July	5,653,562	Fare increase effective 7/1/2003
August	4,668,371	Strike began 8/26/2003
September	383,102	Strike ended 9/29/2003
October	6,137,096	Fare increase effective 10/1/2003
November	6,347,548	
December	5,097,306	

*Source: Oahu Transit Services, Inc.

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Question #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.

Response
As shown in Figure 3-12, the transit operating subsidy as a percentage of the City's General Fund plus Highway Fund revenues is expected to peak between 2019 and 2027. At this peak the operating subsidy will require approximately a 7 percentage point increase in its share of the General and Highway Fund revenues compared to the historical average from 1994 to 2007, though only a 3 percentage point increase above the level of FY 2001. The allocation of City operating funds to the transit subsidy is a yearly decision made in the budget process, with the Mayor proposing and the Council approving a budget. In each year's action the City not only defines an operating (and capital) budget but also sets tax rates (in particular property tax rates) at an appropriate level to provide a balanced budget. As the need for a particular service, such as transit, rises the City can either choose to allocate more of the budget to that service (which is the assumption underlying Figure 3-12) or can choose to set tax rates at a higher level to increase the amount of the budget. In reality both occur. To date the City has consistently funded transit every year, without significant service cutbacks and with a generally increasing amount of service provided. The expectation is that future Mayors and City Councils will continue this tradition.