

News Release: August 19, 2009

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Subject: FOIA releases show City misled the City Council regarding rail finances

The following is derived from the City's *Financial Plan for Entry into Preliminary Engineering Submittal, May 1, 2009*, and from the City's *Draft Financial Plan, August 12, 2008*, both of which were obtained recently through Freedom of Information Act (FOIA) requests and are attached.

FTA reveals that the City had prepared a financial plan despite their denial.

During the June 10, 2009, Council Meeting, Councilmember Cachola specifically asked Transportation Director Yoshioka whether the City had revised their financial plan. Yoshioka replied that they had not finished it but as soon as they did they would give it to the Council. (see [video](#) at 4 hrs 9.5 mins. for 2.5 mins.)

In fact, the City Administration had completed a plan on May 1, which the Mayor subsequently presented to FTA Administrator Rogoff on June 16.

City admits tax collection shortfall

The principal change in the May 1 Plan from the Draft EIS is an admission that the City was not going to be able to collect the \$4.054 billion they had projected from the GE Tax. Instead they now project collecting \$3.316 billion (p. 2-12), which if added to the 2007/8 collection totals \$3.534 billion, or a \$520 million shortfall (see last table below).

Even though the City was telling the FTA that there would be shortfalls in GE Tax collections they still told the Advertiser at the same time, that "City officials expect any near-term revenue shortfall will be offset by higher collections in the future." [Advertiser 6/22/09](#).

Tax collection shortfall almost certainly will be greater

Despite the admission of shortfalls, the City is still not following the Council on Revenue's May 2009 projections for GE tax collections through 2015. If the City were to do this and, in addition, use their own percentage increases from the new May 1, 2009, Financial Plan for 2016-23, they would find themselves short by an additional \$477 million as shown in the last table below .

City projects greater federal funding

To adjust for the GE Tax shortfall, the City projects increased federal funds for Project Construction to \$1.85 billion (\$1.55 in New Starts and \$305 million in 5307 funds). The federal contribution is an extraordinary amount considering that far larger cities are not getting close to that amount.

In the May 1 Plan, the Project Cost has declined by \$115 million, which is a combination of a \$78 million increase in construction costs and a somewhat arbitrary \$193 million reduction of finance costs.

The Jacobs Engineering report (that the City claims validated that the Financial Plan was fiscally sound) picked up on this and

"recommends that the Financial Management Oversight Contractor review the Financial Plan and substantiate the current projected finance costs."[p 1-14; pdf p. 23]. See *Summary Project Costs* table below.

Summary Project Costs and funding		
	Draft EIS forecast	5/1/09 forecast
Construction Cost	\$4,927	\$5,005
Finance Cost	\$506	\$313
Project Cost	\$5,433	\$5,318
GE tax revs	\$4,054	\$3,534
New Starts		
5309	\$1,431	\$1,550
5307 formula	\$0	\$305
Total funding	\$5,485	\$5,389

The 5307 funds will have to be made up from the City's General Fund

Concerning the use of 5307 funds for construction, the Draft Financial Plan of August 12, 2008, in considering other financing alternatives states,

“A third option would be to direct other Federal funding (such as Section 5307 formula funds) toward the proposed project. This option, however, would have to be compensated by an increase in the City's contribution to necessary capital improvements to the rest of the system. Therefore, other FTA programs were not envisioned to be used for the implementation of the Project.”

Summary of 5307 funding in \$millions		
	Draft EIS forecast	5/1/09 forecast
Construction	\$0	\$305
Preventive Maintenance	\$323	\$284
Future capital needs eg. Buses	\$670	\$291
Total funding	\$993	\$880

It is quite clear from the May 1, 2009, Financial Plan, Appendix A (pdf 45 of 120) that the \$305 million in 5307 funds was stripped completely out of the “Total Sec. 5307 Used for Ongoing Cap[ital]Ex[penditures]” for the period 2011 through 2019 and placed in the line “FTA Sec. 5307 Formula Funds Used for the Project” for the same period

In the Draft EIS Cash Flow for the Airport Alternative these 5307 funds are shown as being planned for ongoing capital costs for buses and related equipment and other assets. Since they are now slated for rail construction, they will have to be made up from the City's General Funds, which is to say, property taxes.

Calculations of City collections of the ½ percent General Excise tax increase				
	City 5/1/2009 Financial Plan as submitted		City 5/1/2009 Financial Plan Revised using 5/29 COR Forecast	
Fiscal Year	Annual GET Revenues	Annual percent change	Annual percent change	Annual GET revenues
2007	**\$13			***\$48
2008	**\$161			***\$169
2009	\$152	-10.1%	-10.4%	\$152
2010	\$154	1.3%	-2.9%	\$148
2011	\$164	6.5%	3.1%	\$152
2012	\$175	6.7%	1.9%	\$155
2013	\$191	9.1%	5.0%	\$163
2014	\$202	5.8%	5.3%	\$171
2015	\$212	5.0%	3.0%	\$177
2016	\$222	4.7%	4.7%	\$185
2017	\$233	5.0%	5.0%	\$194
2018	\$246	5.6%	5.6%	\$205
2019	\$260	5.7%	5.7%	\$217
2020	\$274	5.4%	5.4%	\$228
2021	\$289	5.5%	5.5%	\$241
2022	\$304	5.2%	5.2%	\$253
2023	\$238	N/A	5.0%	\$199
Total	\$3,490			\$3,057

*Note: Percent changes in Excise tax collection for 2010-15 according to the Council on Revenues May 29 forecast. Percent changes for 2016-2022 are those used in the City's new May 1 Financial Plan. For FY2023 we allowed a 5 percent increase and then used 75 percent of the annual forecast for the half fiscal year per the City's methodology.

**Note: GET surcharge revenues of \$13 million was reported for FY 2007 in the Draft EIS; \$161 million was reported for FY 2008 in both the DEIS and May 1 Financial Plan.

***Also note that the correct FY2007 and 2008 collections are \$48 and \$169 million per the City's financial statements at:

<http://www.co.honolulu.hi.us/budget/cafrhnl2008.pdf>