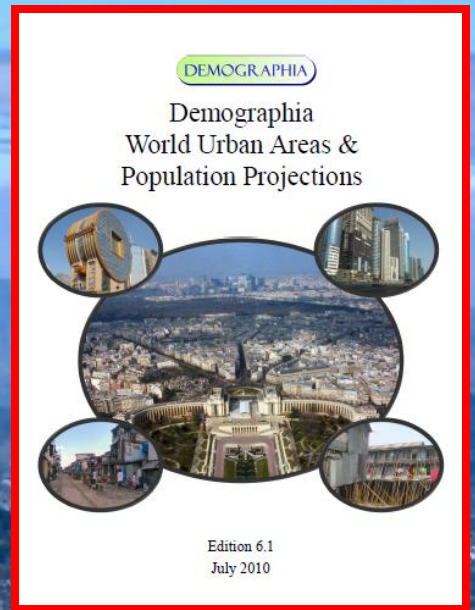


Major Honolulu Infrastructure Projects: Setting Priorities and Can We Afford Them?

By Wendell Cox
Smart Business Hawaii Conference
Ala Moana Hotel
12 January 2012

DEMOGRAPHIA



Los Angeles

newgeography



Demographia International Housing Affordability Survey

Shanghai

1/25/2011

Hong Kong News Headlines | Hong Kong...

South China Morning Post
scmp.com

Tuesday, January 25, 2011

NEWS BUSINESS OPINION LIFE MAGAZINES SPORT 7-DAY INDEX EVENTS INTERESTS

Hong Kong China Asia & World Specials

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Weather: Hong Kong 14°C | Partly Cloudy

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HK way ahead of rivals for severely overpriced homes

City property far less affordable than that in wealthy English-speaking cities

Irene Jay Liu
Jan 25, 2011

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CARTOON

A new international housing survey confirms what every Hongkonger already knows - Hong Kong homes are "severely unaffordable".

The city's housing was found to be the least affordable in the survey, beating London, New York, San Francisco, and other high-priced locales.

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SCMP Interest - Travel

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South China Morning Post
scmp.com

The median home in Hong Kong costs 11.4 times gross annual median household income, according to a report by the US-based consulting company Demographia, which examined housing affordability in six countries and Hong Kong for the third quarter of 2010.

This is the first time Hong Kong has been included in the survey, which compares major metropolitan areas in Australia, Canada, Hong Kong, Ireland, New Zealand, the UK and the US.



South China Morning Post
scmp.com

Home truths

Property affordability in cities with populations over 1 million

Rank	City	Median multiple*
1	Hong Kong	11.4
2	Sydney	9.6
3	Vancouver	9.5
6	London	7.2
15	New York	6.1
30	Dublin	5.9
48	Ottawa	3.6
82	Atlanta, Georgia	2.3

*Median price of a house divided by the median annual gross household income

SCMP GRAPHIC SOURCE: THE ANNUAL DEMOGRAPHIA INTERNATIONAL HOUSING AFFORDABILITY SURVEY

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City ranked last in int'l housing affordability index

BY KANE WU

Published: Jan 25 2011 9:41

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Text Size

Hong Kong ranked as the least affordable market in the Annual Demographia International Housing Affordability Survey 2011 Monday.

The survey, conducted upon data in the third quarter of 2010 by the United States-based organization Demographia, covered 325 markets in Australia, Canada, Hong Kong, Ireland, New Zealand, the United Kingdom and the United States.

The survey includes Hong Kong for the first time and finds it is the least affordable housing markets of all urban markets surveyed, with the median house price at 11.4 times of the gross annual median household income, followed by Sydney at 9.6 and Vancouver at 9.5.

According to the survey standards, a city's median house price should not exceed three times of the gross annual median household income to be "affordable".

Housing affordability of major cities



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5. Henry Tang announces candidacy for top job

The Broader Context: The New Realities



East Kapolei Rail Station Site

DEMOGRAPHIA

Fiscal Realities

BUDGET DEFICITS AS A % OF GDP (2011)



