

# Paying the Bills: Prioritizing Honolulu's Fiscal Challenges

By Wendell Cox  
29 February 2012

DEMOGRAPHIA



# The Broader Context: The New Realities

**Downtown**

**DEMOGRAPHIA**

# Fiscal Realities

## BUDGET DEFICITS AS A % OF GDP (2011)



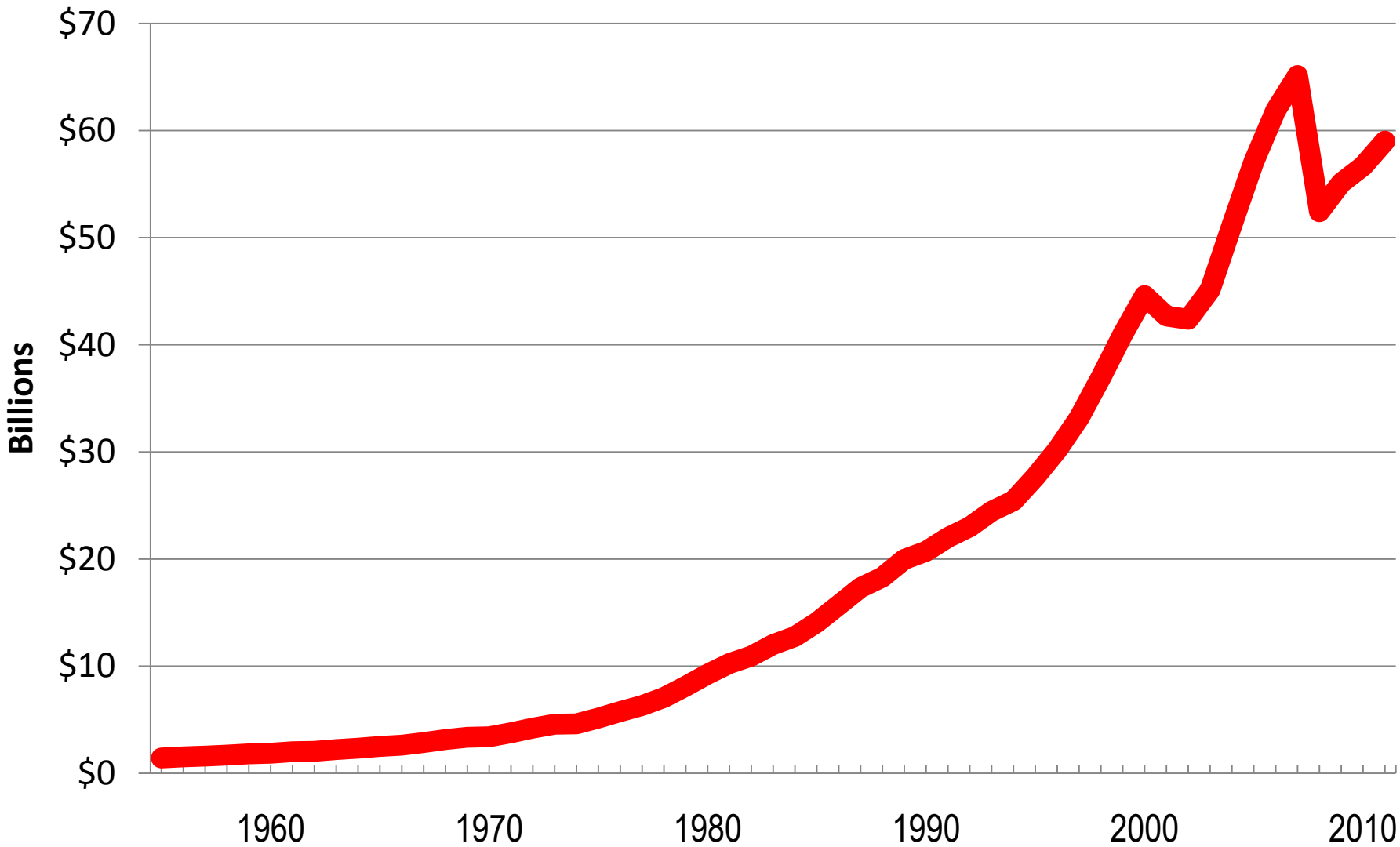
**Greece**  
**8.5%**



**United States**  
**10.8%**

# Worst Downturn Since the Depression

HOUSEHOLD WEALTH: 1955 – 2011: IN TRILLIONS







← Pittsburgh



Philadelphia →

Cleveland →



← New York



Indianapolis →

# **Birmingham, Alabama: 2011 Jefferson County Bankruptcy Sewer System Debt**





# Honolulu

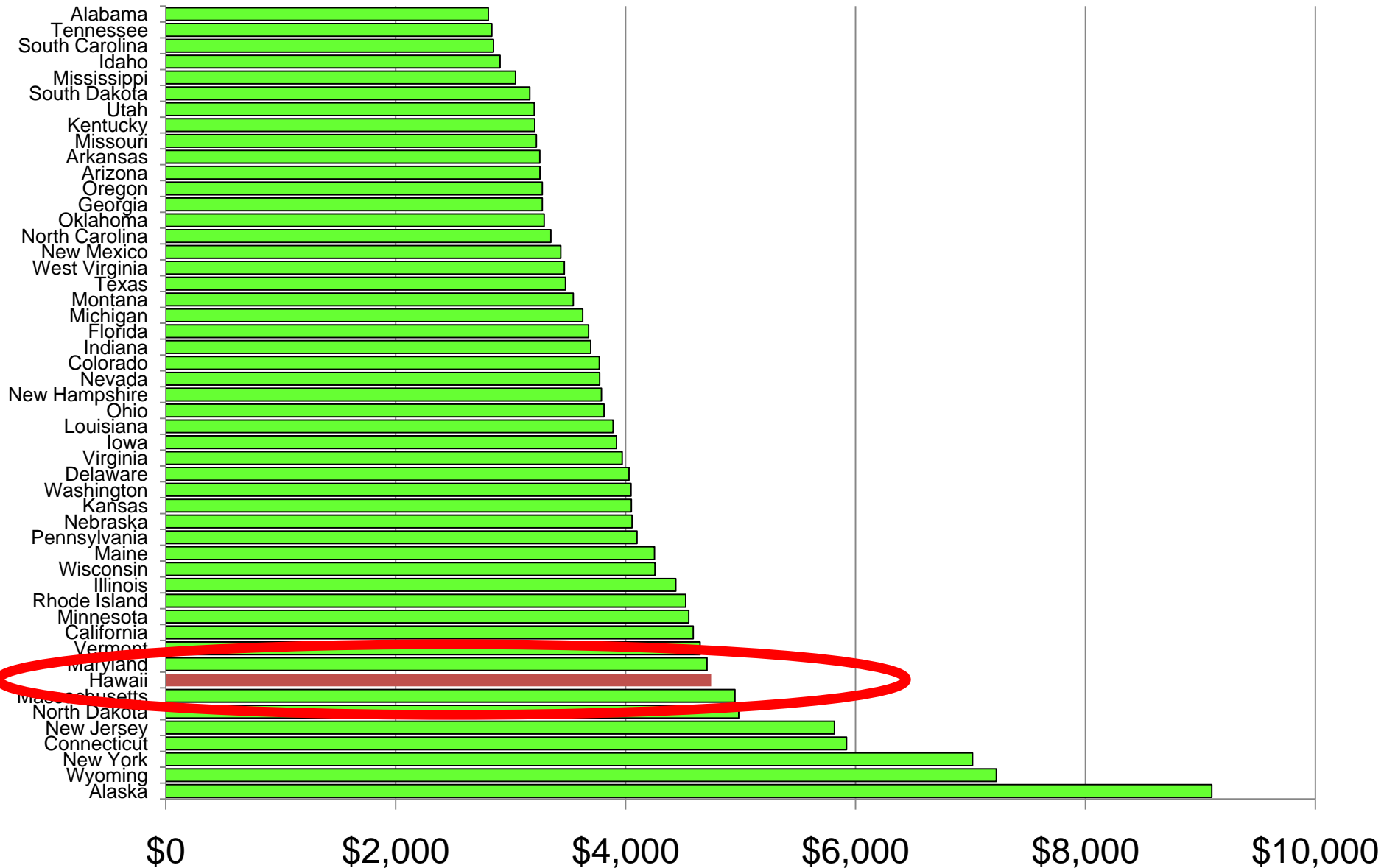
## The Situation



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# State & Local Taxes per Capita

