August 27, 2009.

Why the City's forecast of a $520 million shortfall is still understated.

In response to the City's release of the Draft EIS in October 2008, we warned that their estimate of General Excise Tax collections was going to be short by about $744 million.[i] For that we were called "liars." Not mistaken, not in error — but liars. But the main thing is just remember that you read it first at Honolulutraffic.com.

Throughout City Council hearings, the Administration insisted that there would be no tax shortfalls despite the subsequent downgrading of COR forecasts. They said that while collections might be a little short in the first year or two the bounce back in subsequent years would more than make up for it by the time the tax ended.

First, for the Draft EIS the Hannemann Administration ignored the downturn in our economy that started in about mid-2008. They ignored the Council on Revenues September 2008 forecast which issued about two months before the Draft EIS. The percentages forecast are compared in the following table:

Fiscal Year	COR 8/7/08	DEIS 10/29/08
2009	0.2%	13.3%
2010	4.3%	5.3%
2011	3.5%	4.5%
2012	2.5%	3.4%
2013	5.5%	6.5%
2014	6.0%	6.1%
2015	3.4%	4.5%

Source: www6.hawaii.gov/tax/a9_1cor.htm

Nevertheless, as the time went on and the COR's successive forecasts continually declined, the Hannemann Administration stuck to its contention that the total GE tax collection forecast in the Draft EIS would be collected in the end.

Then after a FOIA request to FTA, we recently received the May 1 Financial Plan showing that internally the Hannemann Administration had calculated a $520 million shortfall in GE Tax collections while at the same the Hannemann Administration told the City Council and the public a totally different story including that of not even having Financial Plan.

Even the May 1 Plan, while $520 million short, still did follow the March 2009 Council on Revenues forecast and instead substituted their own estimate, which was considerably higher than the COR's as the following table clearly shows.

Fiscal Year	COR 5/29/09	5/1 Plan
2009	-10.4%	-10.1%
2010	-2.9%	1.3%
2011	3.1%	6.5%
2012	1.9%	6.7%
2013	5.0%	9.1%
2014	5.3%	5.8%
2015	3.0%	5.0%

http://www6.hawaii.gov/tax/a9_1cor.htm

When we bring the forecast up to date, including the May 29, 2009, COR forecast, the outlook is even grimmer. We show that if the City uses the COR latest forecast for the period through 2015 and then the same percentage increases they show in their May 1 Plan, they will be another $433 million short for total shortfall $953 million (see Appendix A for the detailed chart).

Undoubtedly, the Hannemann Administration will say that they have a better handle on future tax collections than the COR, which the City's 20-page Appendix E to the May 1 Plan seems to imply. In that case, maybe we should do away with the COR and rely on Hannemann's integrity instead.

Similarly, when the Hannemann Administration says in the May 1 Plan, "The economy is expected to experience a more pronounced recovery from FY2011 through FY2014," it flies in the face of the COR forecast and, for that matter, Ben Bernanke, the Fed Chairman who said last month, "We don't expect the consumer to come roaring back by any means." But then, perhaps the Mayor is angling for the Fed Chairman's job.

Let's now review what the Hannemann Administration did when they found they were going to be $520 million short (set aside the more likely $953 million for the time being).

First, they grabbed $301 million that was originally destined for bus funding since the feds typically pay for 80 percent of new bus and bus equipment costs. Since we have to keep renewing our bus fleet, these funds are needed and will have to be replaced from the City's General Fund.

Then they projected increasing the federal New Starts funds from $1.4 billion to $1.55 billion — a $150 million increase. To make up the additional $75 million they reduced the rail transit Project Cost principally by reducing interest costs on the bond issues.

Problem solved.

We don't think so since the Hannemann Administration had to submit a new plan and that is an indication that the May 1 Plan did not cut it with the feds (the Hannemann Administration cannot show the Plan to us, or the City Council, of course).

It does not take a rocket scientist to see that the $301 million that would have to be replaced from the General Fund over the next eight years is not going to fly with the City Council. The Council is already going to have to absorb $1.5 billion in new operating losses for rail transit through 2030.

So what else are they going to do?

In the past Sunday Advertiser, Sean Hao did a fine job of examining the other financing options the City had discussed in the May 1 Plan (pages 5-3 & 4). Essentially, they are really reaching when they discuss getting $20 million per station from private developers when the major players in town are not favorably inclined towards elevated rail.

Other options posited are various ways to have the state ante up some of the shortfall. This could be part of the 10 percent held back by the Legislature, and using airport funds. State officials immediately threw cold water on that idea.

The City in its May 1 Plan used $300 million from bus funds to use for rail construction but then promptly retracted that proposal when the May 1 Plan became public.

And now comes the news that today's Council on Revenues forecast has once more lowered the forecast total tax collections over the next two years. Next week we will get the forecast for the GE tax collections but that will follow closely the total tax collections and so it is now good news for the City.

Appendix A, which follows, is our forecast for GE tax collection and it shows that it is likely that the City will collect $433 million less than they forecast in the May 1 Plan. And that does not take into account today's news of lowered projections.

Appendix A

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 forecast. Percent changes for 2016-2022 are the same as those used in the City 5/1/2009 Financial Plan. For FY2023 we allowed a 5 percent increase and then used 75 percent of 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 the DEIS and 5/1/2009 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

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[i] http://www.honolulutraffic.com/DEIS_Comments8_V.pdf