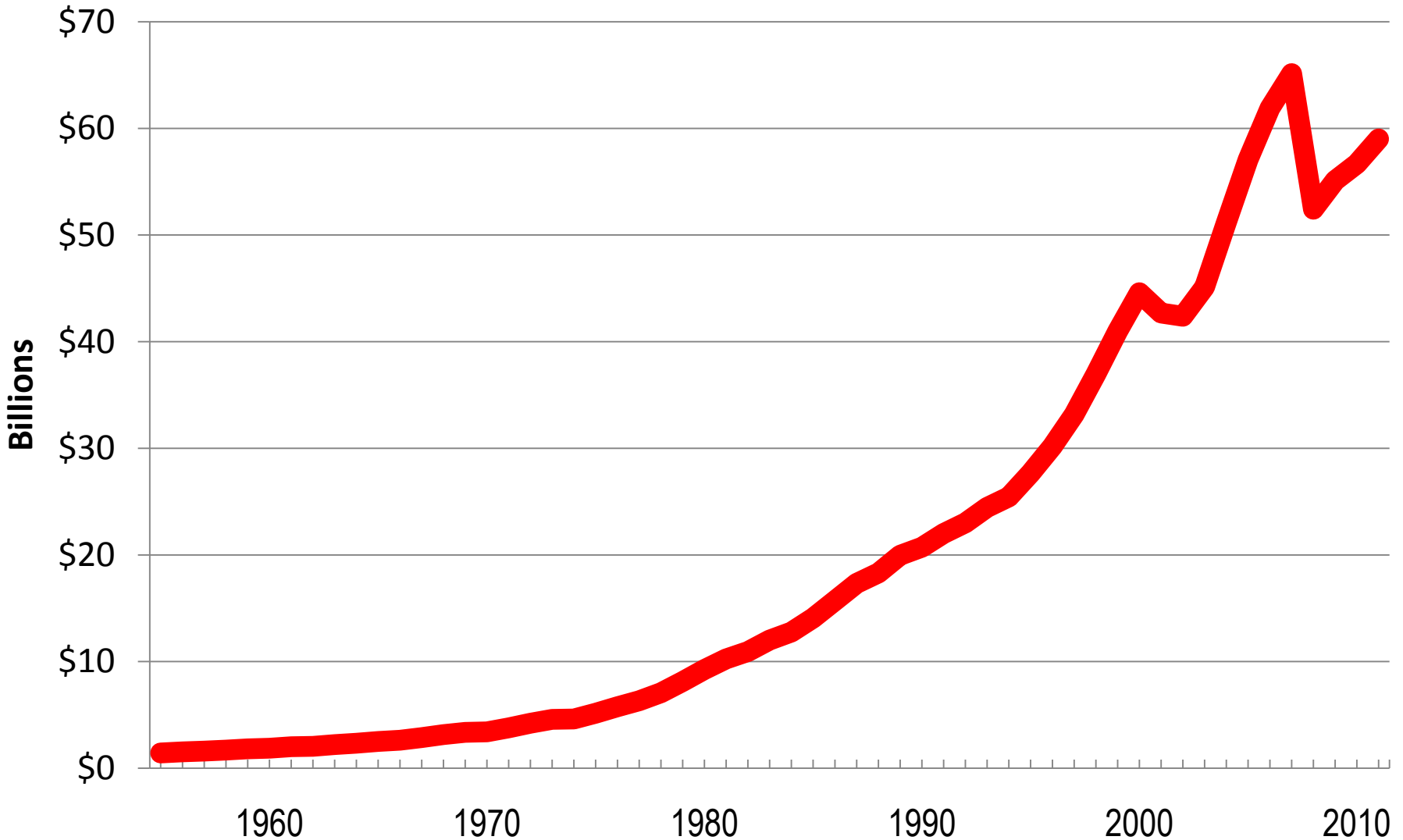
Greece
8.5%



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

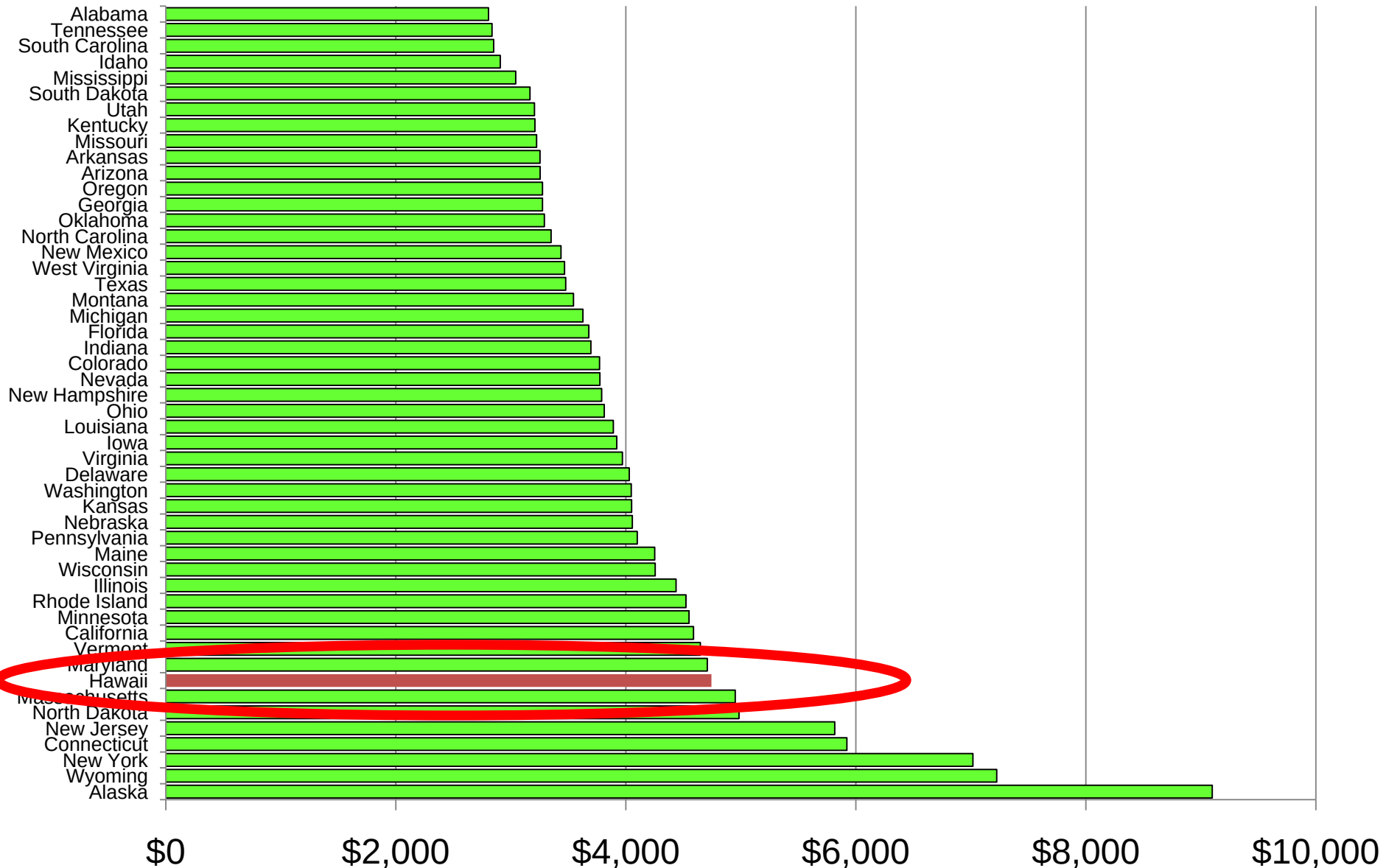
The Situation



DEMOGRAPHIA

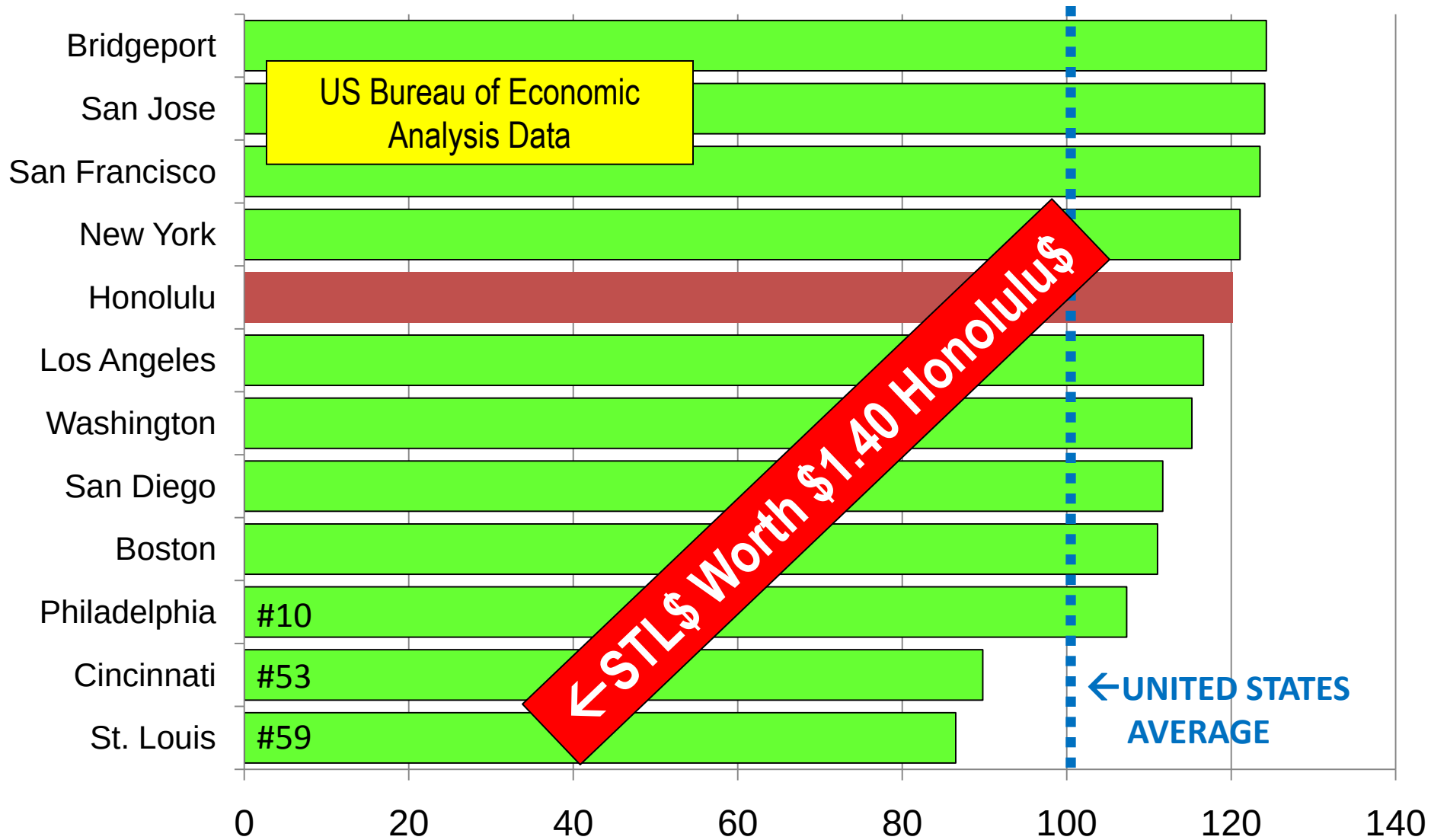
State & Local Taxes per Capita

2009: HAWAII 8TH HIGHEST



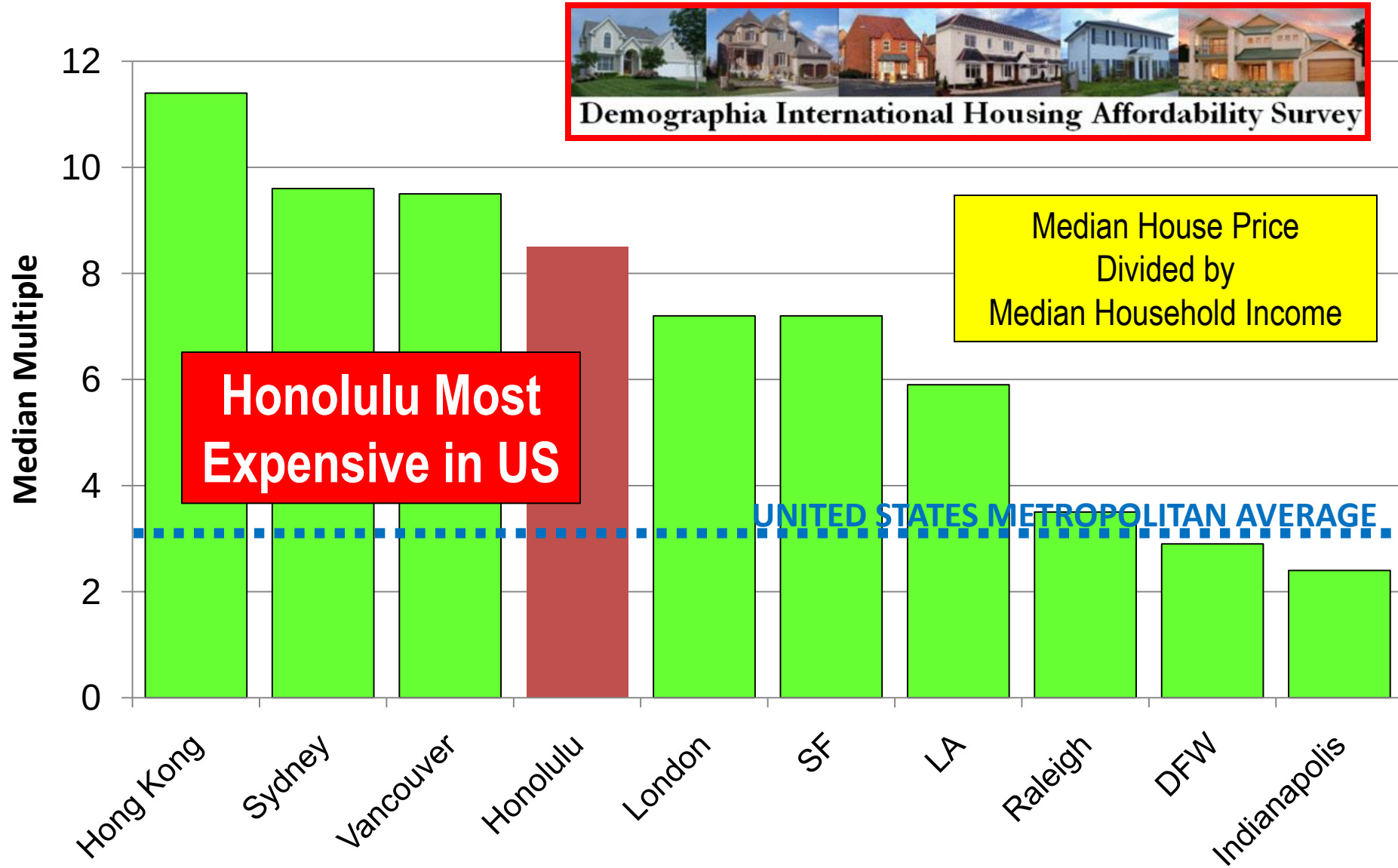
Cost of Living: MSA's Over 900,000

HONOLULU: 5TH MOST EXPENSIVE IN 2009



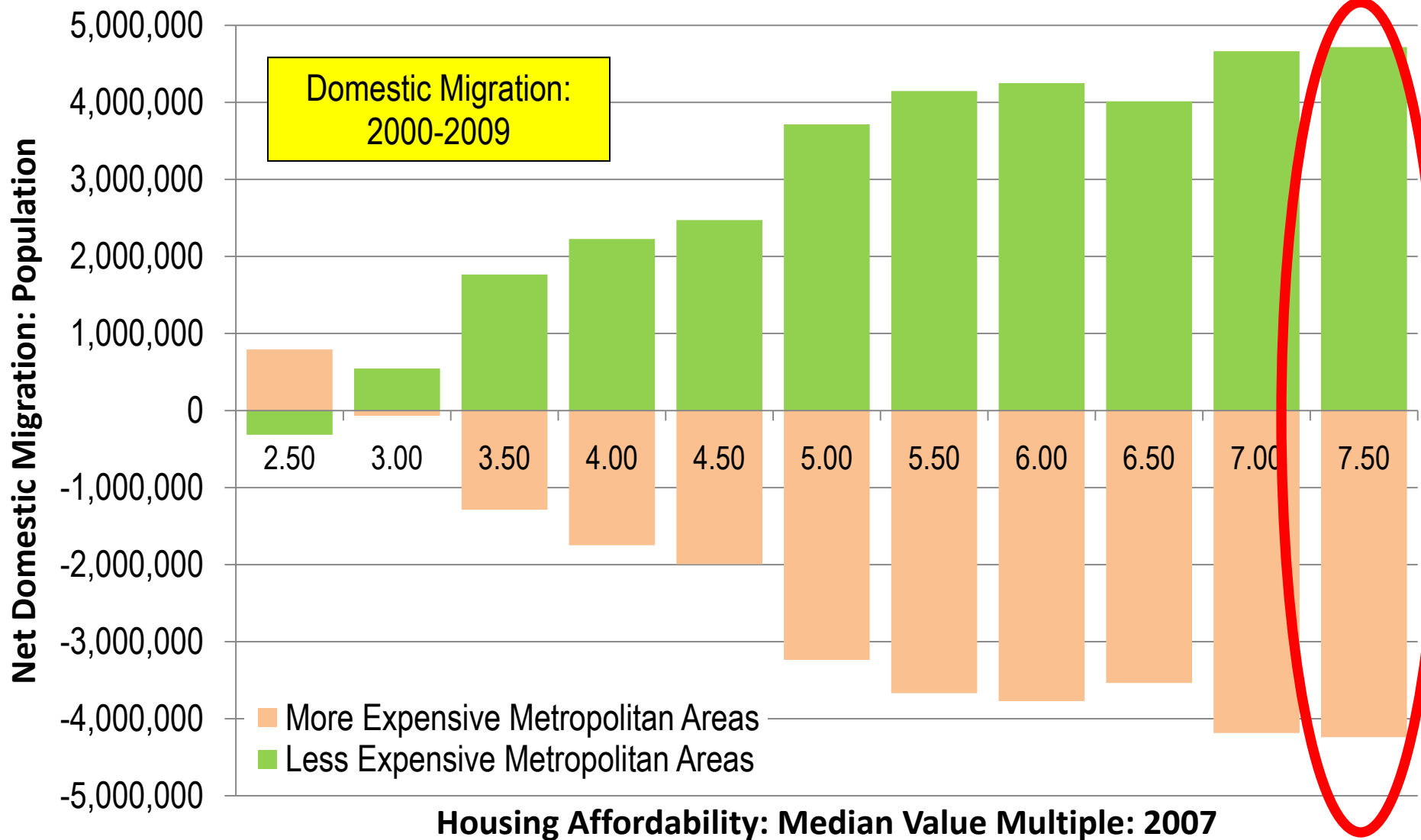
International Housing Affordability

HONOLULU: MOST EXPENSIVE US/NEAR 3X AVERAGE