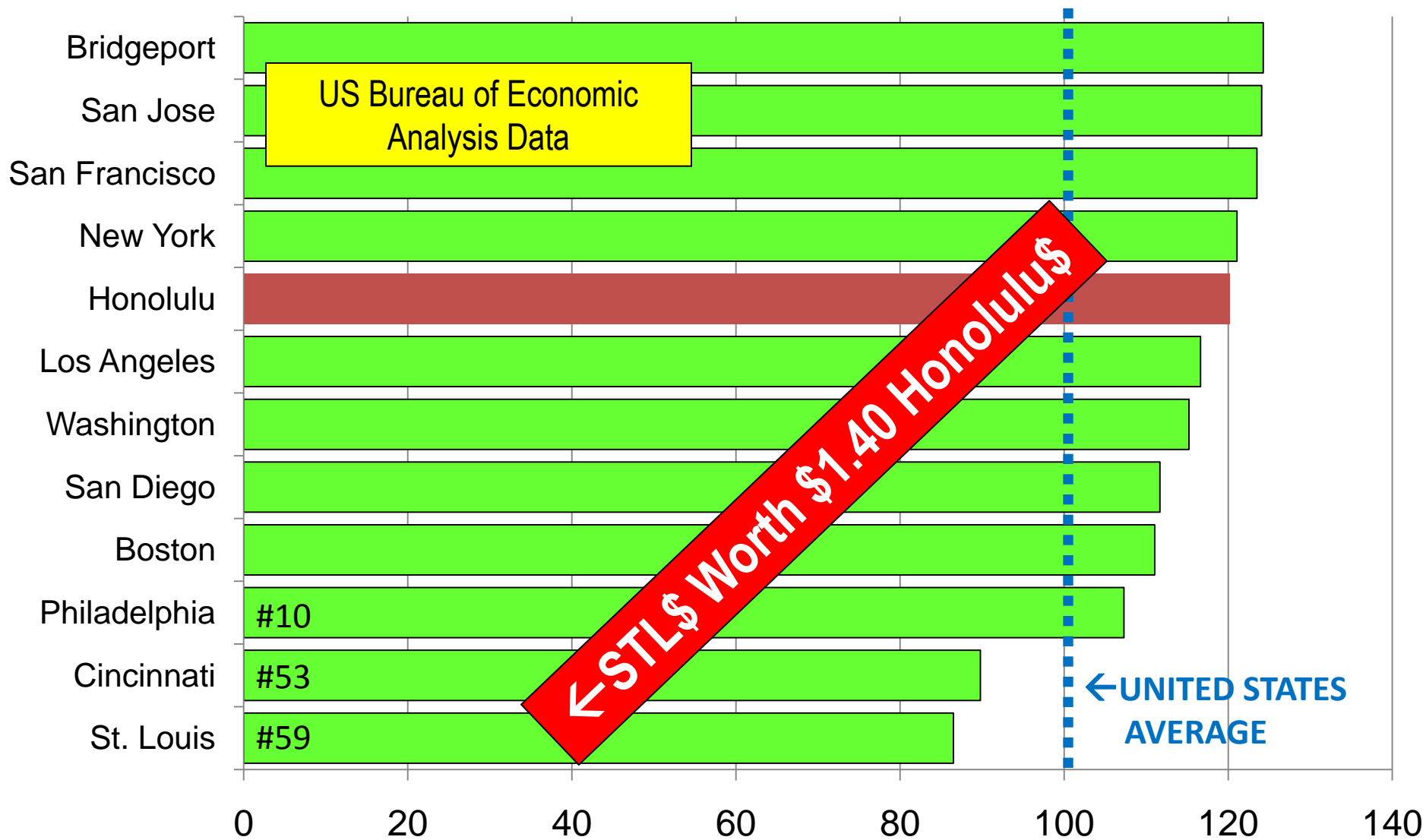
2009: HAWAII 8<sup>TH</sup> HIGHEST





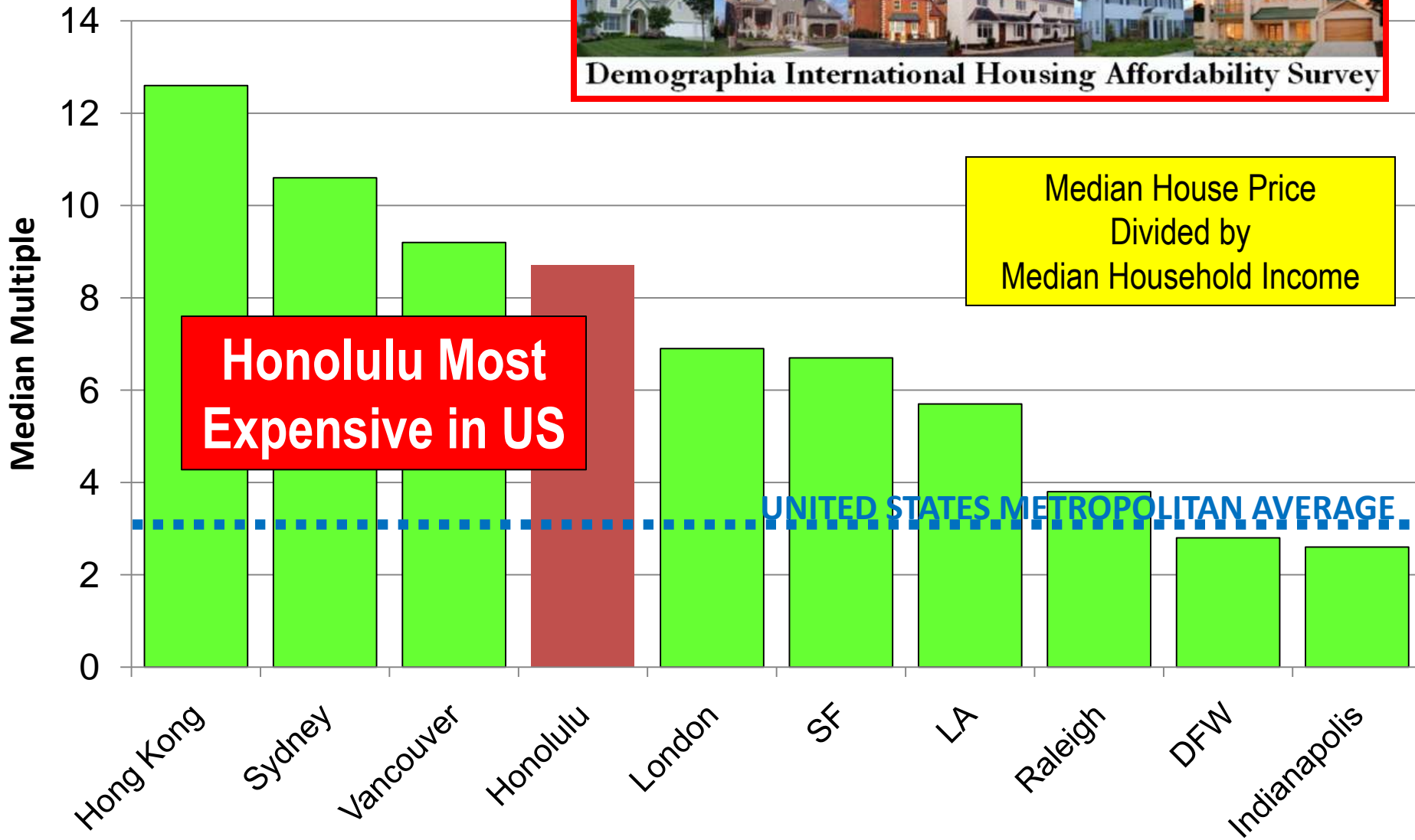
# Cost of Living: MSA's Over 900,000

HONOLULU: 5<sup>TH</sup> MOST EXPENSIVE IN 2009



# International Housing Affordability

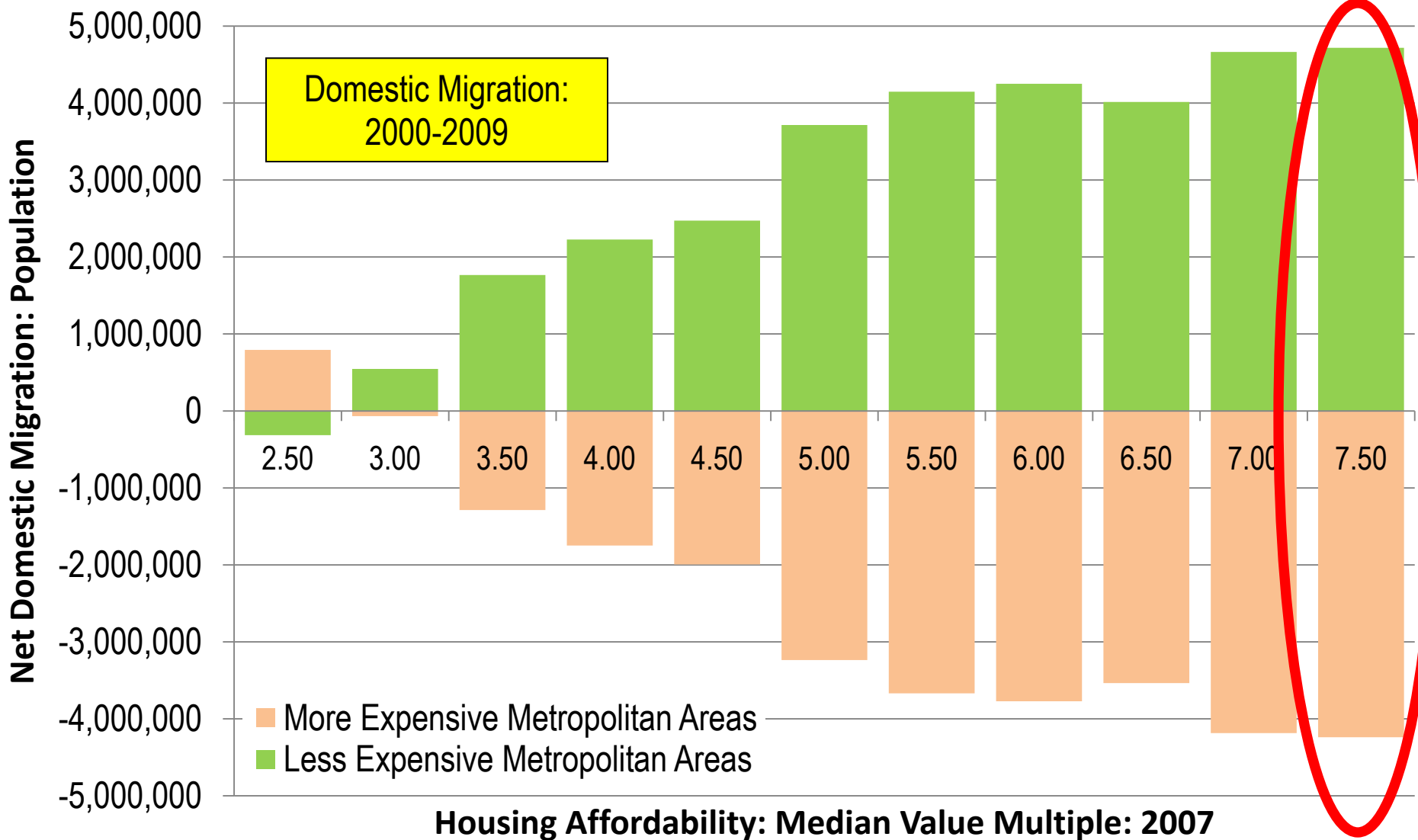
HONOLULU: MOST EXPENSIVE US/NEAR 3X AVERAGE