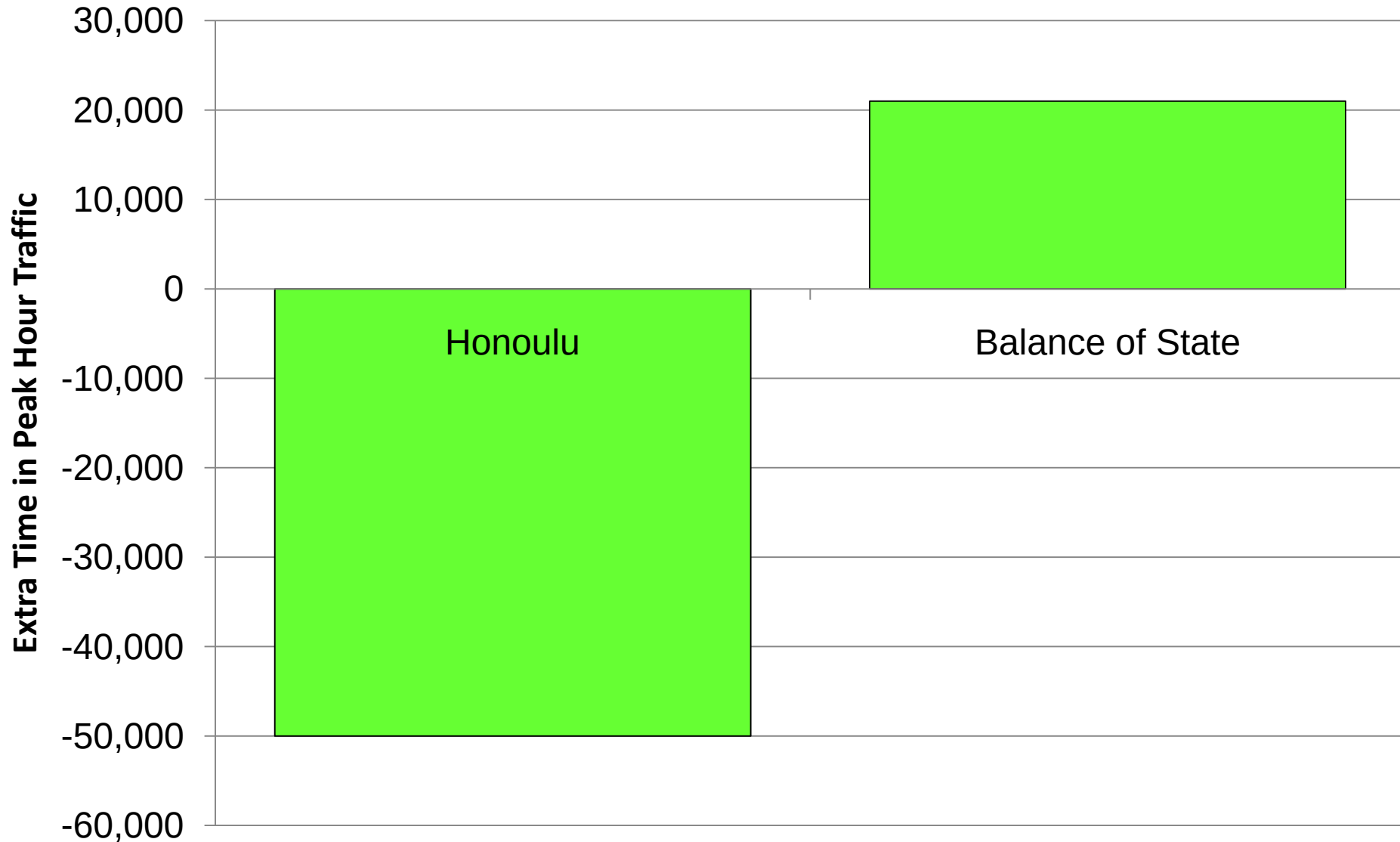
People are Leaving Unaffordable Areas

BY METROPOLITAN AREA HOUSING AFFORDABILITY



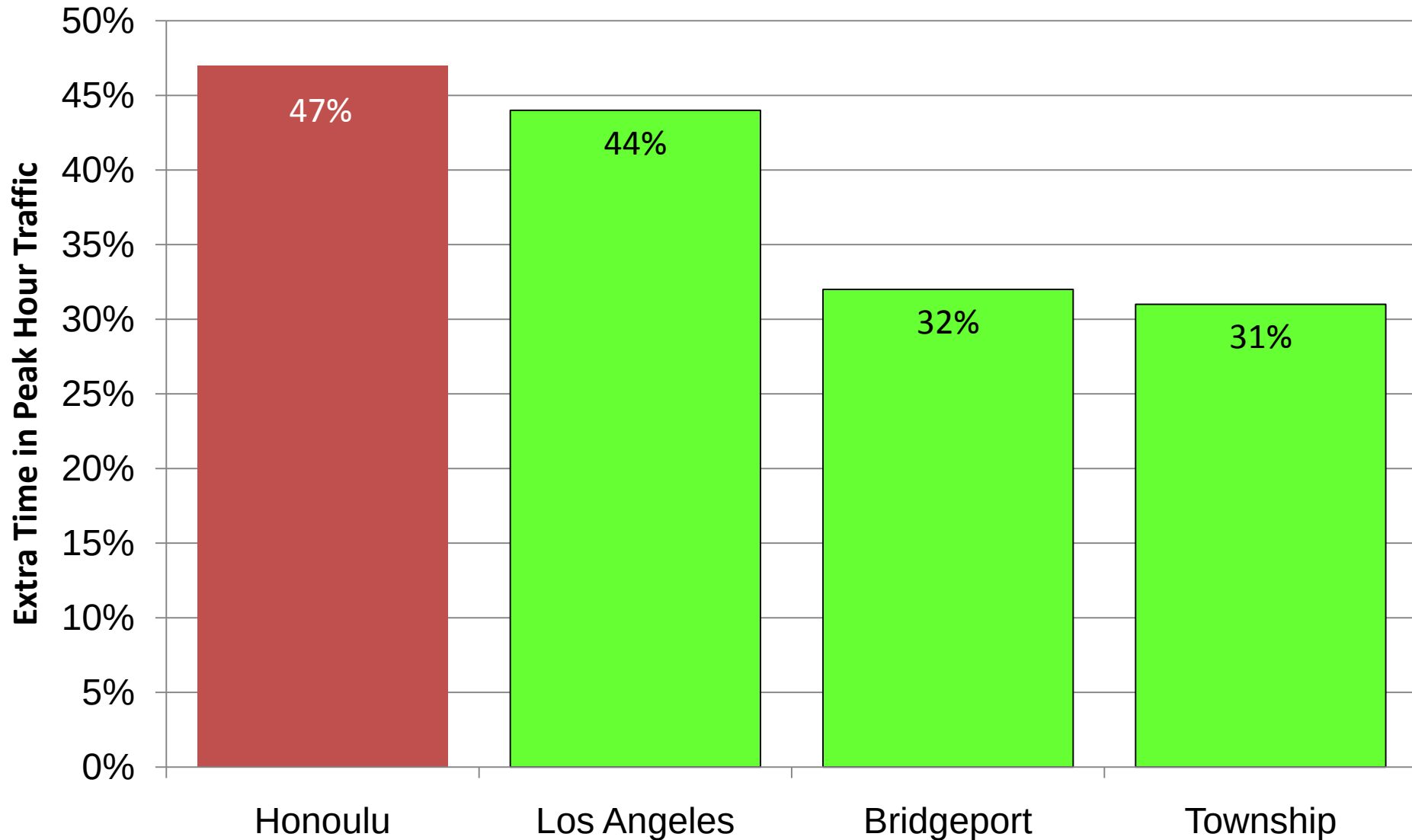
Domestic Migration: 2000-2009

LARGE LOSSES IN HONOLULU



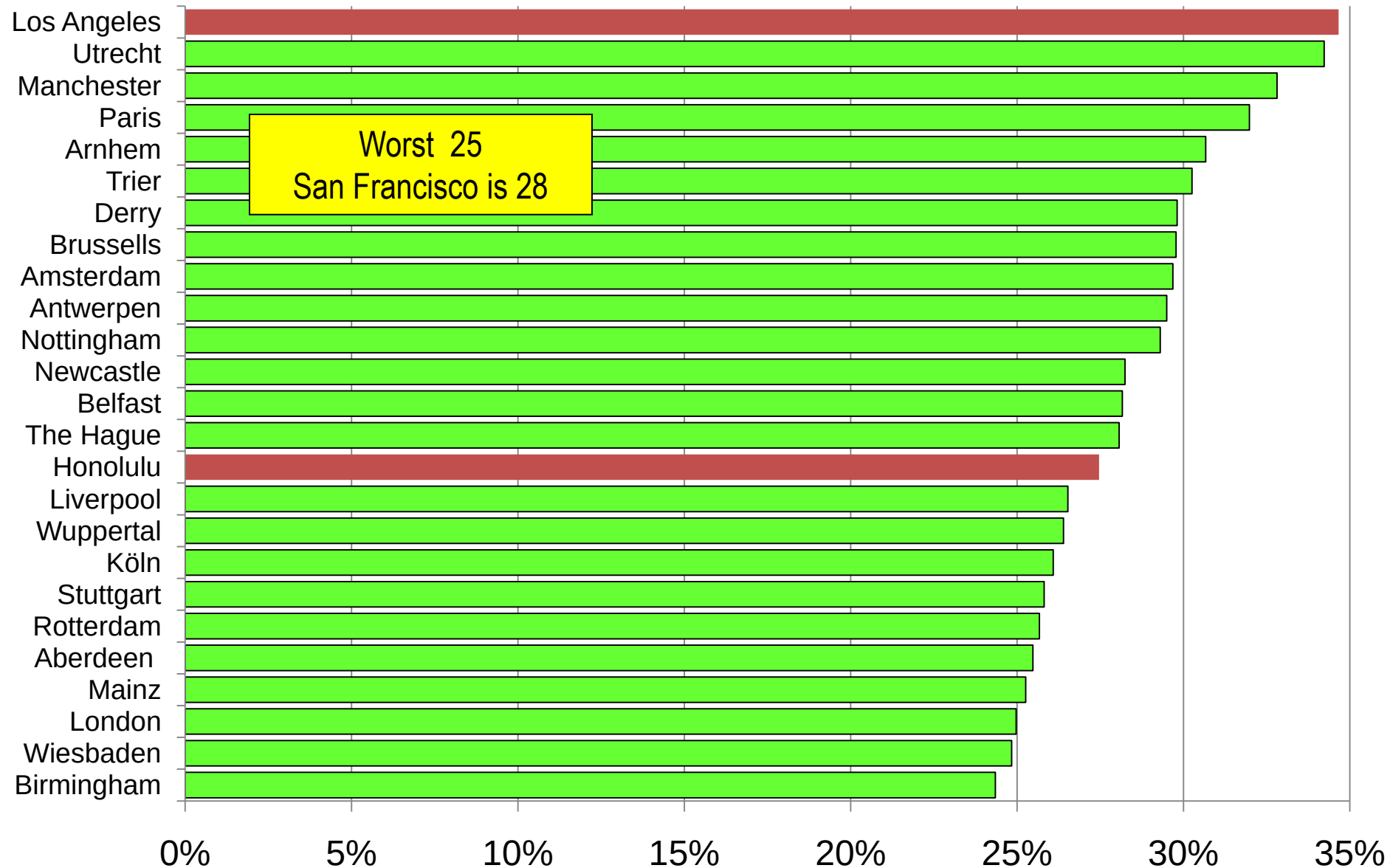
Excess Time in Peak Hour Traffic

HONOLULU WORST IN NATION 2007



Excess Peak Hour Traffic Delay

16TH MOST CONGESTED: 200 US & EUROPEAN CITIES



Democratization of Prosperity

ASSOCIATION BETWEEN MOBILITY & AFFLUENCE

HARTGEN-FIELDS
Mobility Improves
Productivity

Chicago

Reduced Minority
Unemployment
With Cars
U. of California

PRUD'HOMME
Mobility Improves
Productivity
U. Of Paris

Cars for low-income
households improves
job access
Progressive Policy Institute



Honolulu

Financial Challenges for Taxpayers



DEMOGRAPHIA



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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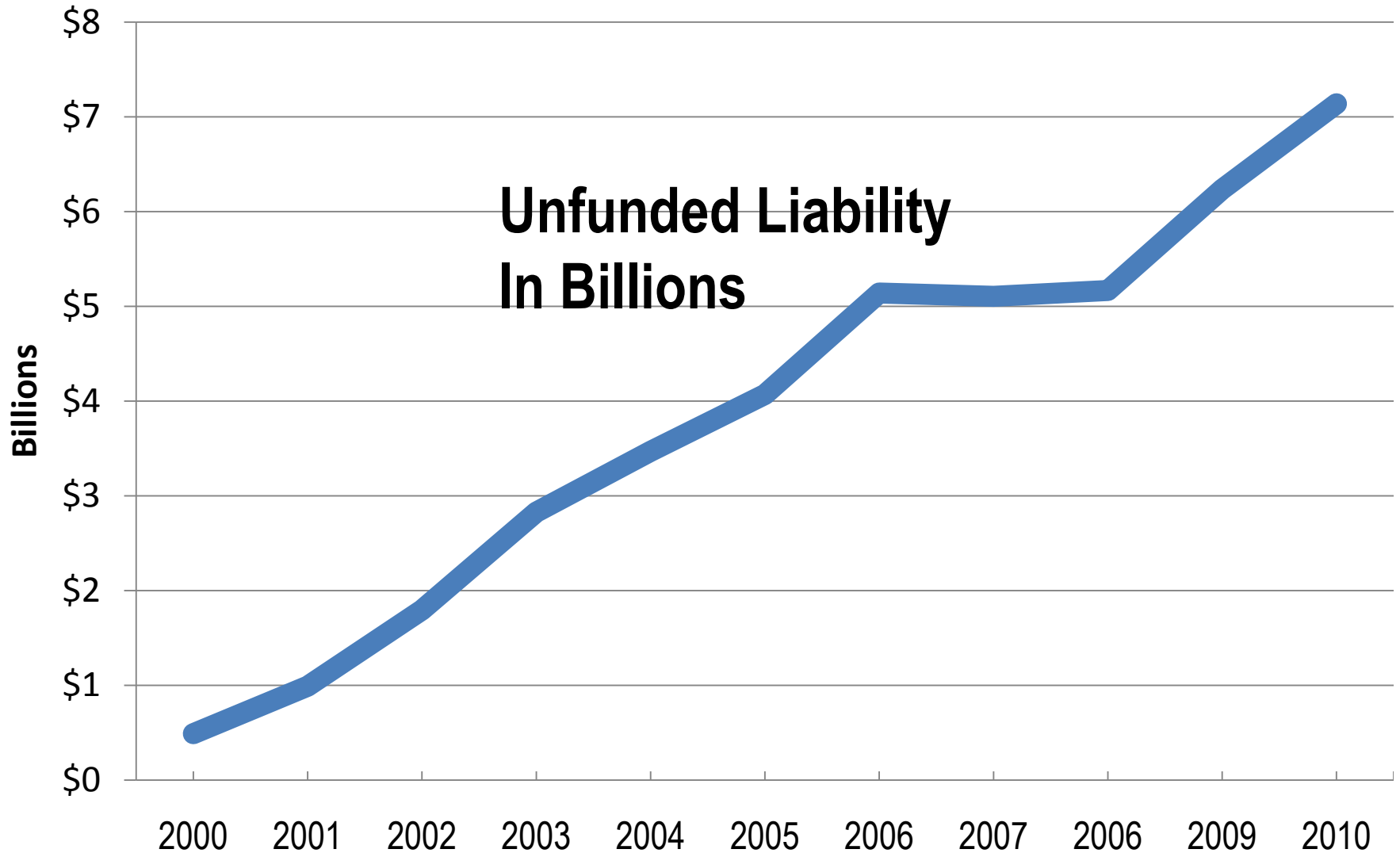
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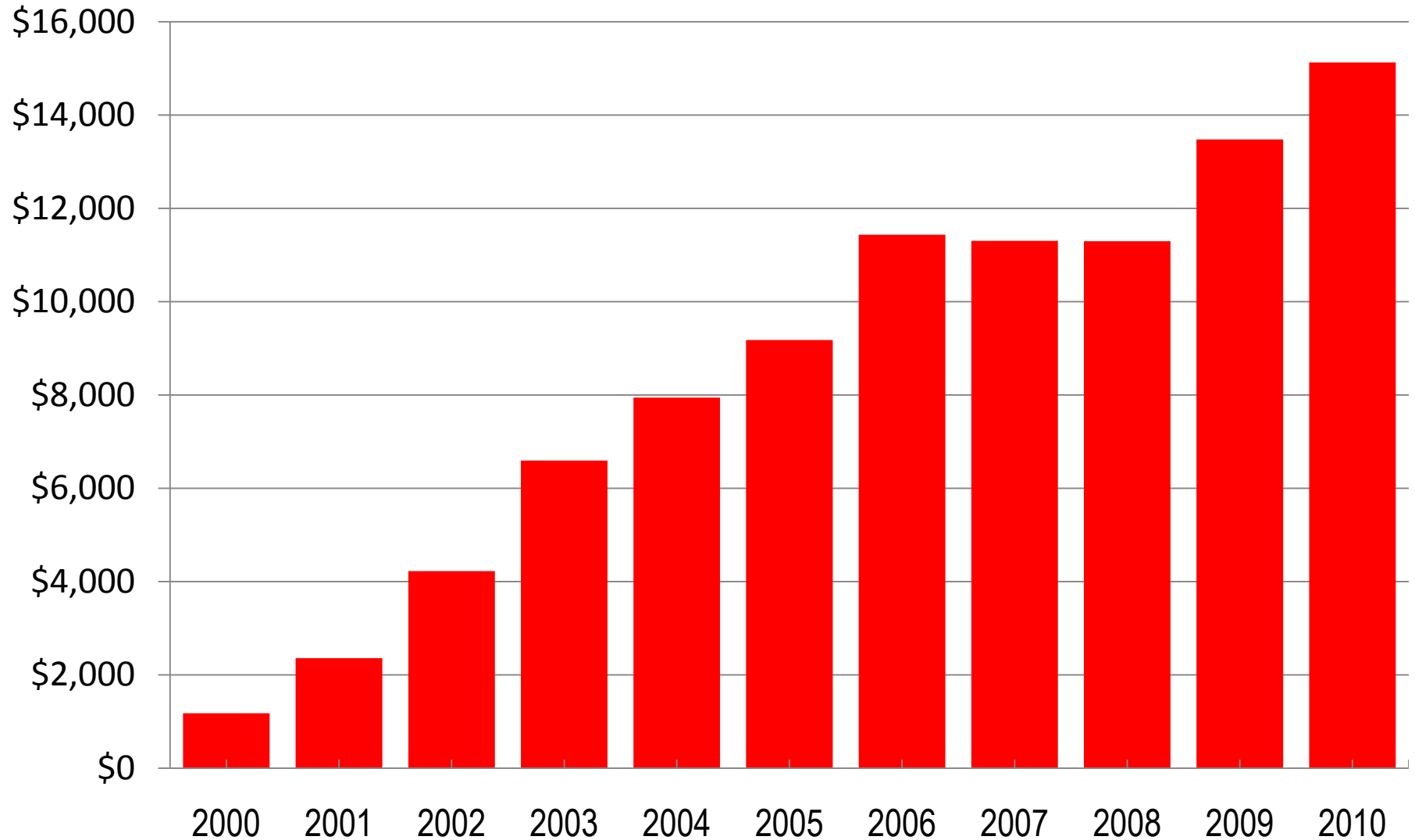
Unfunded Government Pension Liability