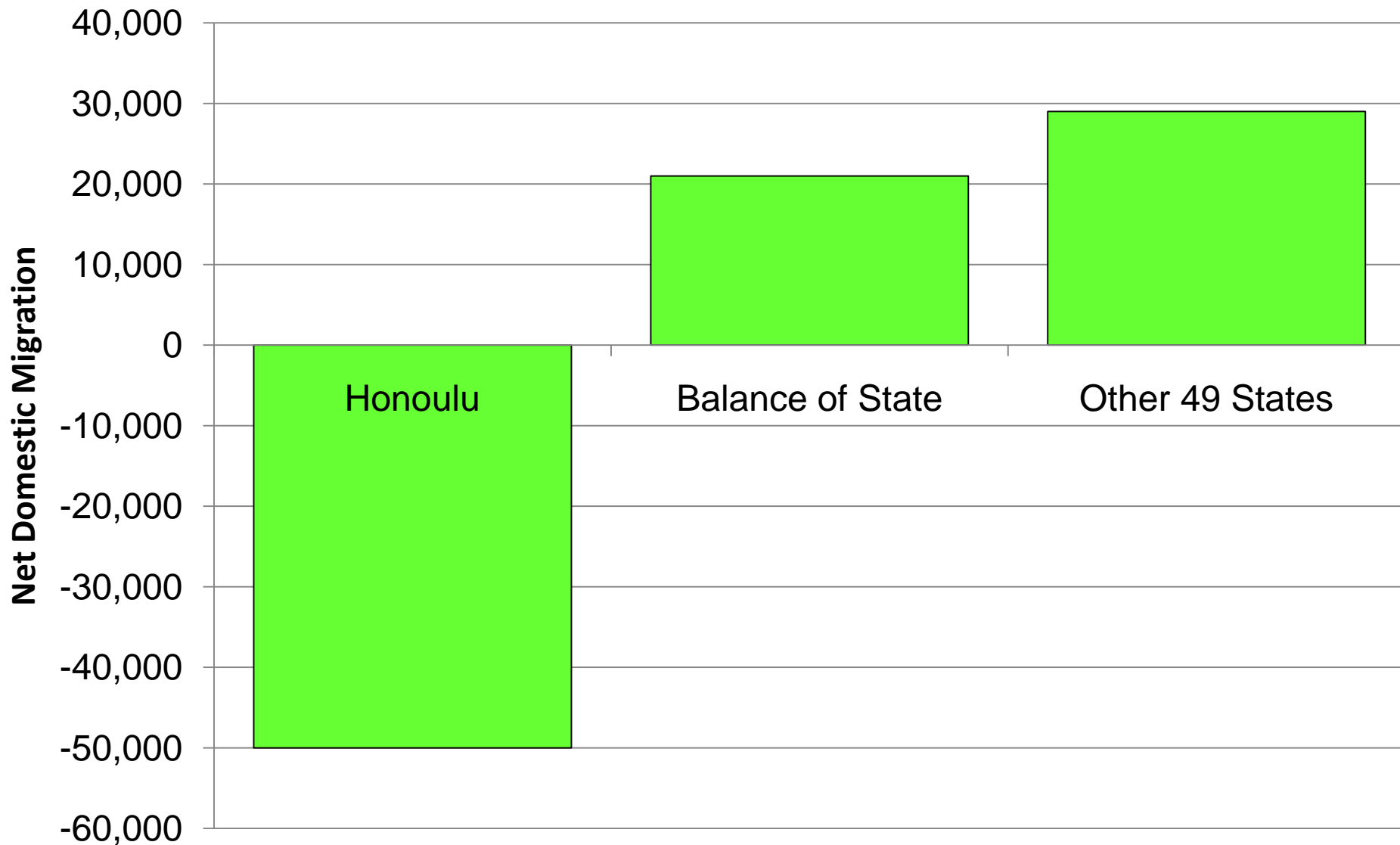
# People are Leaving Unaffordable Areas

## BY METROPOLITAN AREA HOUSING AFFORDABILITY



# Domestic Migration: 2000-2009

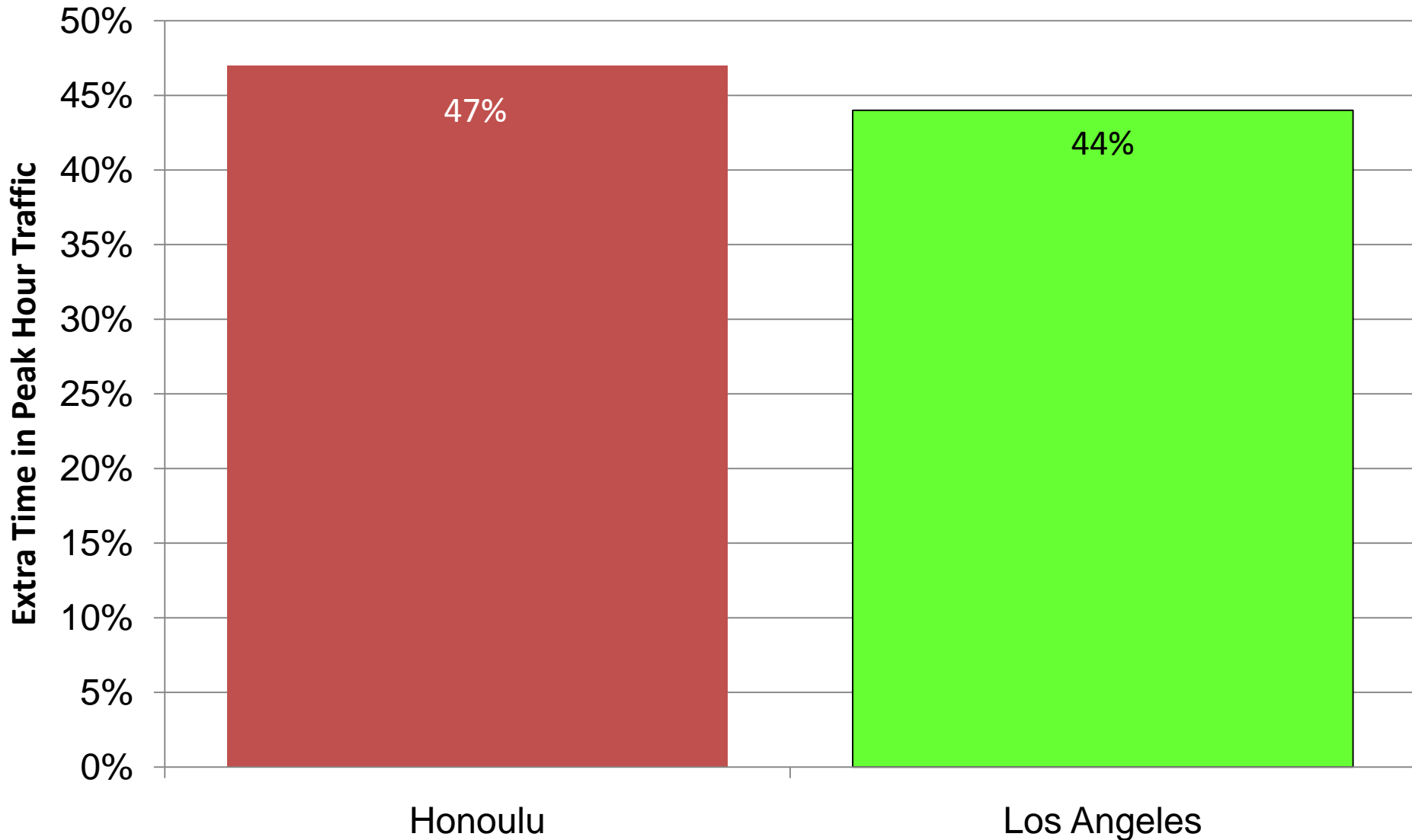
## LARGE LOSSES IN HONOLULU





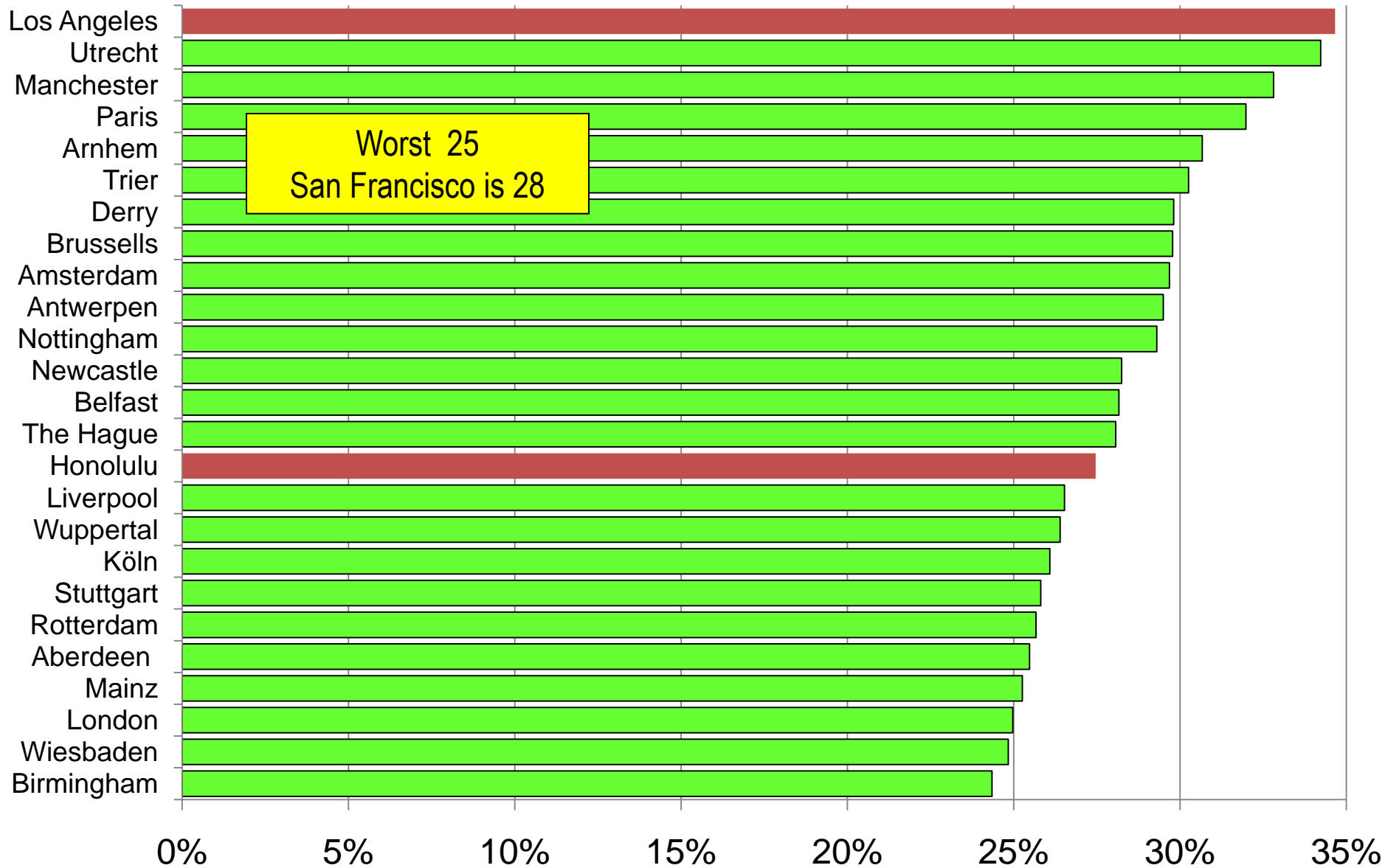
# Excess Time in Peak Hour Traffic

## HONOLULU WORST IN NATION 2007



# Excess Peak Hour Traffic Delay

16<sup>TH</sup> MOST CONGESTED: 200 US & EUROPEAN CITIES





# Minimizing Travel Times

## ASSOCIATION BETWEEN MOBILITY & AFFLUENCE

Chicago

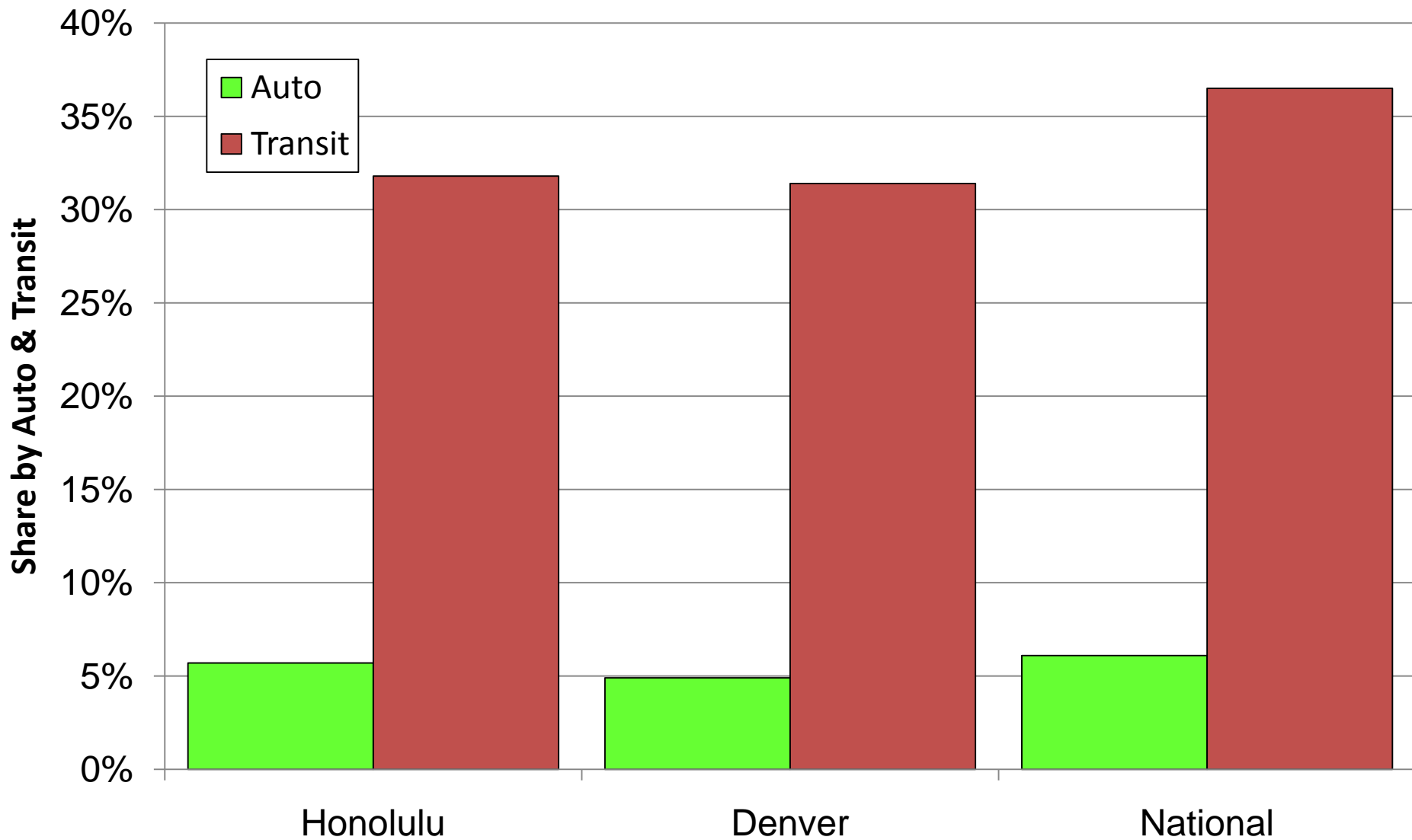


MORE ON THIS FROM  
ADRIAN MOORE

PRUD'HOMME  
*U of Paris*  
HARTGEN-FIELDS  
*U of N Carolina*  
Mobility Improves  
Productivity

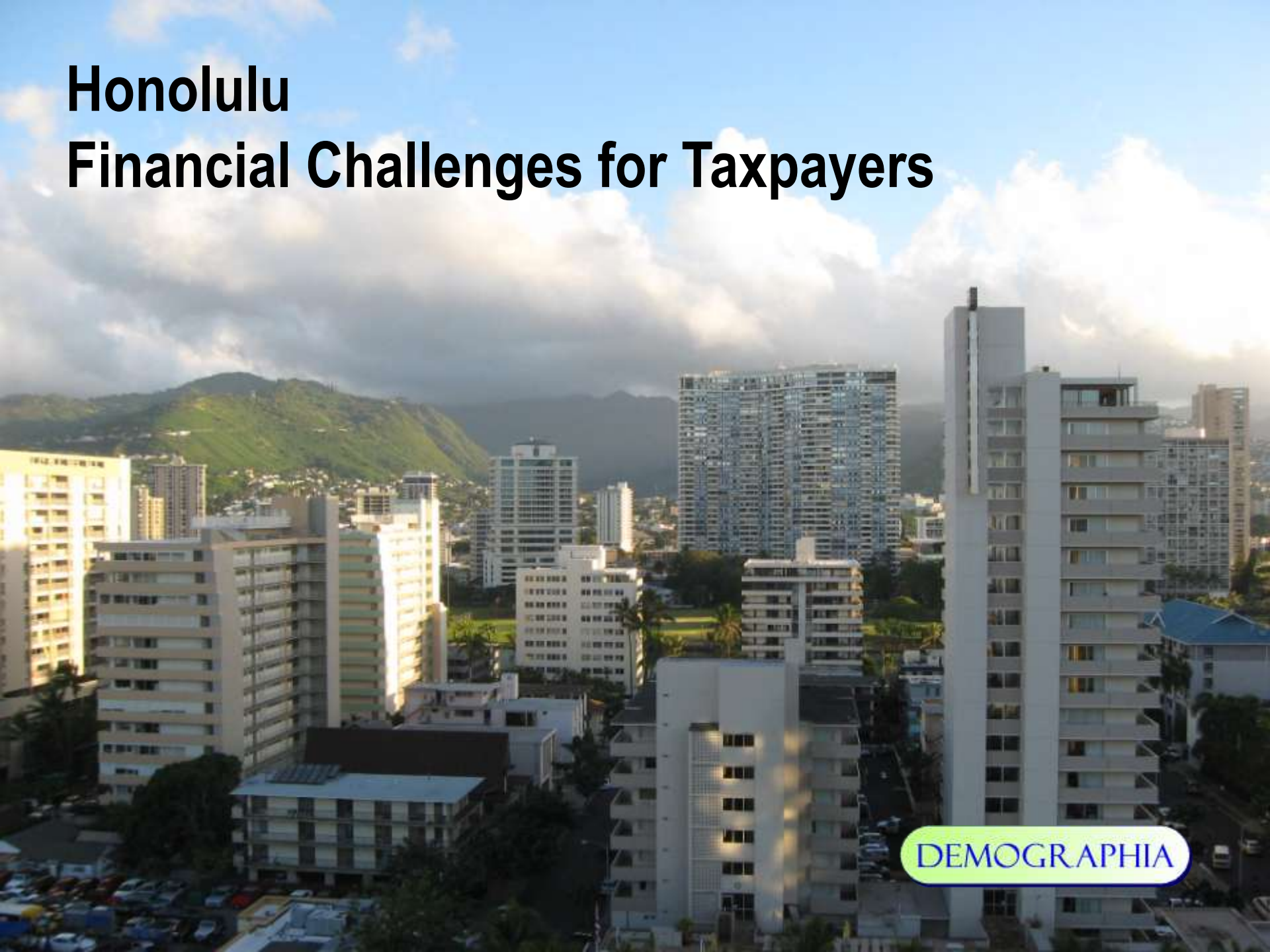
# Work Trip Travel 60 Minutes & Over

SHARE OF AUTO & TRANSIT TRAVEL: 2010



# Honolulu

## Financial Challenges for Taxpayers



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# Report on the State of Physical Infrastructure in Hawaii

*Final Report  
to the Economic  
Development  
Administration  
U.S. Department  
of Commerce*