STATE & LOCAL: 2000 – 2010: IN BILLIONS



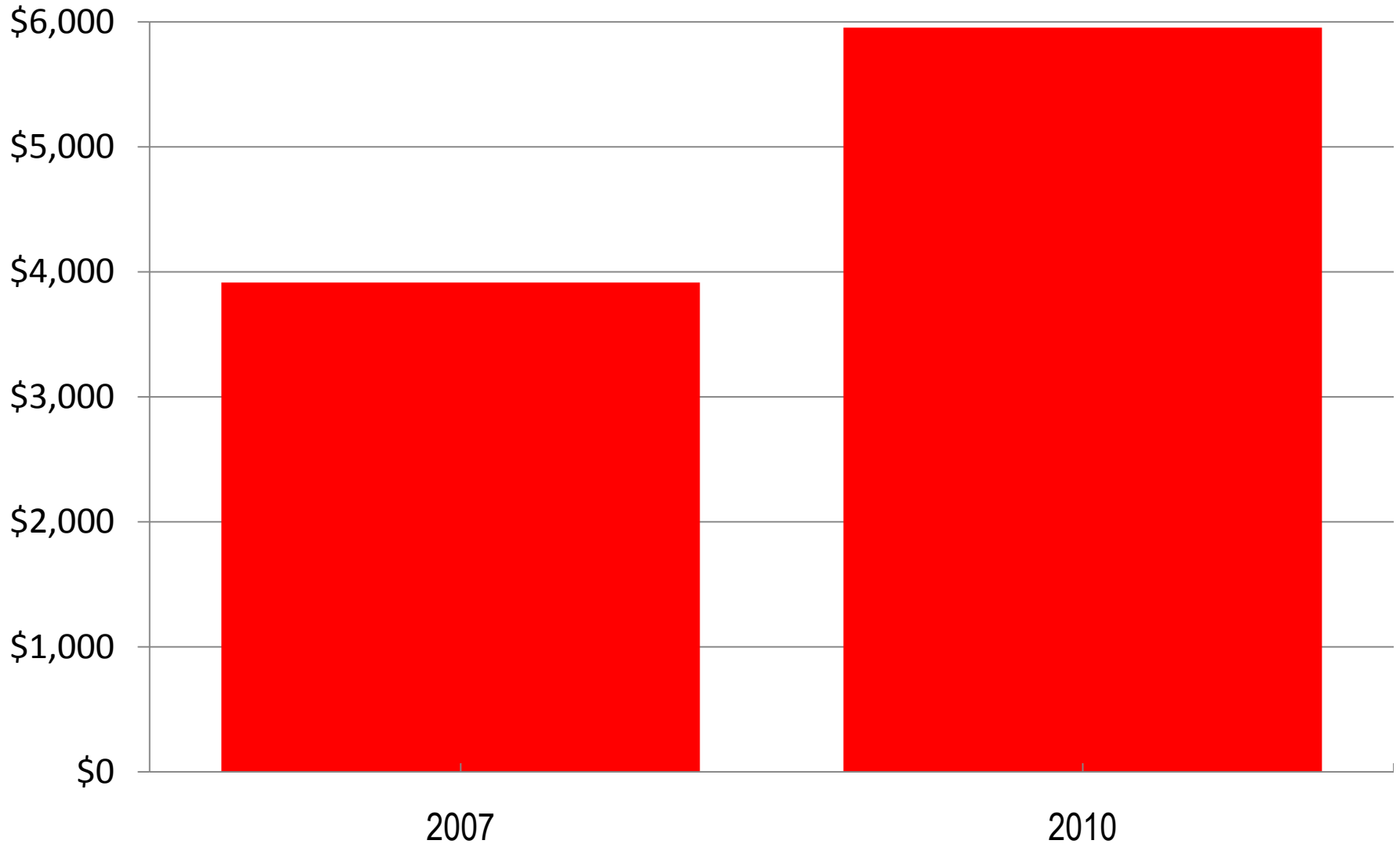
Unfunded Government Pension Liability

PER HOUSEHOLD IN HAWAII: 2000 – 2010



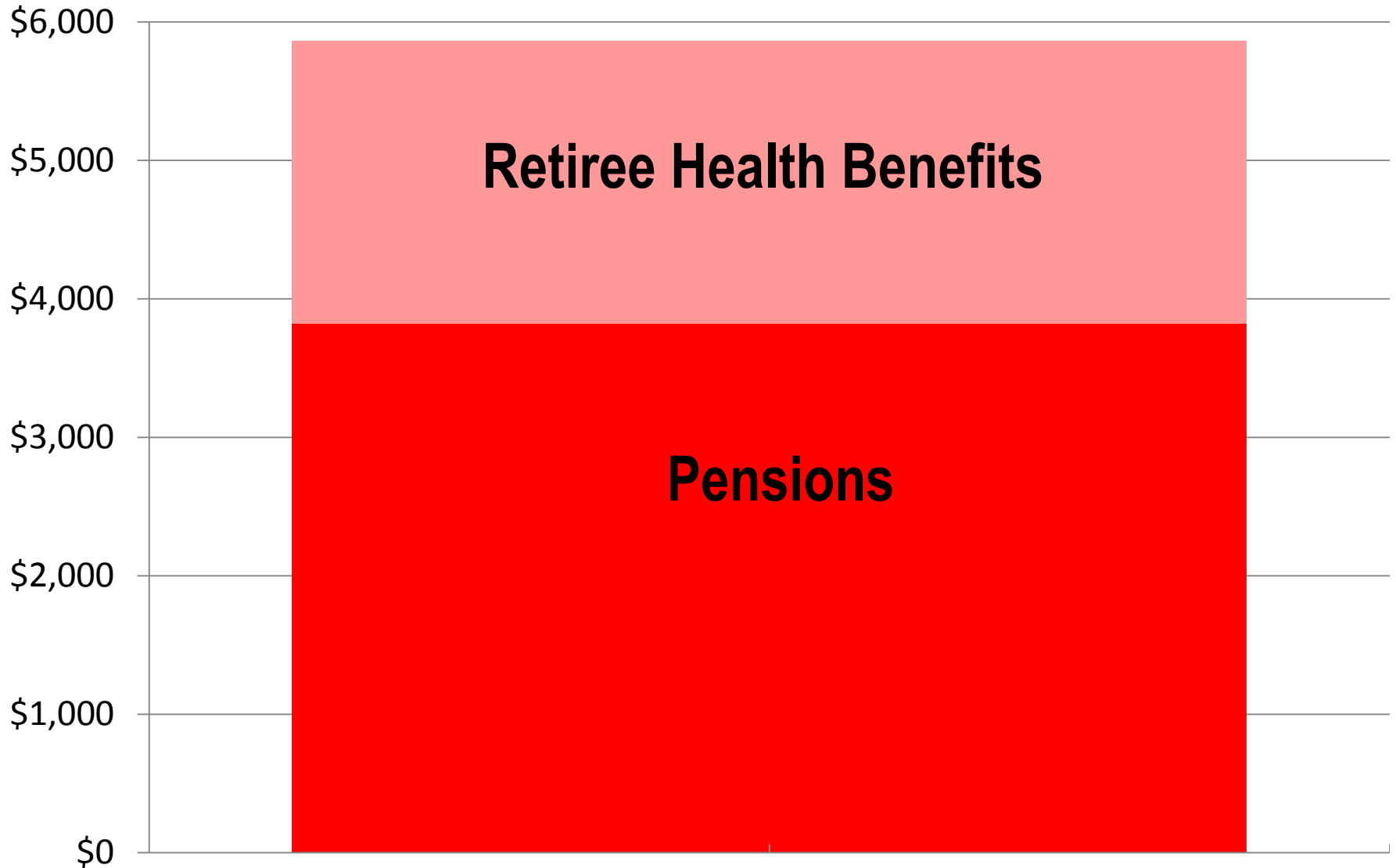
Unfunded City Retiree Health Liability

PER HOUSEHOLD: 2007 – 2010 (OPEB)



Increase in Liability/Honolulu Household

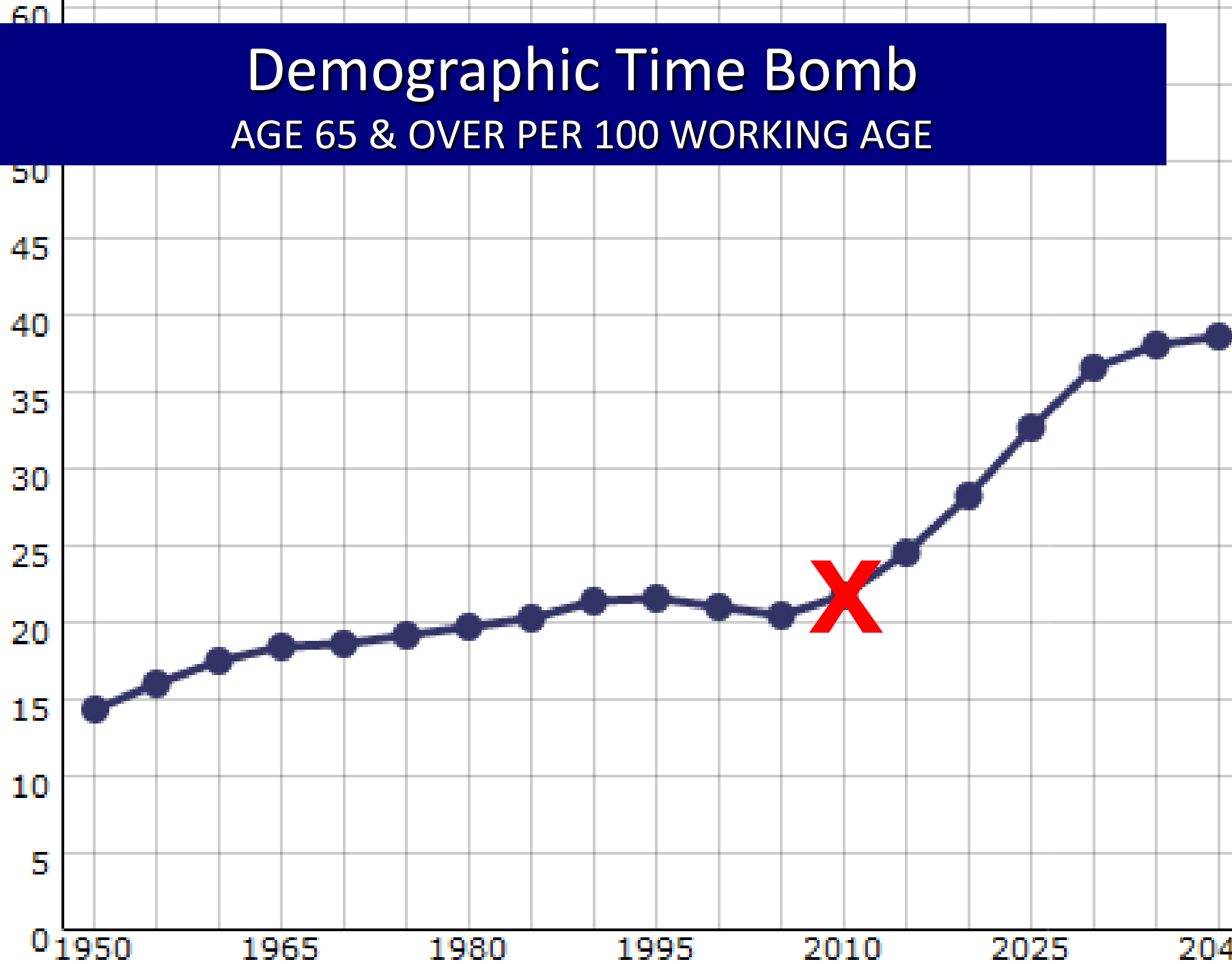
PUBLIC EMPLOYEE RETIREMENT FUNDS 2007 – 2010



Demographic Time Bomb

AGE 65 & OVER PER 100 WORKING AGE

Old-Age Dependency Ratio



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%)



Hilo [1:00 am](#) [4:00 pm](#)
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