July 2010



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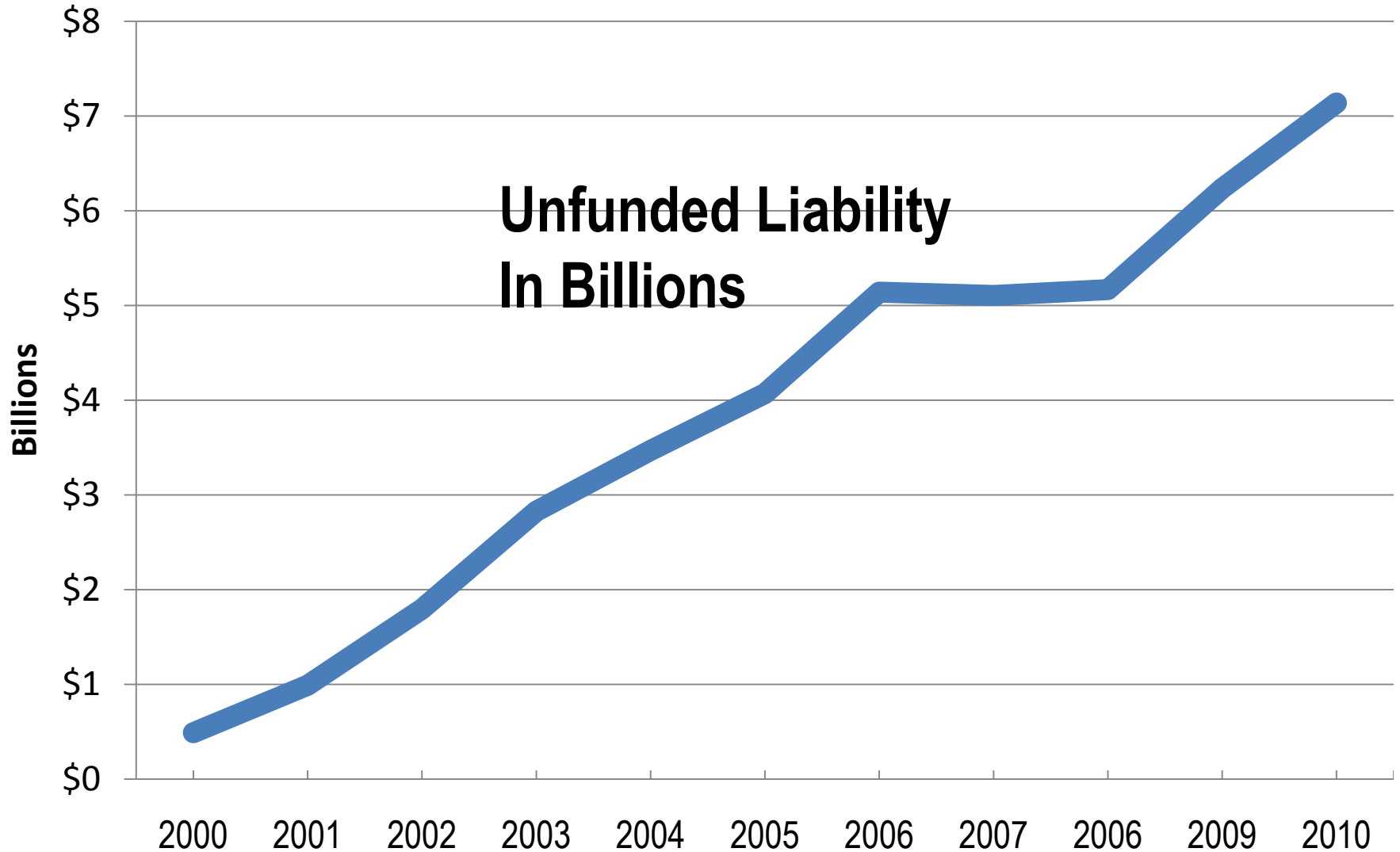
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## Repairs tab may top \$32B



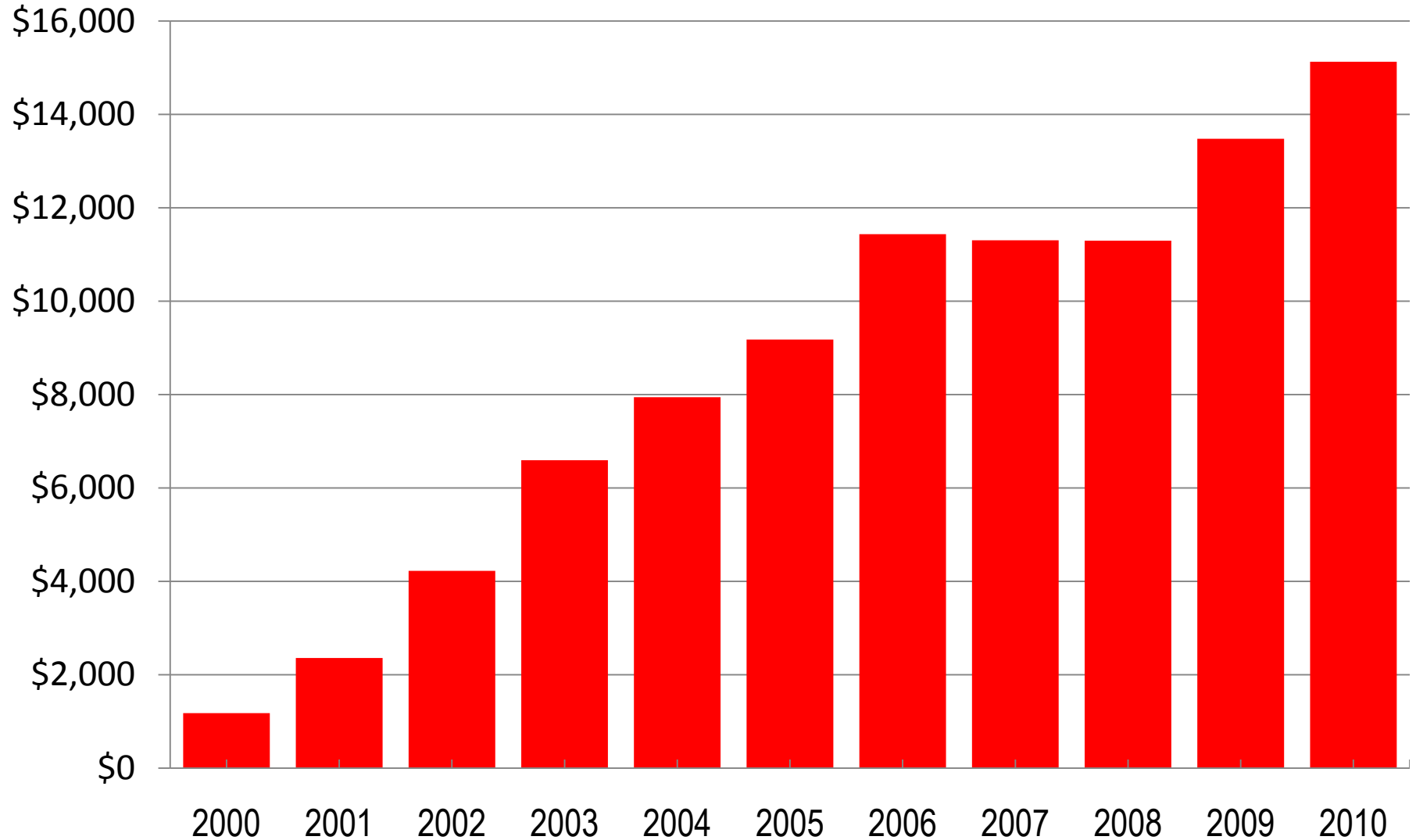
# Unfunded Government Pension Liability

STATE & LOCAL: 2000 – 2010: IN BILLIONS



# Unfunded Government Pension Liability

PER HOUSEHOLD IN HAWAII: 2000 – 2010



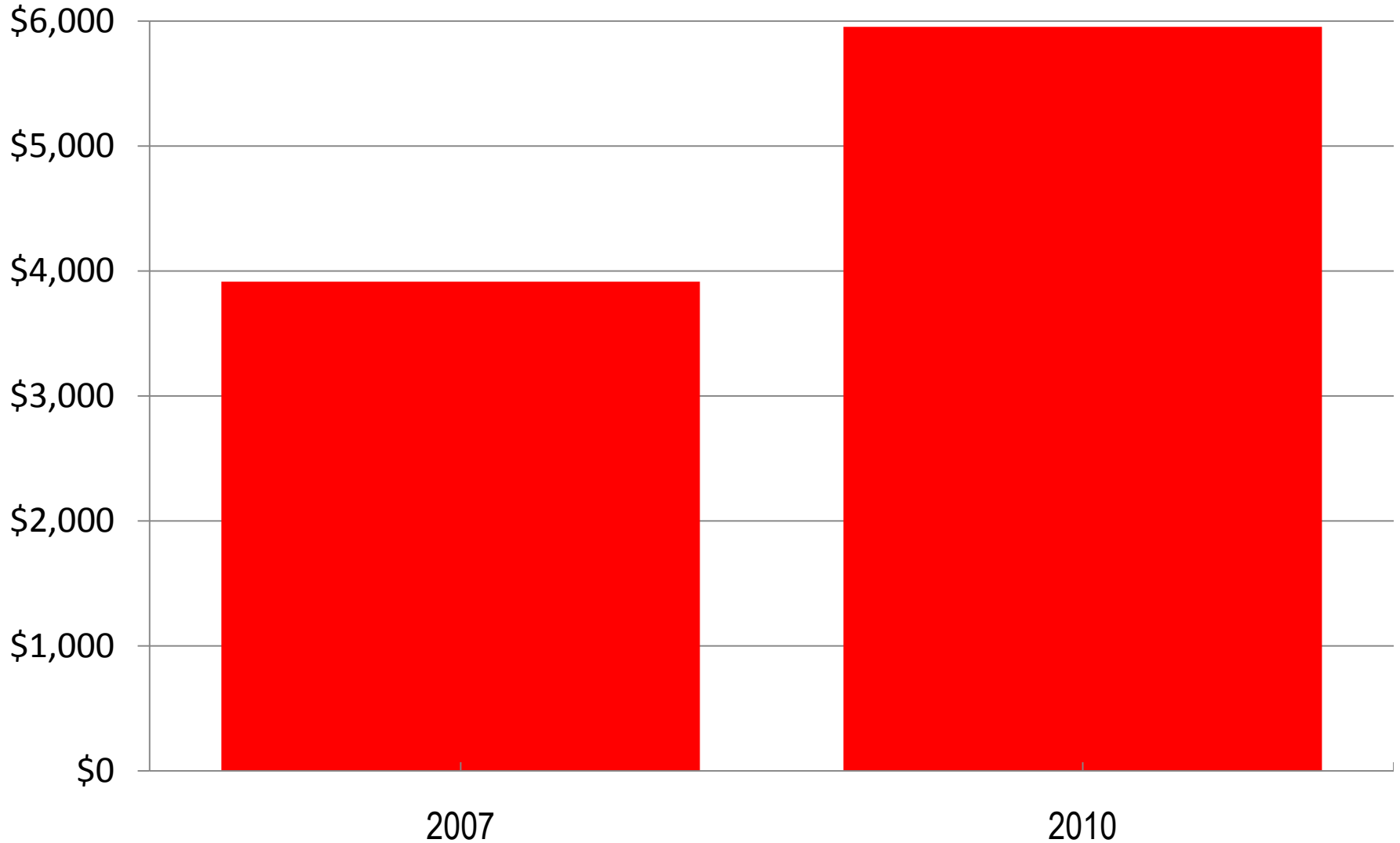
# Pension Liability Could Grow

## ACTUARIAL COMMENTS

- 1) Deferred losses
- 2) Higher salaries
- 3) Retirees living longer
- 4) Government contributions too little
- 5) Rosy investment return assumption (8%)

# Unfunded City Retiree Health Liability

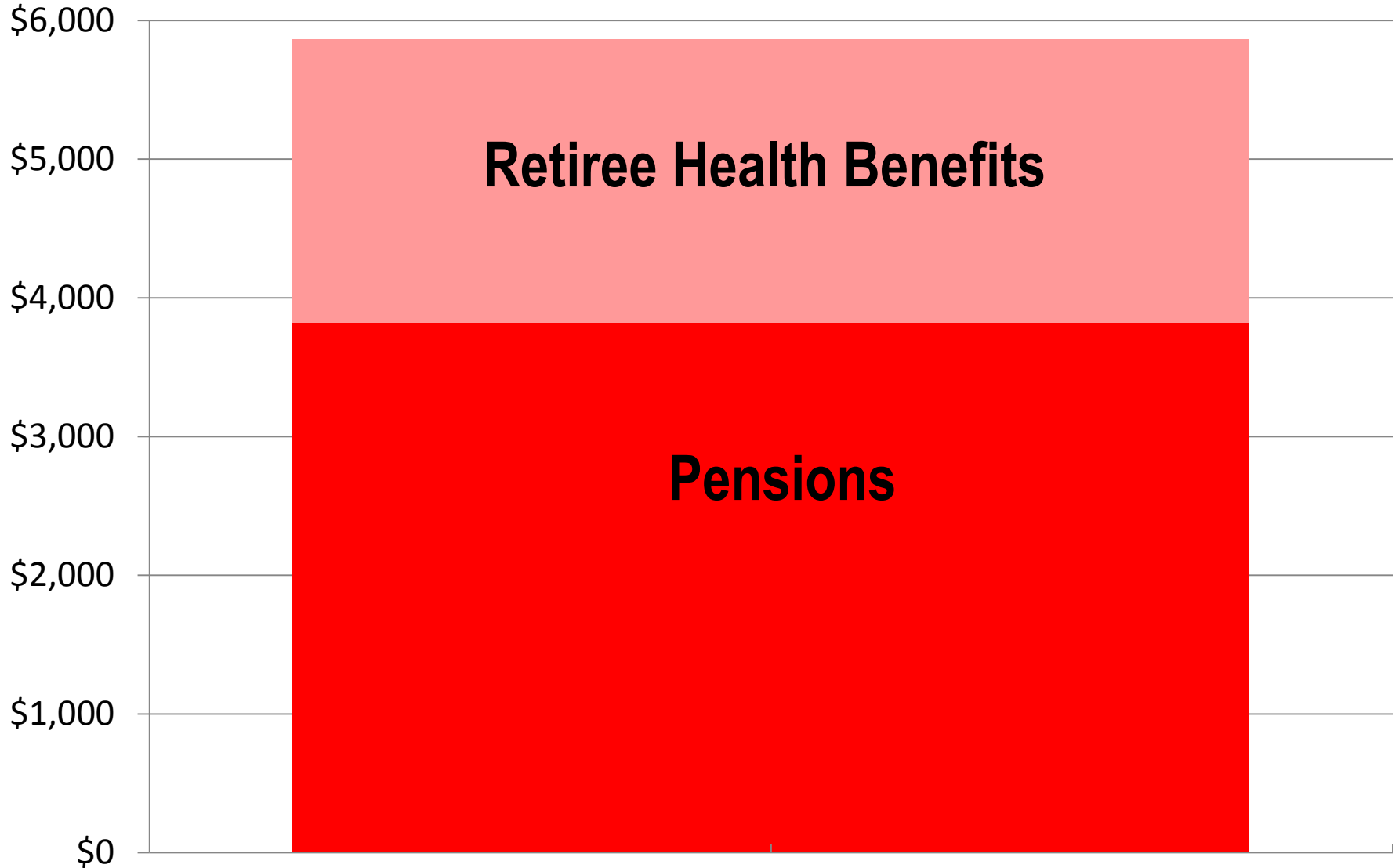
PER HOUSEHOLD: 2007 – 2010 (OPEB)