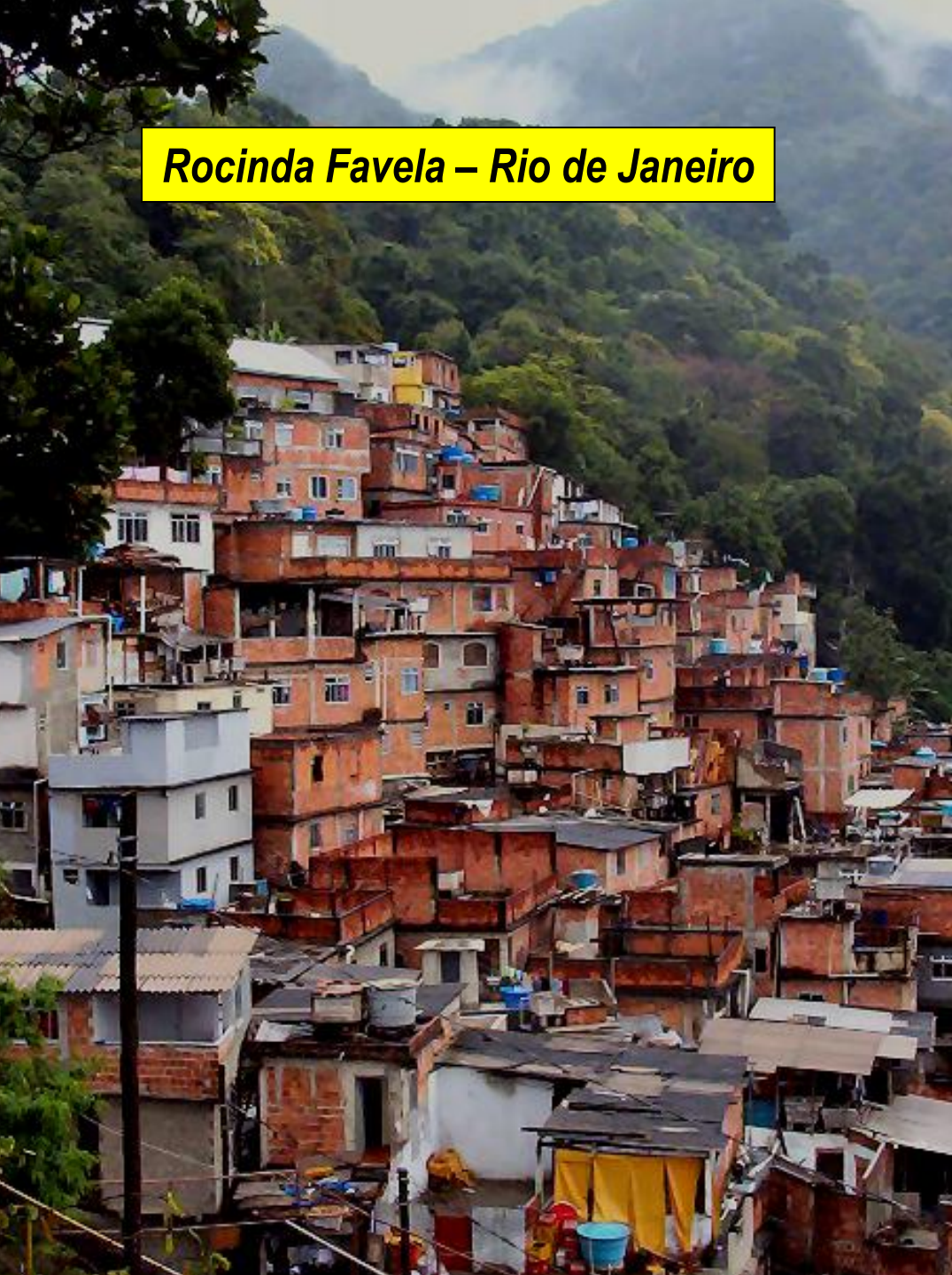
Updated: Jul 16, 2010 2:00 AM GST

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.



CONNECT WITH US!



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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HOME : CUSTOMER SERVICE : YOUR WATER BILL : WATER RATE FAQ : RATE CHANGES

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. This commitment is the foundation for our work. Our goal is to provide a safe and dependable water supply to our customers.

One of our major challenges is the aging infrastructure of our water system. 70% of our water supply pipes are over 40 years old, and 45% of our water supply pipes are over 40 years old. This aging infrastructure is a significant challenge to our ability to provide a safe and dependable water supply to our customers. To address this challenge, we have conducted a comprehensive study to define the true costs of providing water, source, storage, distribution, and treatment. The results tell us that we must raise our rates to cover the true costs of providing service. The costs of providing service have grown steeply - electrical power, chemicals, 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**

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



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Smart Business

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

Tuesday, November 29th, 2011 | [Malia Zimmerman](#) | [Print This Article](#)

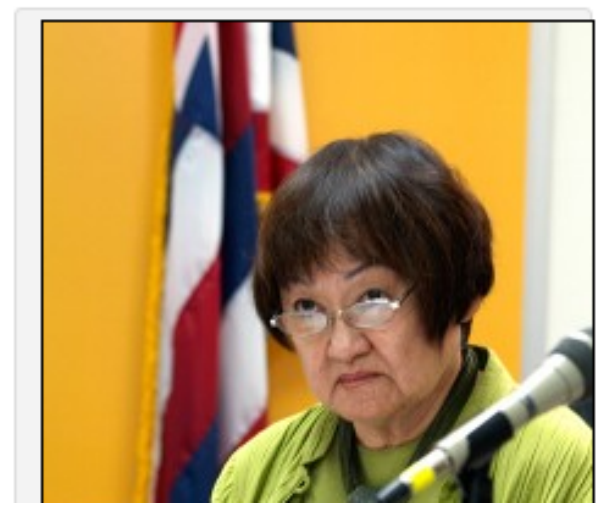
With Water, Sewage Rates, Car Registration Fees and More Taxes on the Rise, City Council Budget Chair Wonders How Island Residents Will 'Make it'

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.

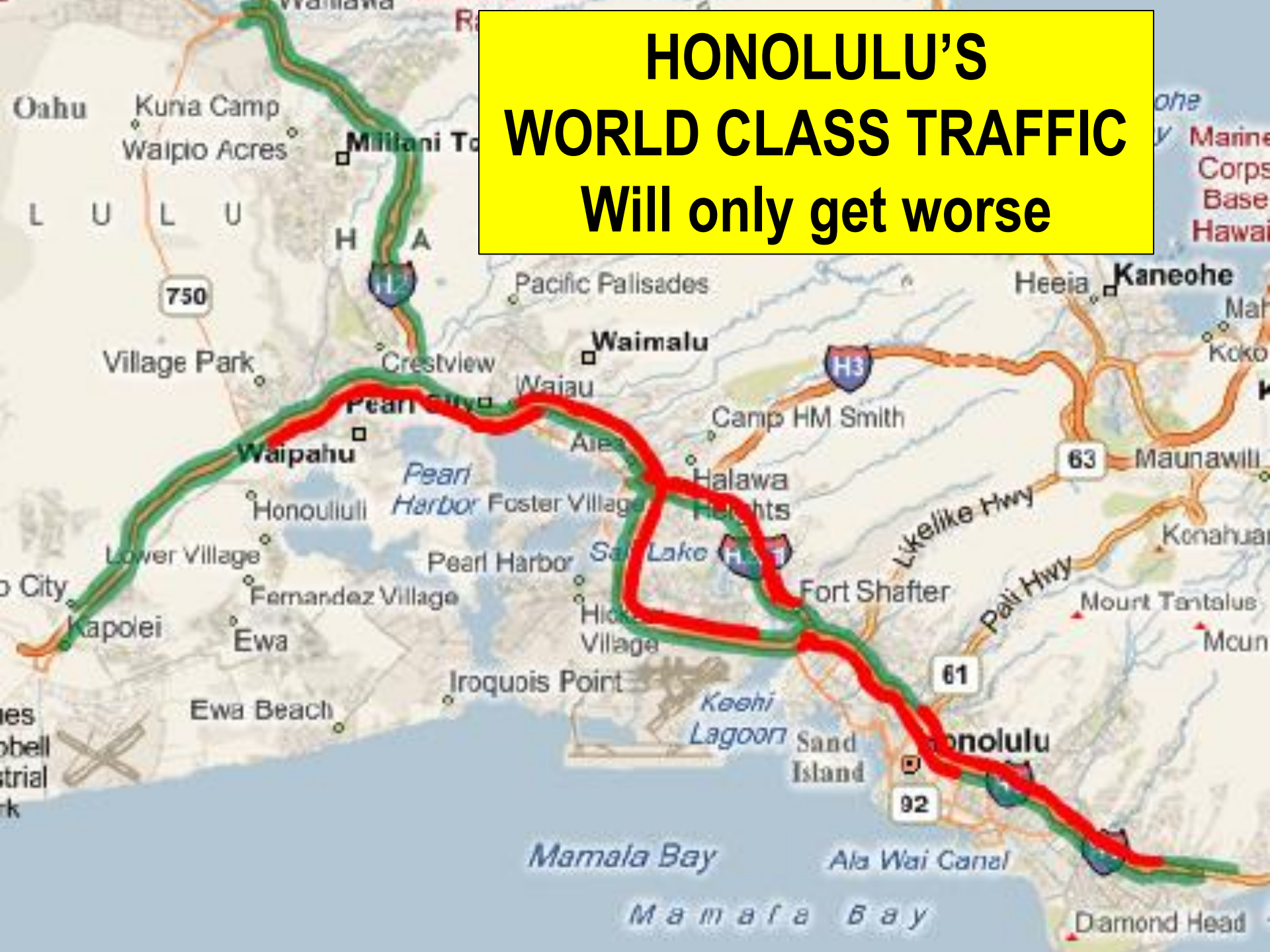
But Kobavashi is concerned that Oahu residents will be hit hard in the



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

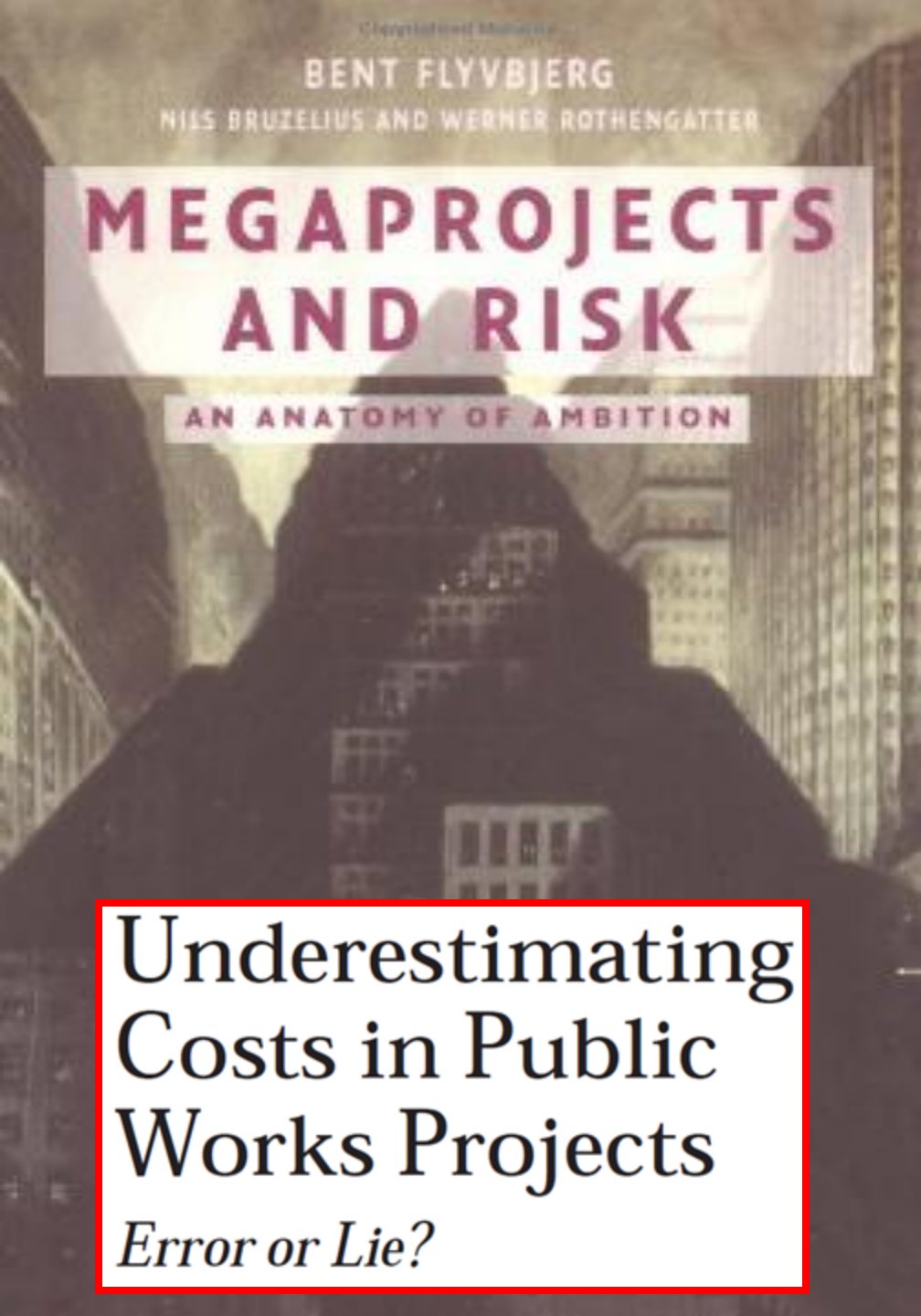


Financing Rail: Taxpayers Pay for Rosy Projections



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

DEMOGRAPHIA



BENT FLYVBJERG
NILS BRUZELIUS 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

Las Vegas Monorail

INDUSTRY FORECAST LEADS TO BANKRUPTCY

Actual Ridership:
2007: 21,600

“Investment Grade” Industry Projection: 53,500

Our Projection:
21,200

Daily
Ridership

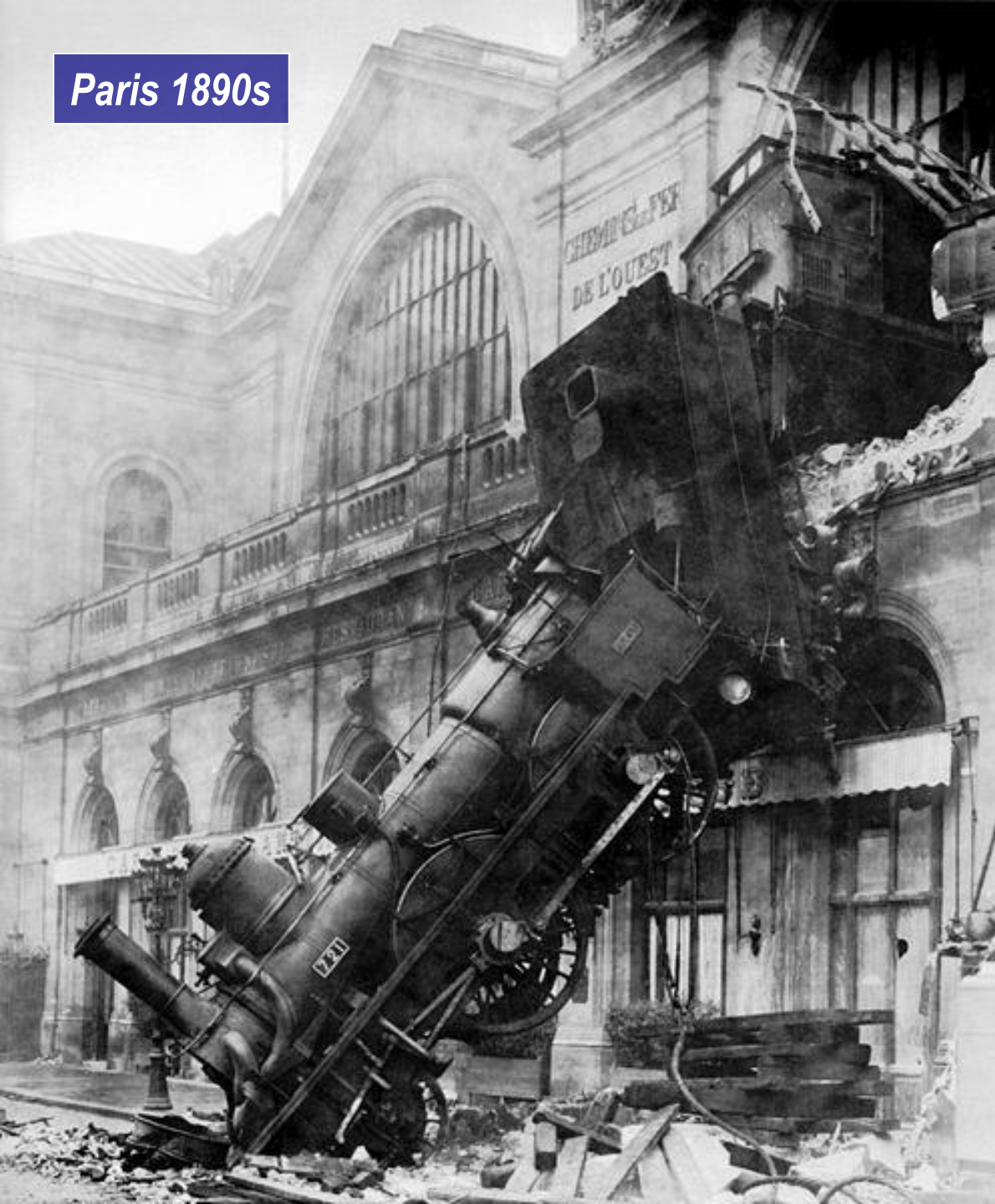
0 10,000 20,000 30,000 40,000 50,000 60,000