# Increase in Liability/Honolulu Household

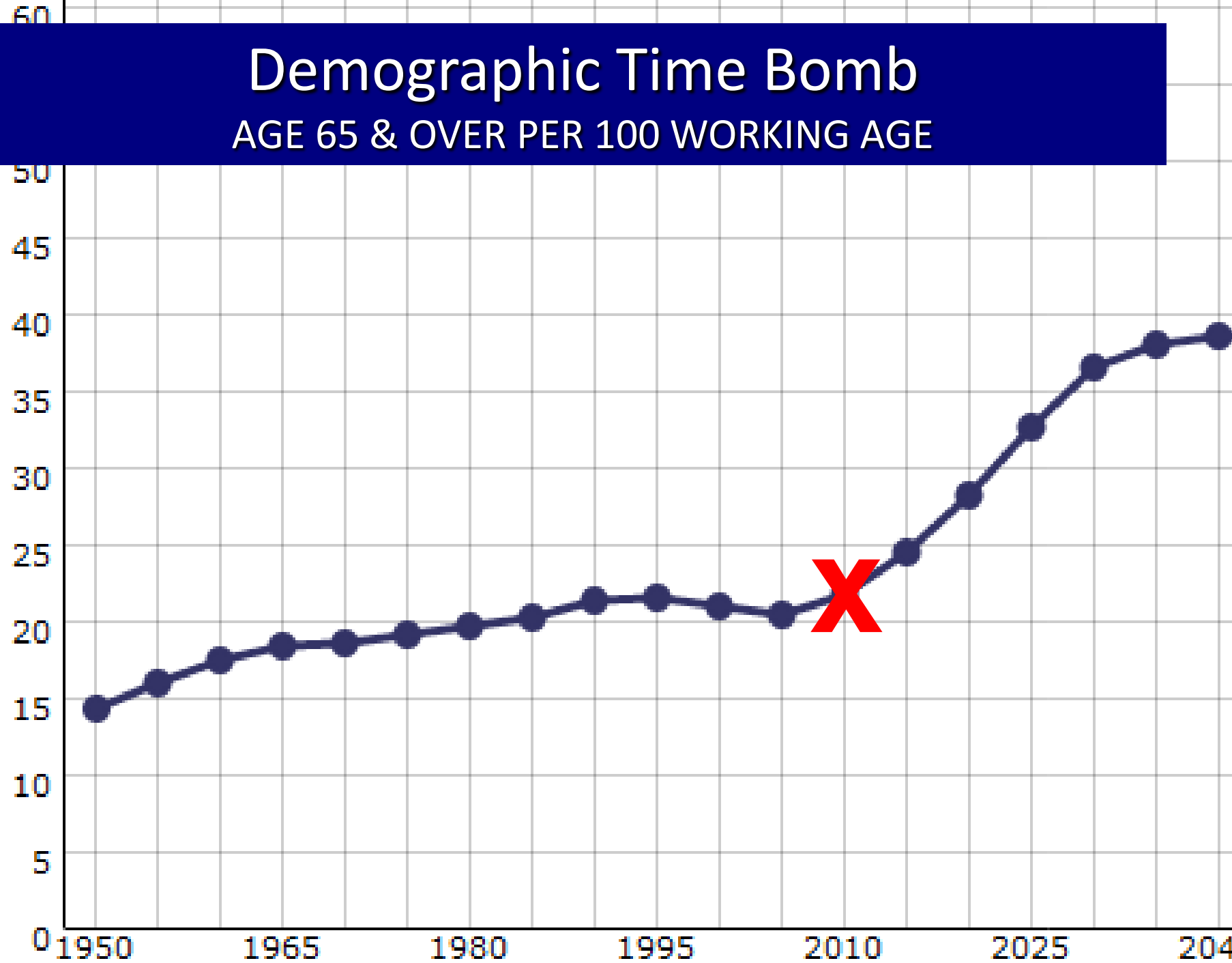
PUBLIC EMPLOYEE RETIREMENT FUNDS 2007 – 2010



# Demographic Time Bomb

AGE 65 & OVER PER 100 WORKING AGE

Old-Age Dependency Ratio





Hilo 1:00 am 4:00

77°

Feels Like: 79° 76°

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## Sewer settlement will cost Honolulu \$4.7 billion over 25 years

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*Posted: Jul 16, 2010 1:43 AM GST*  
*Updated: Jul 16, 2010 2:00 AM GST*

HONOLULU (HawaiiNewsNow) - Around \$4.7 billion, that's the price tag Honolulu taxpayers will pay as part of a sewer settlement. Mayor Mufi Hannemann announced Thursday that sewer fees on Oahu would increase 3 to 5 percent every year for the next 25 years to pay for it, and that figure is flexible.

The settlement was part of a consent decree with the Environmental Protection Agency. The mayor says the city will look to use federal grants to help pay for the upgrades. On Wednesday the Honolulu City Council voted to accept the settlement outlined in the consent decree.



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*Rocinda Favela – Rio de Janeiro*

# EXPENSIVE BUT NECESSARY

"Providing full secondary treatment at Sand Island and Honouliuli wastewater treatment plants will drive monthly residential sewer fees as high as \$300 in less than 20 years."



- Rate Changes
- Letter from BWS Acting Manager
- Revised Rate Schedule Approved

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## BWS Rate Changes

WATER FOR LIFE

Safe and dependable water now and into the future

To view the revised rate schedule

At the Honolulu Board of Water Supply (BWS), we are committed to providing a safe and dependable water supply now and into the future. Our foundation for our work is a commitment to a healthy organization that serves our customers.

**70% Water Rate Increase**  
**45% of pipes more than 40 years old**

...of their challenge.

...to define the true costs of delivering water, source, storage, ... analyzed and planned for to ensure ... generations. The results tell us that **we must raise safe and dependable water supply to our customers.**

... costs of providing service have grown steeply - electrical power, ... and labor costs continue to rise.

To minimize impacts on customers, the BWS has spread the needed increase over a multi-year rate schedule. In the first year of this program, BWS is implementing a **system-wide**

JOURNALIST  
2011



PUBLISHED SINCE 2002

# HAWAII REPORTER

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How are people going to make it? I just don't know.  
City Council Budget Chair Ann Kobayashi

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Smart Busin

Tuesday, November 29th, 2011 | Malia Zimmerman | Print This Article

## With Water, Sewage Rates, Car Registration Fees and More Taxes on the Rise, City Council Budget Chair Wonders How Island Residents Will 'Make it'

BY MALIA ZIMMERMAN - Hold on to your wallet.

That was the advice from Honolulu City Council Budget Chair Ann Kobayashi after she was asked about the 9.65 percent annual water use rate increase authorized by the Board of Water Supply yesterday, which totals about 70 percent over the next 5 years.

The Board said it needs the revenue to make vital upgrades to island infrastructure. The island of Oahu, where an estimated 900,000 people or the vast majority of Hawaii's population live, had 364 water main breaks per year between 2005 and 2009 – or an average of one break per day, and that trend continues today.

But Kobavashi is concerned that Oahu residents will be hit hard in the



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# Financing Rail: Taxpayers Pay for Rosy Projections



***Prime Agricultural Land:  
Adjacent to Rail: East Kapolei***

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BENT FLYVBJERG

MIIS BRUTELIUS AND WERNER ROTHENGATTER

# MEGAPROJECTS AND RISK

AN ANATOMY OF AMBITION

Underestimating  
Costs in Public  
Works Projects

*Error or Lie?*

Average  
Rail  
Cost Overrun  
45%  
Up to 100%

9 of 10  
Cases



# You Won't Know the Bill Until It's Too Late

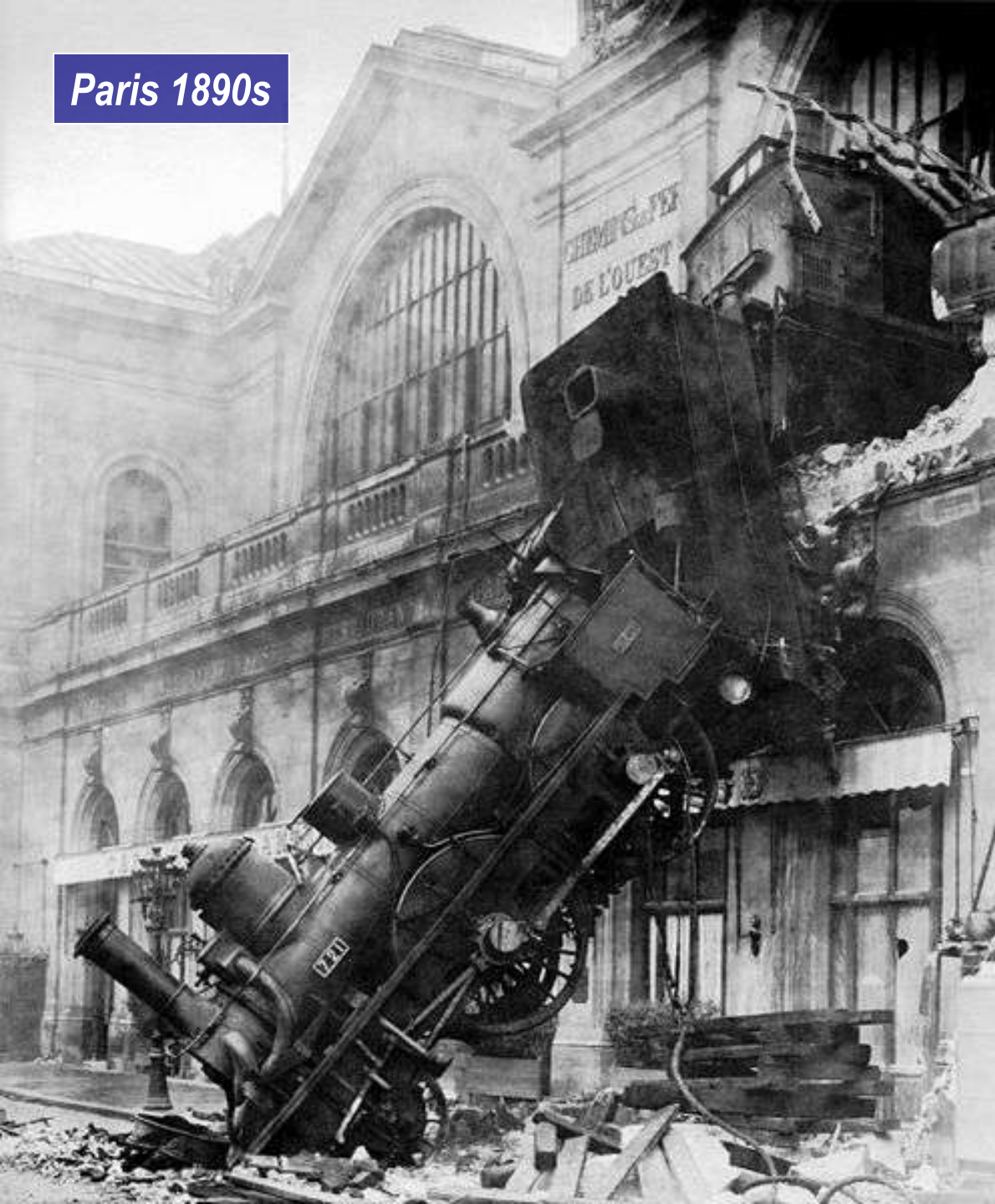
BOSTON'S "BIG DIG:" PROMISE \$4 BILLION, ACTUAL \$22 BILLION

Inflation Adjusted Costs

An aerial photograph of a massive construction site in an urban environment. The site is dominated by a dense network of steel scaffolding and rebar structures, indicating the early stages of a large-scale project. Several yellow tower cranes are visible, positioned around the construction area. The site is situated near a body of water, with a curved road and parking areas visible in the foreground. The surrounding cityscape includes various buildings, including a prominent white building with a grid of windows on the left. The overall scene conveys a sense of intense industrial activity and large-scale infrastructure development.



Paris 1890s



# *Honolulu Warning Signs*

EXCESSIVE DEBT  
LEVELS

*-FTA  
-STATE*

Paris 1890s



# *Honolulu Warning Signs*

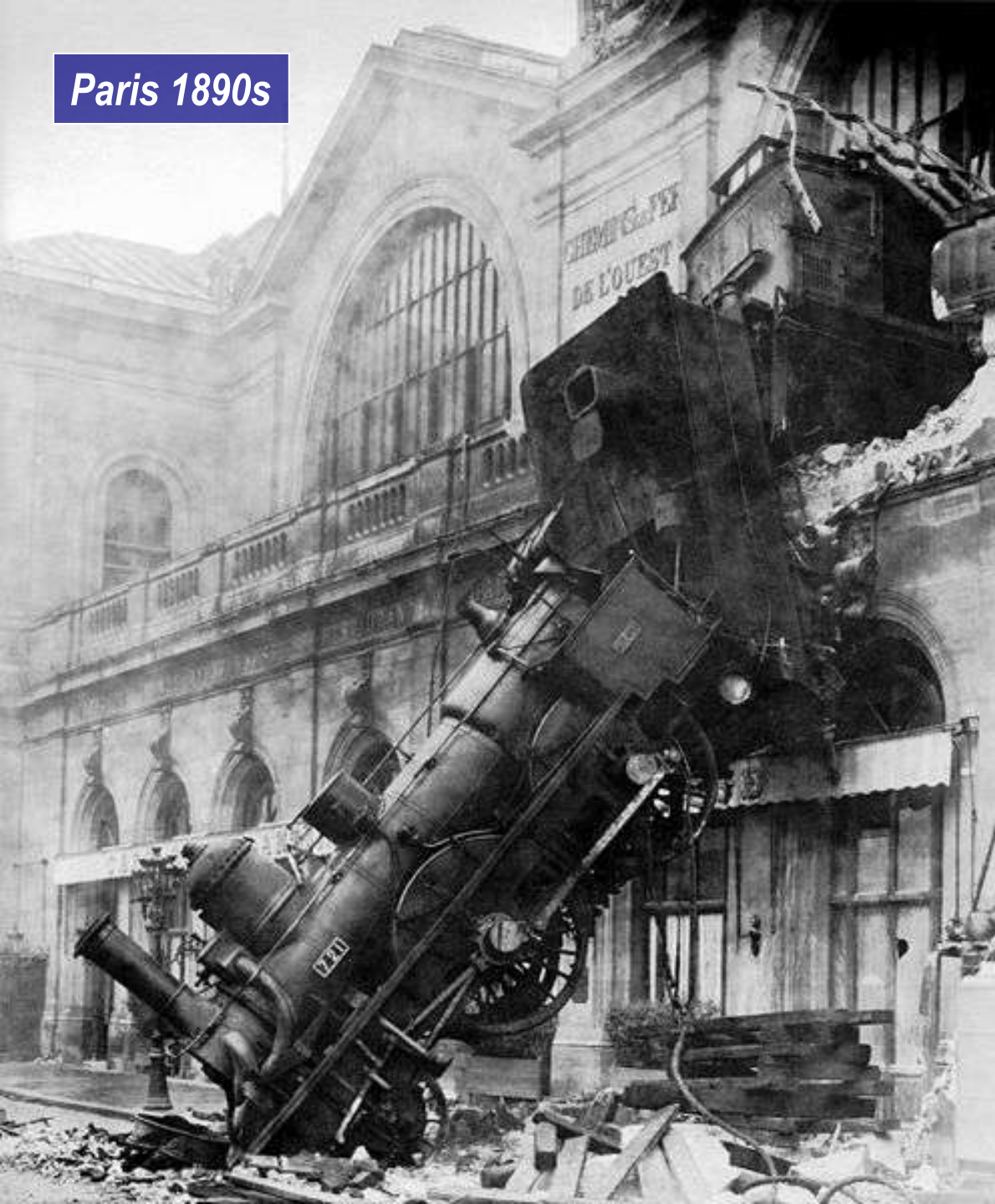
## RAIL

**Debt guidelines suspended to facilitate rail financing**

A City Council policy normally limits debt service to 20 percent of the annual operating budget



Paris 1890s

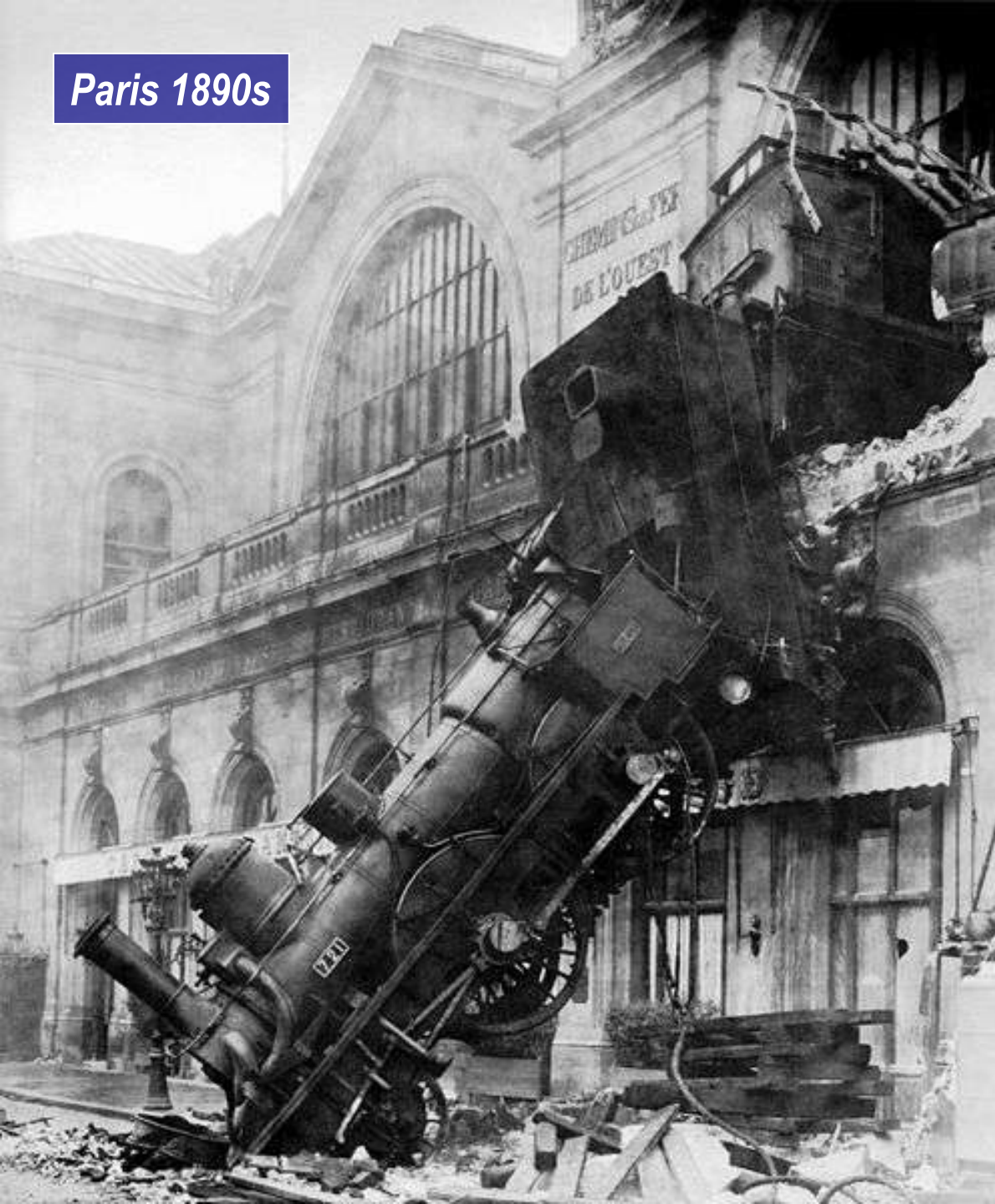


# *Honolulu Warning Signs*

ROSY  
"GET"  
TAX  
REVENUE  
PROJECTION

*-STATE*

Paris 1890s



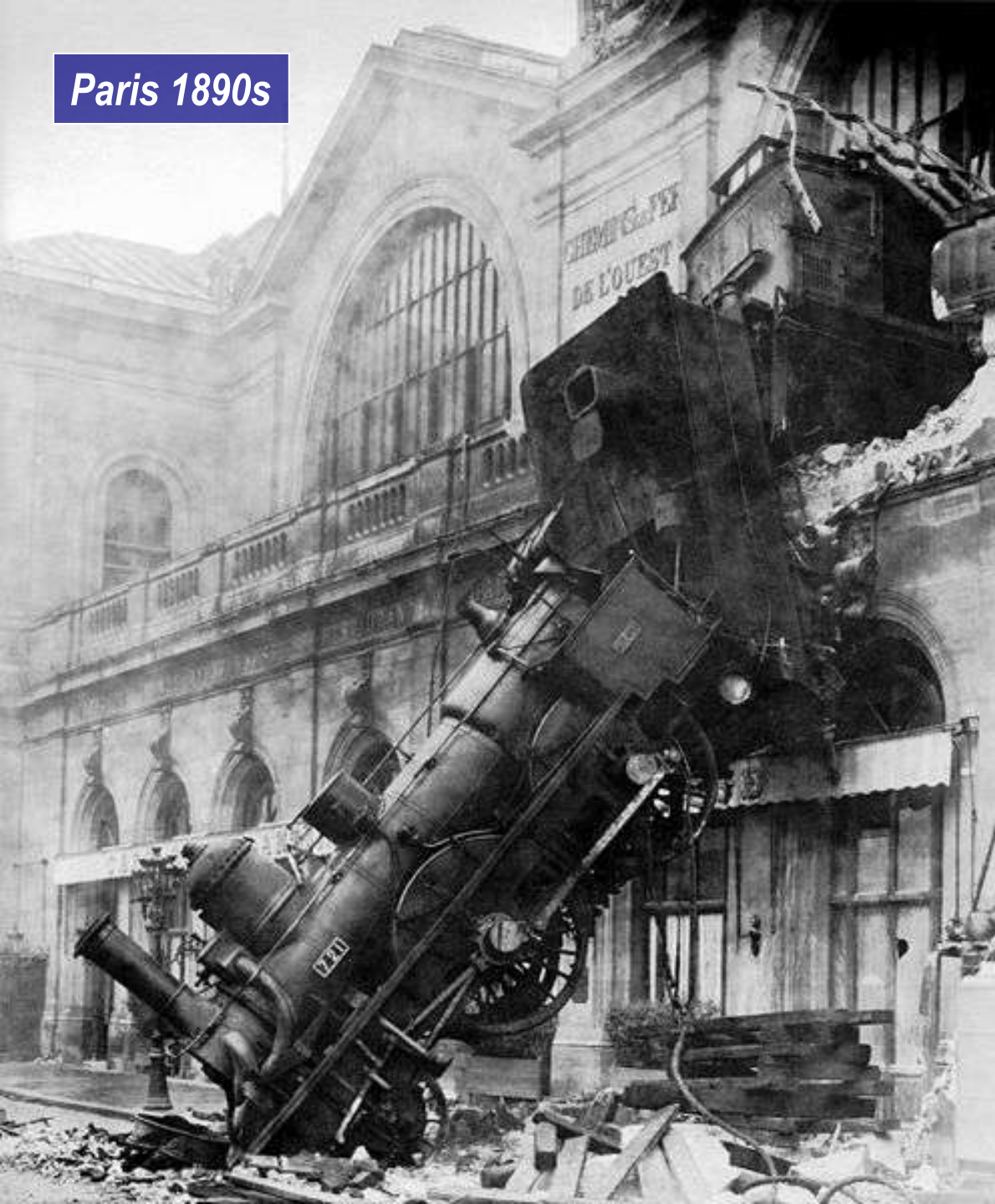
# *Honolulu Warning Signs*

ROSY  
RIDERSHIP  
PROJECTION

*-STATE*



Paris 1890s

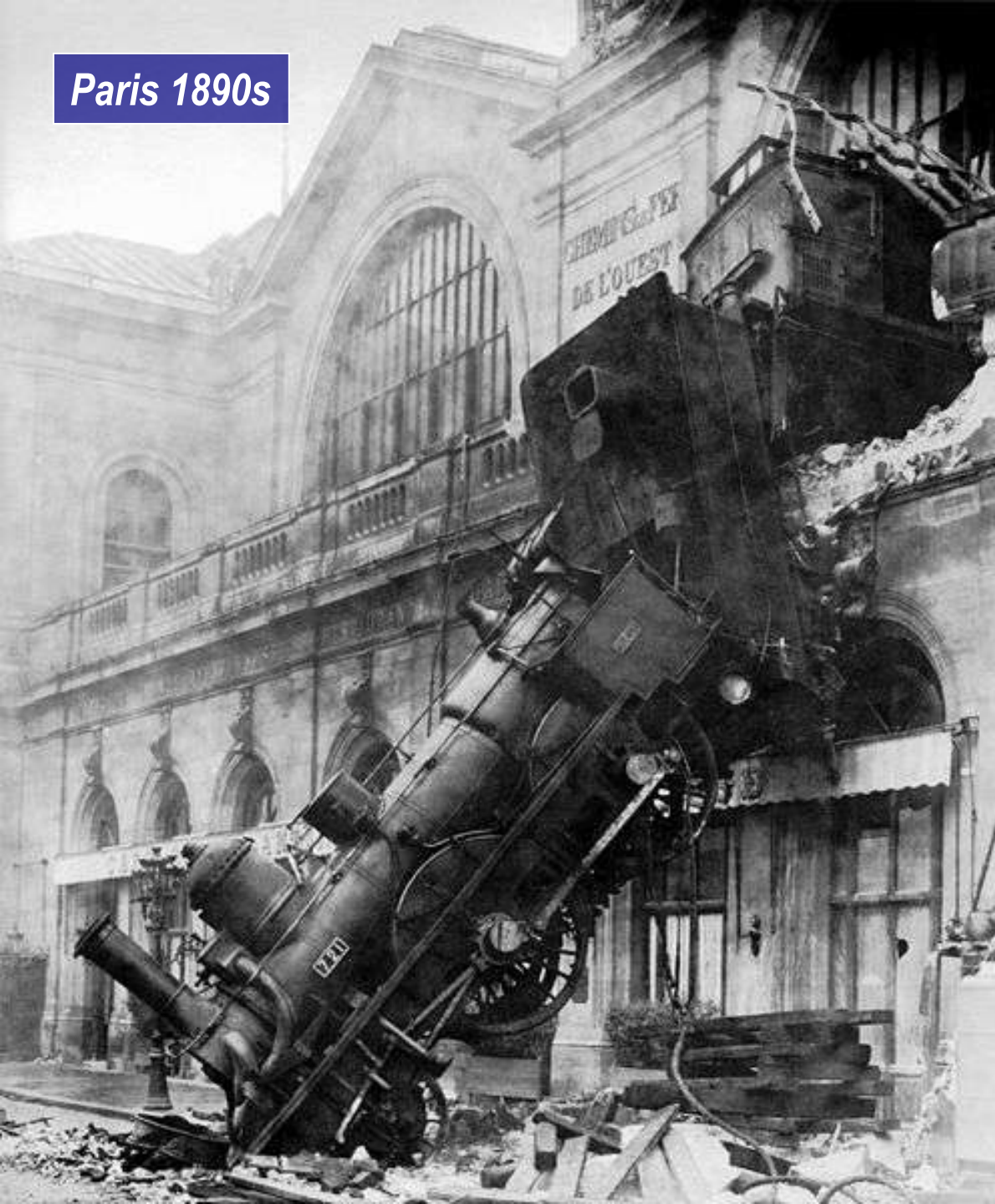


# *Honolulu Warning Signs*

ROSY  
OPERATING  
COST  
PROJECTION

-FTA

Paris 1890s



# *Honolulu Warning Signs*

CONSTRUCTION  
COSTS  
COULD BE  
MUCH  
HIGHER

# FTA Concerns: Full Funding Agreement

FTA LETTER: DECEMBER 2011

Financial plan “must be further strengthened before FTA will consider awarding an FFGA.”

Specifically, the financial plan states that additional revenues may be obtained from an extension of the General Excise Tax or implementation of value capture mechanisms.

However, these revenue sources require actions by the State of Hawaii and/or the City that have not been taken and which are beyond HART's ability to control. Prior to the Project's consideration for an FFGA, HART should demonstrate the availability of additional revenue sources that could be tapped should unexpected events such as cost increases or funding shortfalls occur.

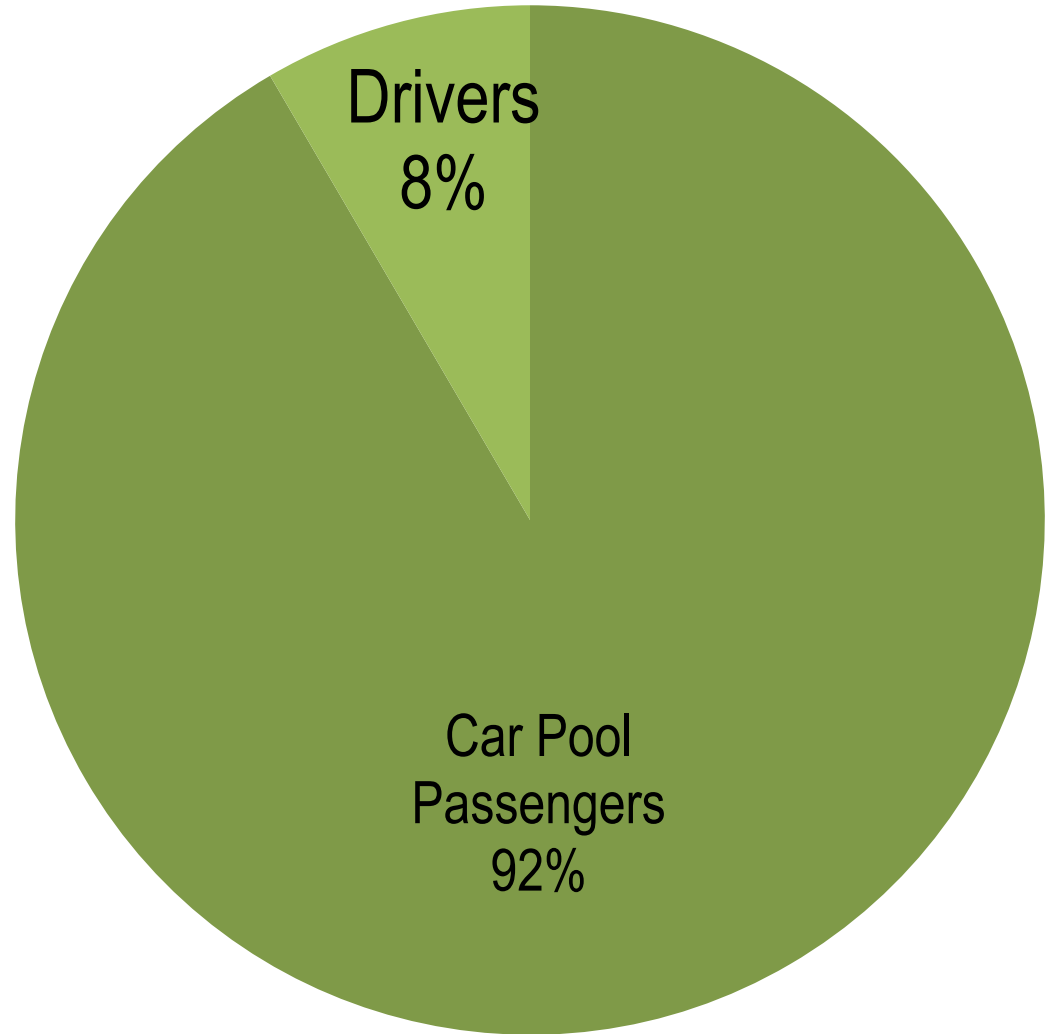
***HONOLULU RAIL***

***ALREADY THE HIGHEST RAIL  
COST PER HOUSEHOLD  
IN THE NATION***



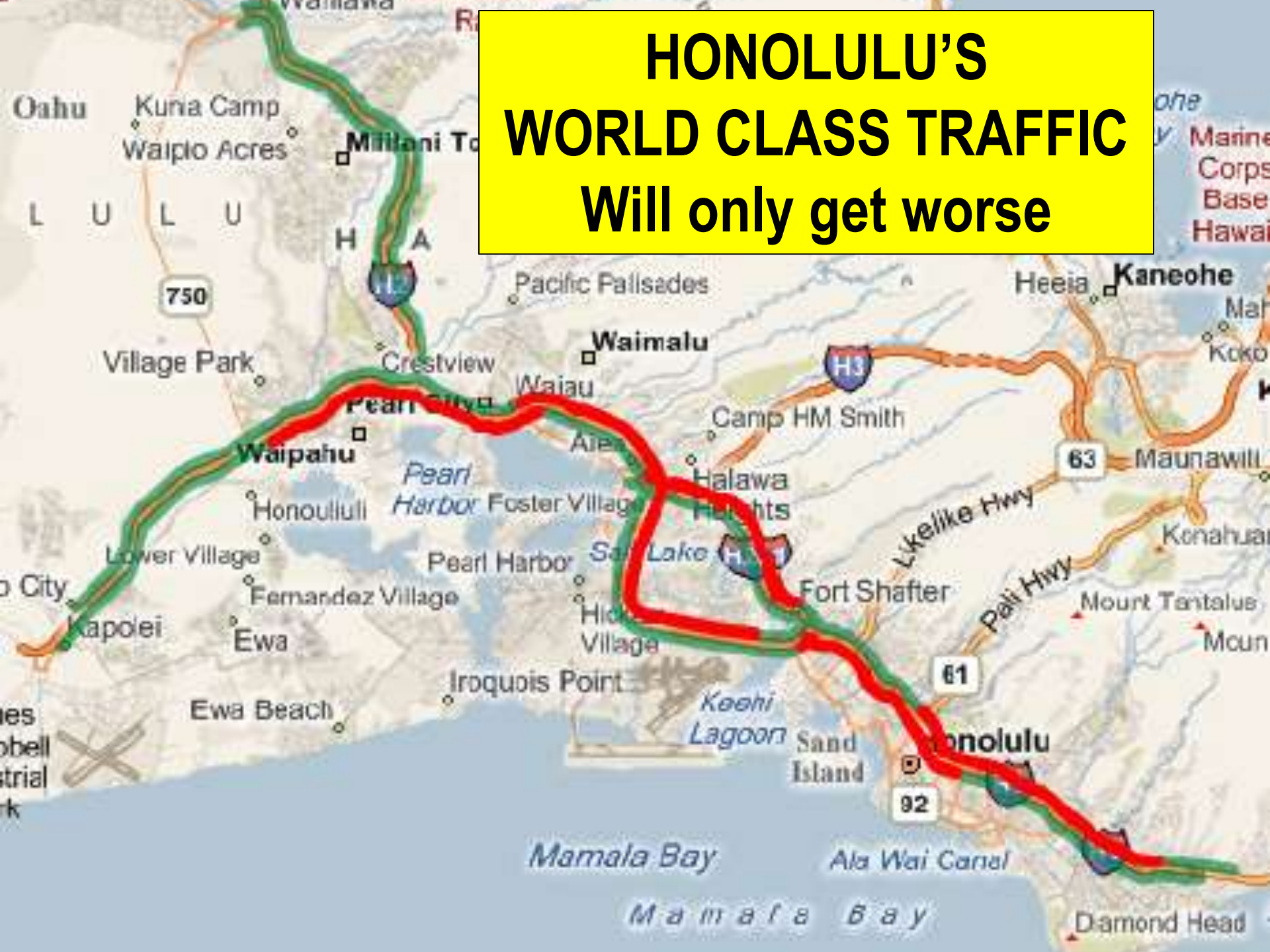
# Washington Metro: Largest New System

CAR POOL RIDERS SWITCH, NOT DRIVERS OR CARS



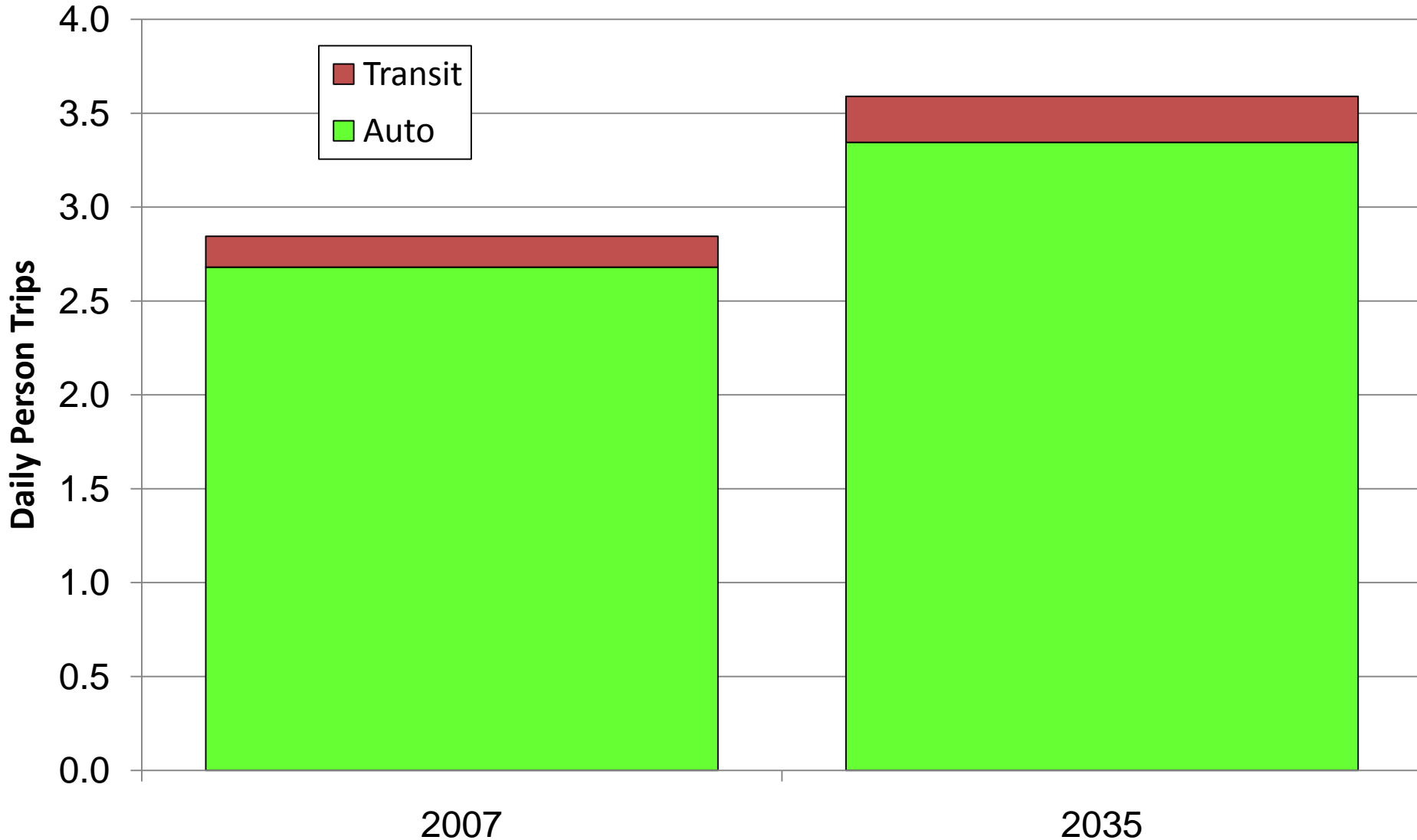
Honolulu at risk  
*High Car Pool Rate*

**HONOLULU'S  
WORLD CLASS TRAFFIC  
Will only get worse**



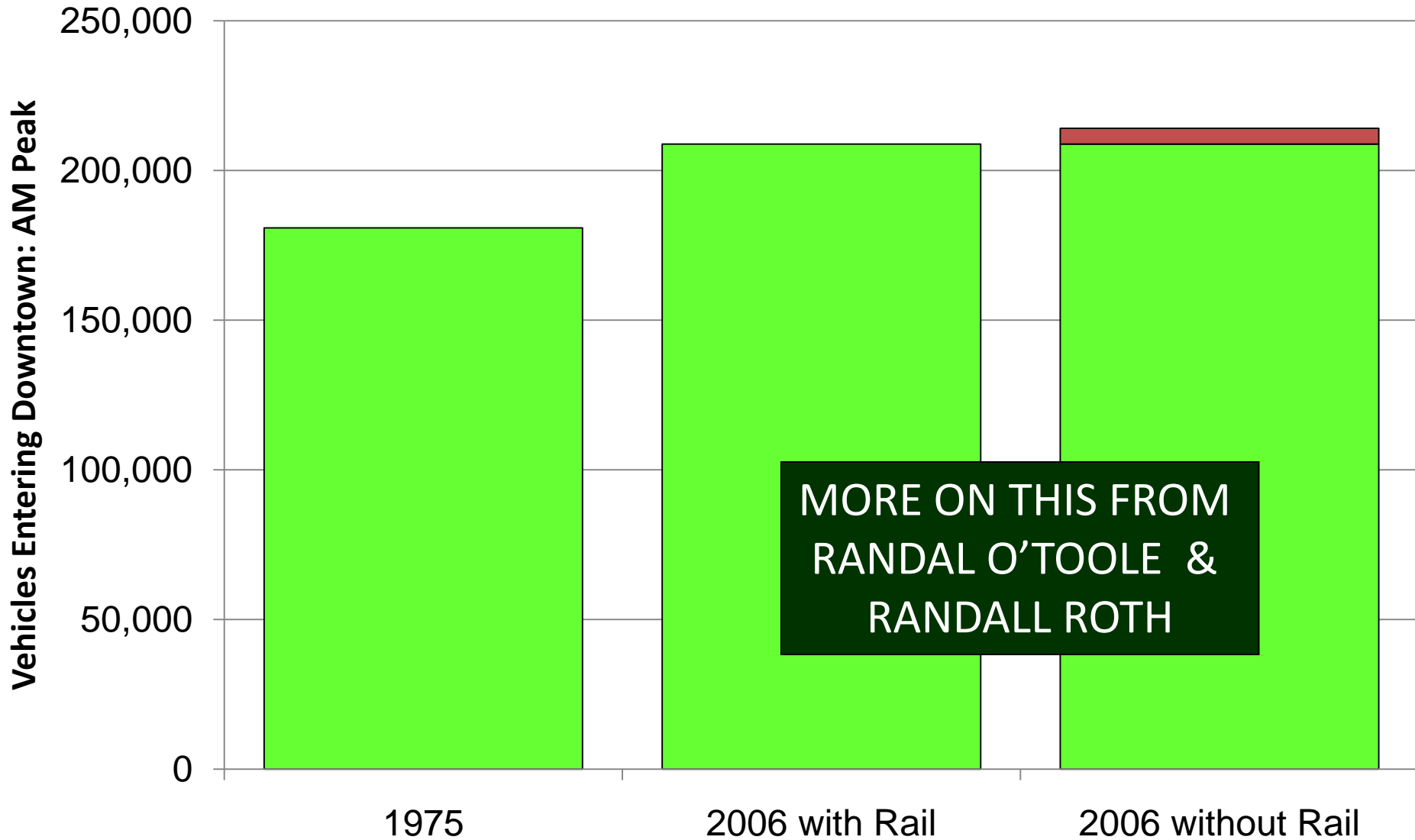
# Rail Will Not Reduce Traffic Congestion

2007 & 2035 OAHU REGIONAL TRANSPORTATION PLAN



# Washington: Traffic to Downtown

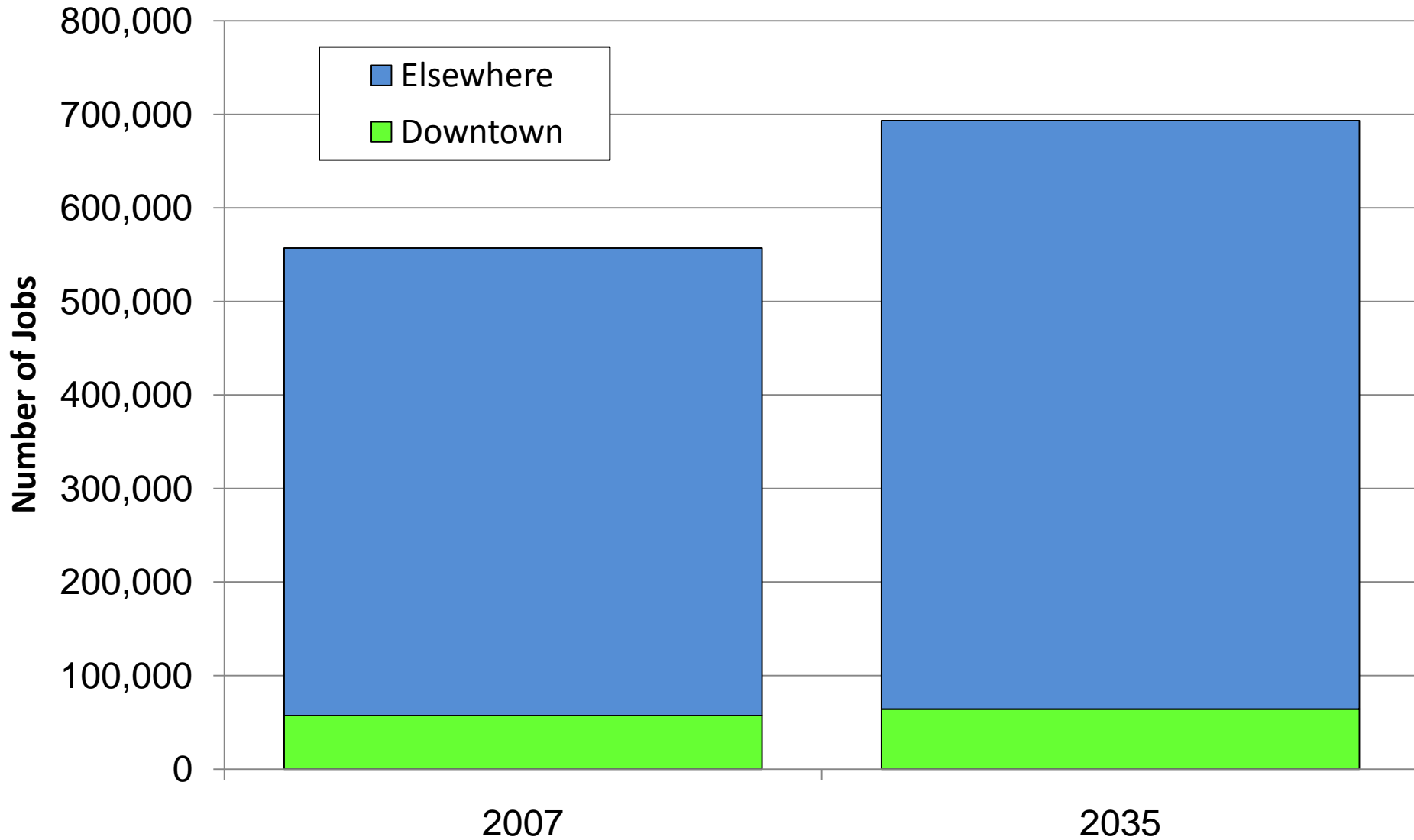
BEFORE AND AFTER RAIL: 1975-2006





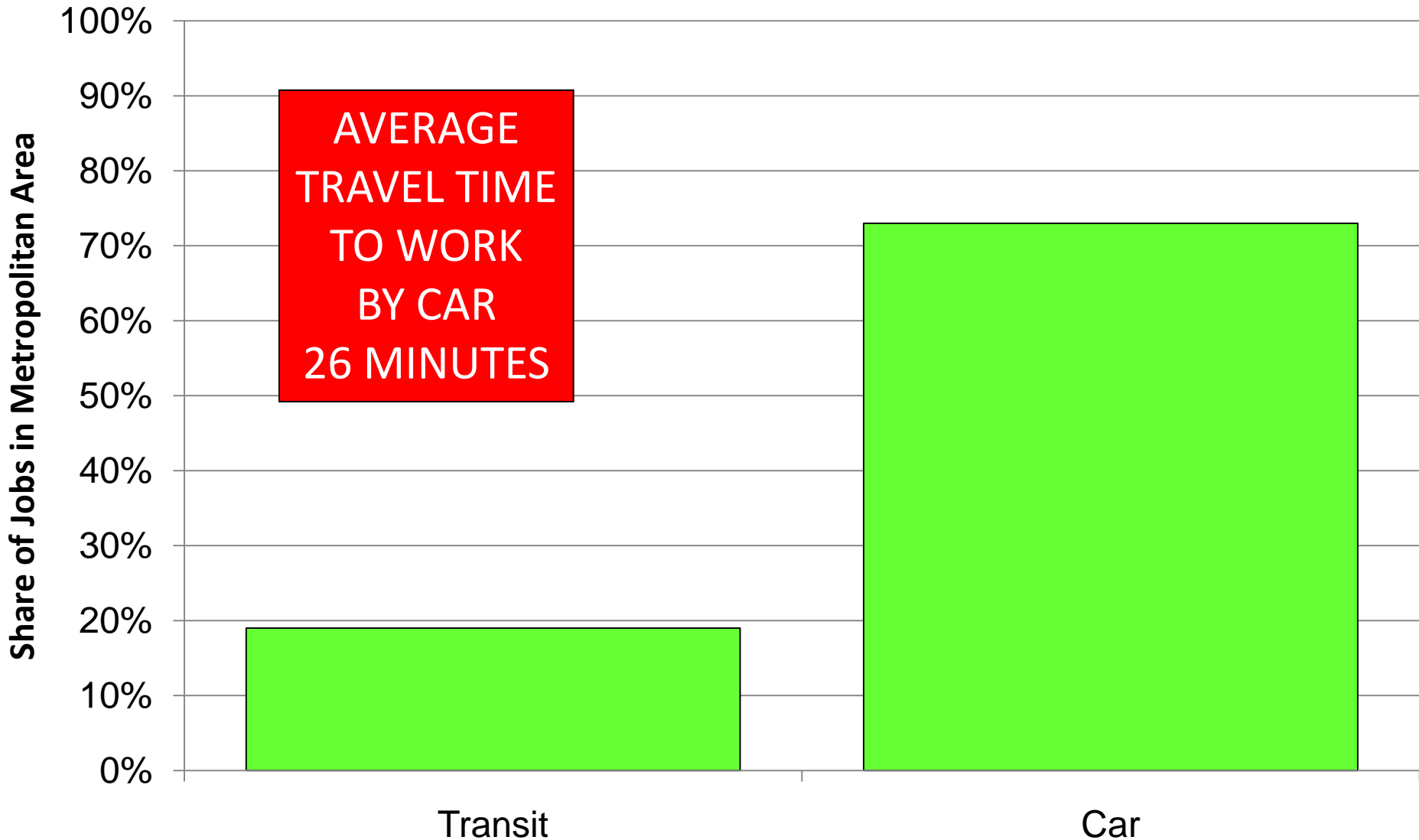
# Jobs: Downtown & Elsewhere

2007 & 2035: 2035 ORTP



# Share of Jobs Accessible: 45 Minutes

## HONOLULU 2008



# The Way Forward

## CONSIDERATIONS FOR THE FUTURE

- **PUBLIC FUNDING IS LIMITED**
- **SPEND ON WHAT IS REQUIRED**
  - **SUCH AS SEWER, WATER, PENSIONS**
- **AVOID SPENDING ON WHAT IS NOT REQUIRED**
  - **RAIL IS A PRIME EXAMPLE**
    - *An ineffective extravagance*