Forecasts Have Not Gotten Better

CALIFORNIA HIGH SPEED RAIL PHASE 1 COST



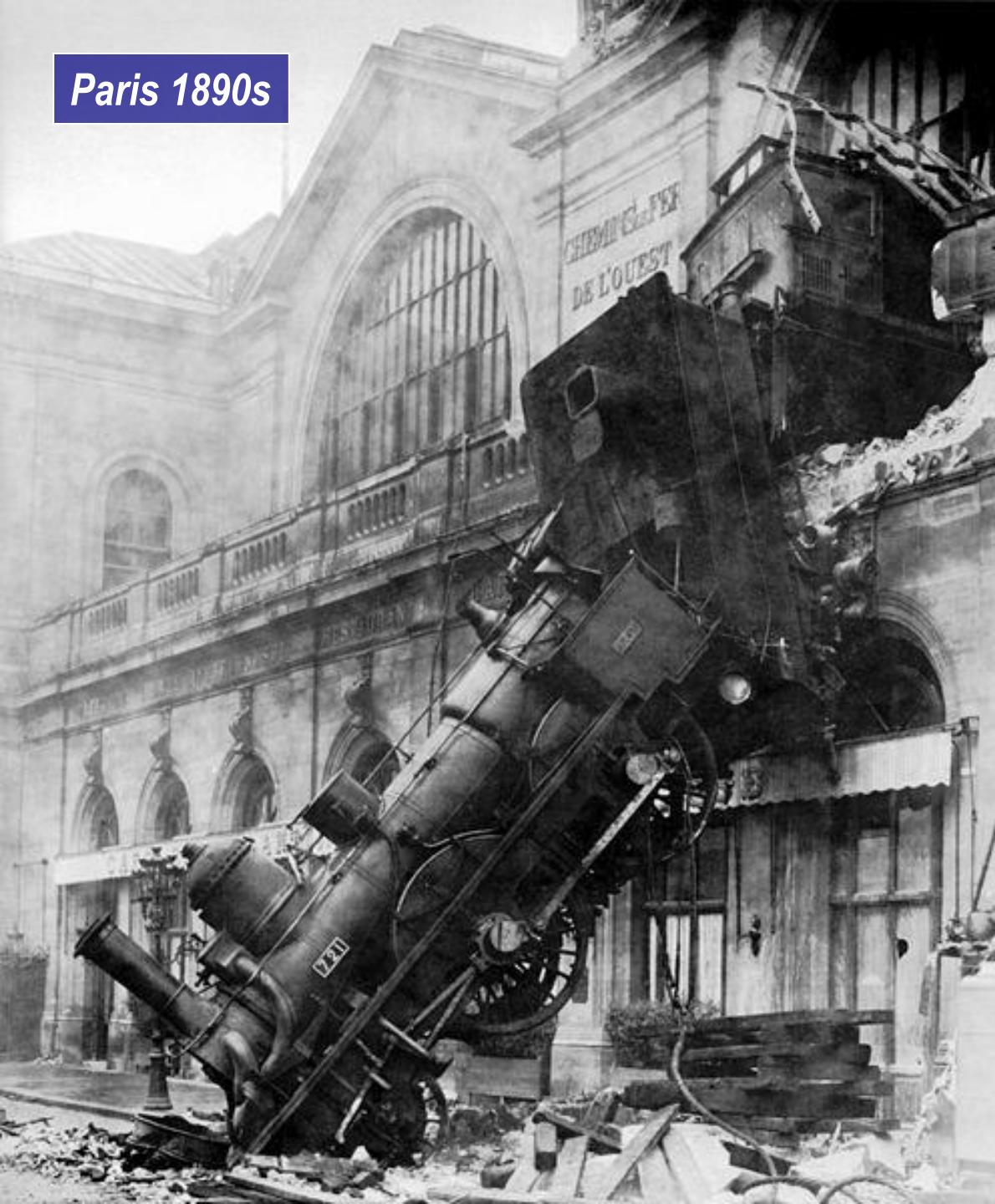
Paris 1890s



Honolulu Warning Signs

RAIL

Paris 1890s

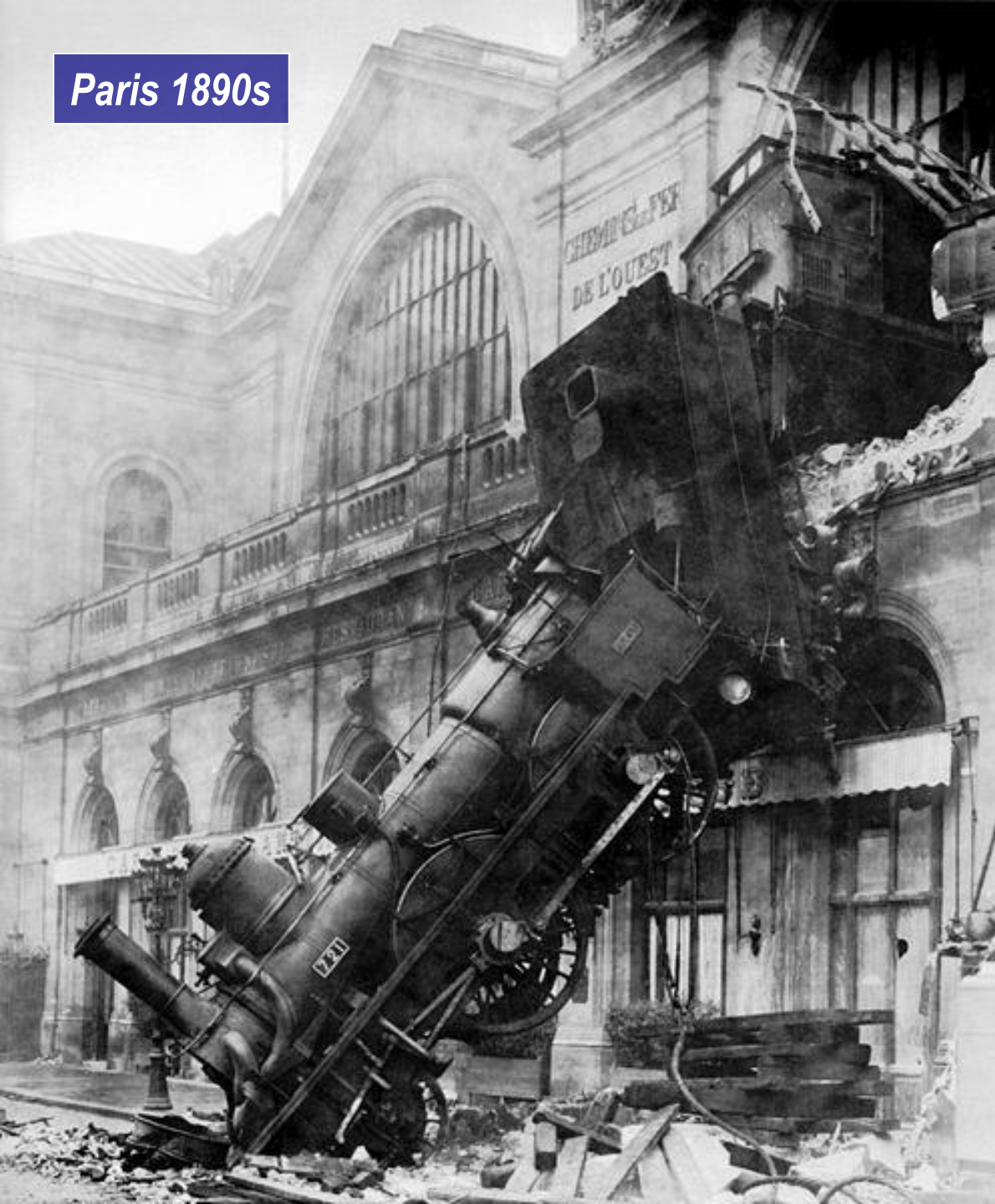


Honolulu Warning Signs

EXCESSIVE DEBT
LEVELS

-FTA
-STATE

Paris 1890s

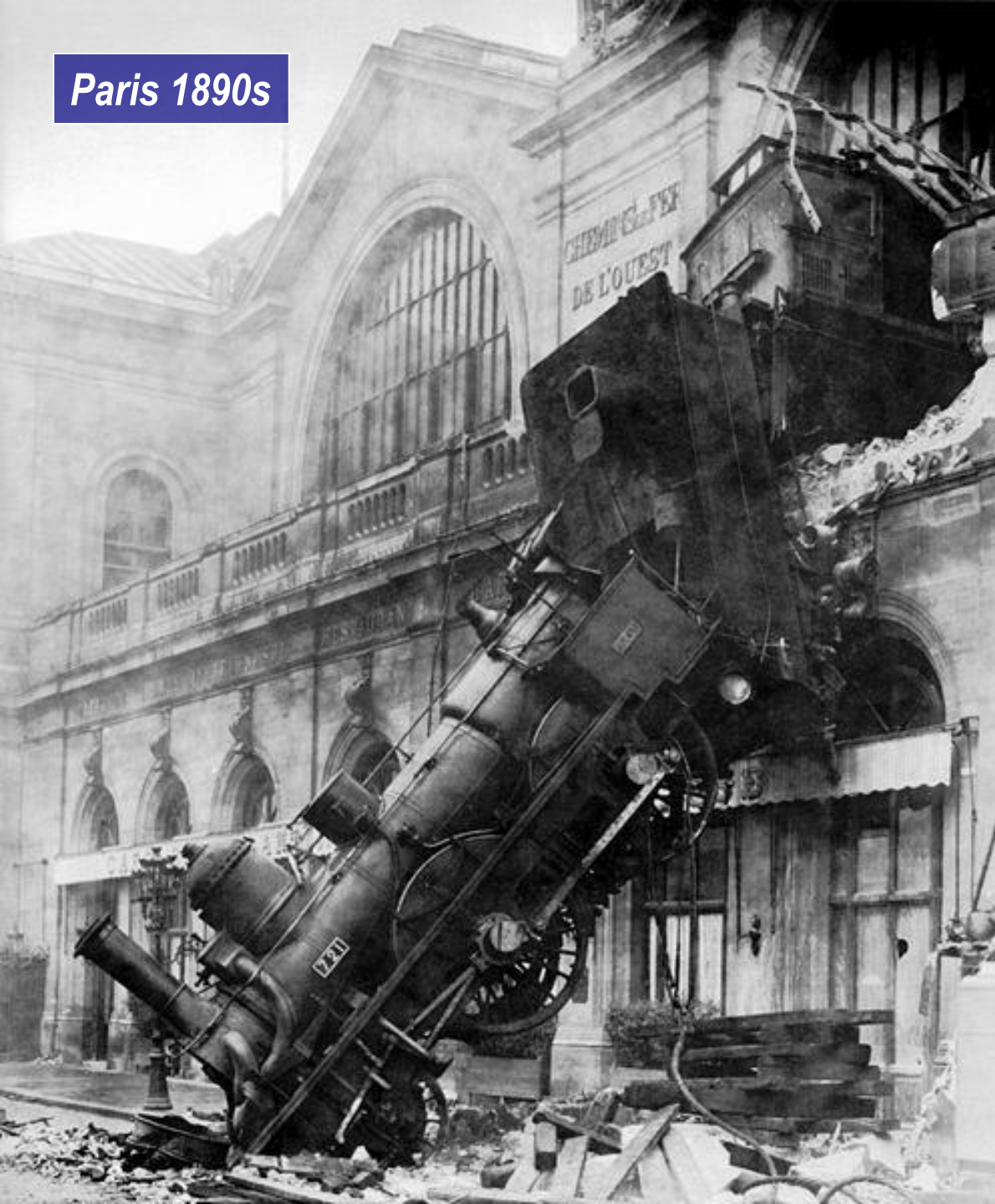


Honolulu Warning Signs

ROSY
“GET”
TAX
REVENUE
PROJECTION

-STATE

Paris 1890s



Honolulu Warning Signs

ROSY
RIDERSHIP
PROJECTION

-STATE

Paris 1890s

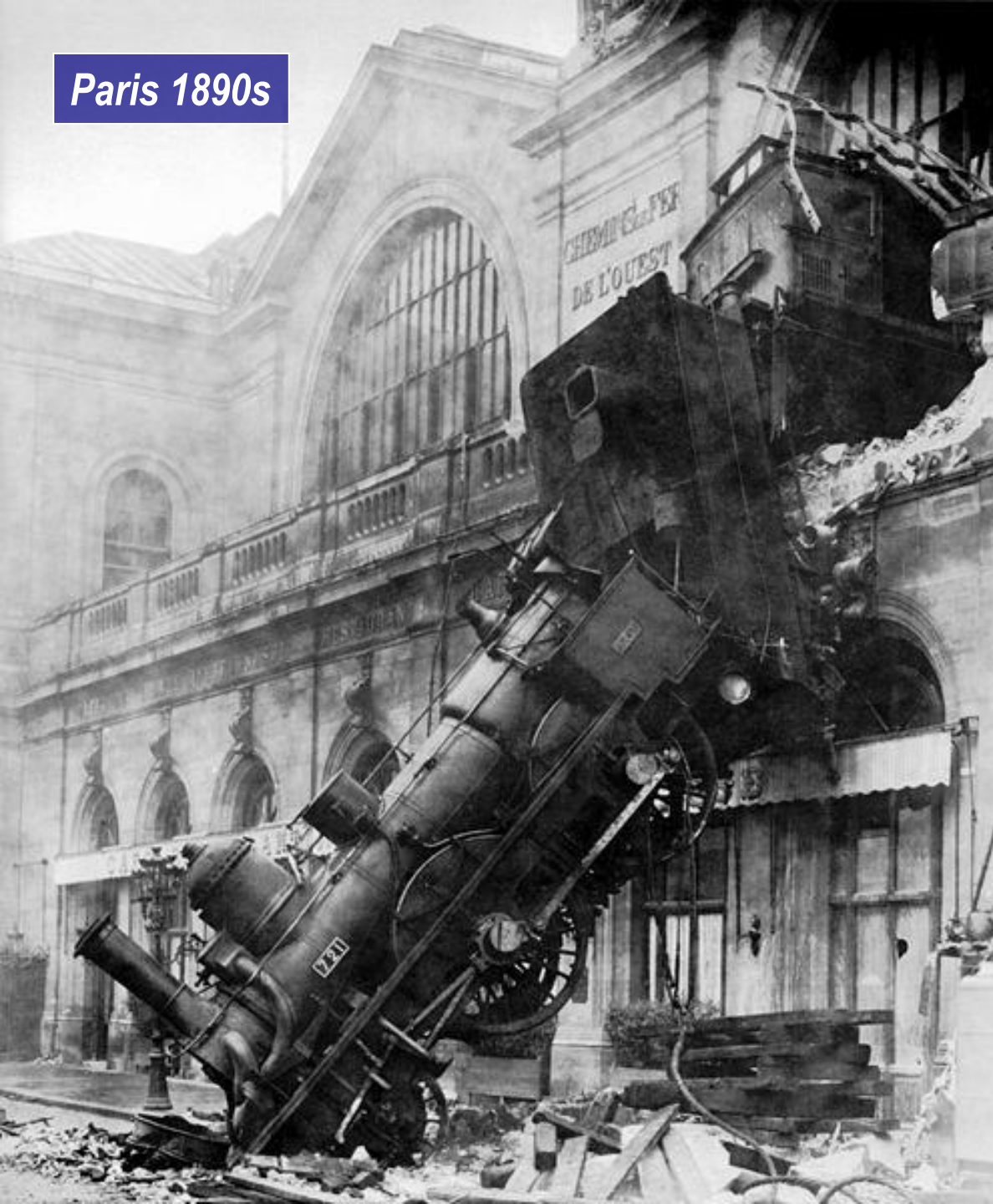


Honolulu Warning Signs

ROSY
OPERATING
COST
PROJECTION

-FTA

Paris 1890s

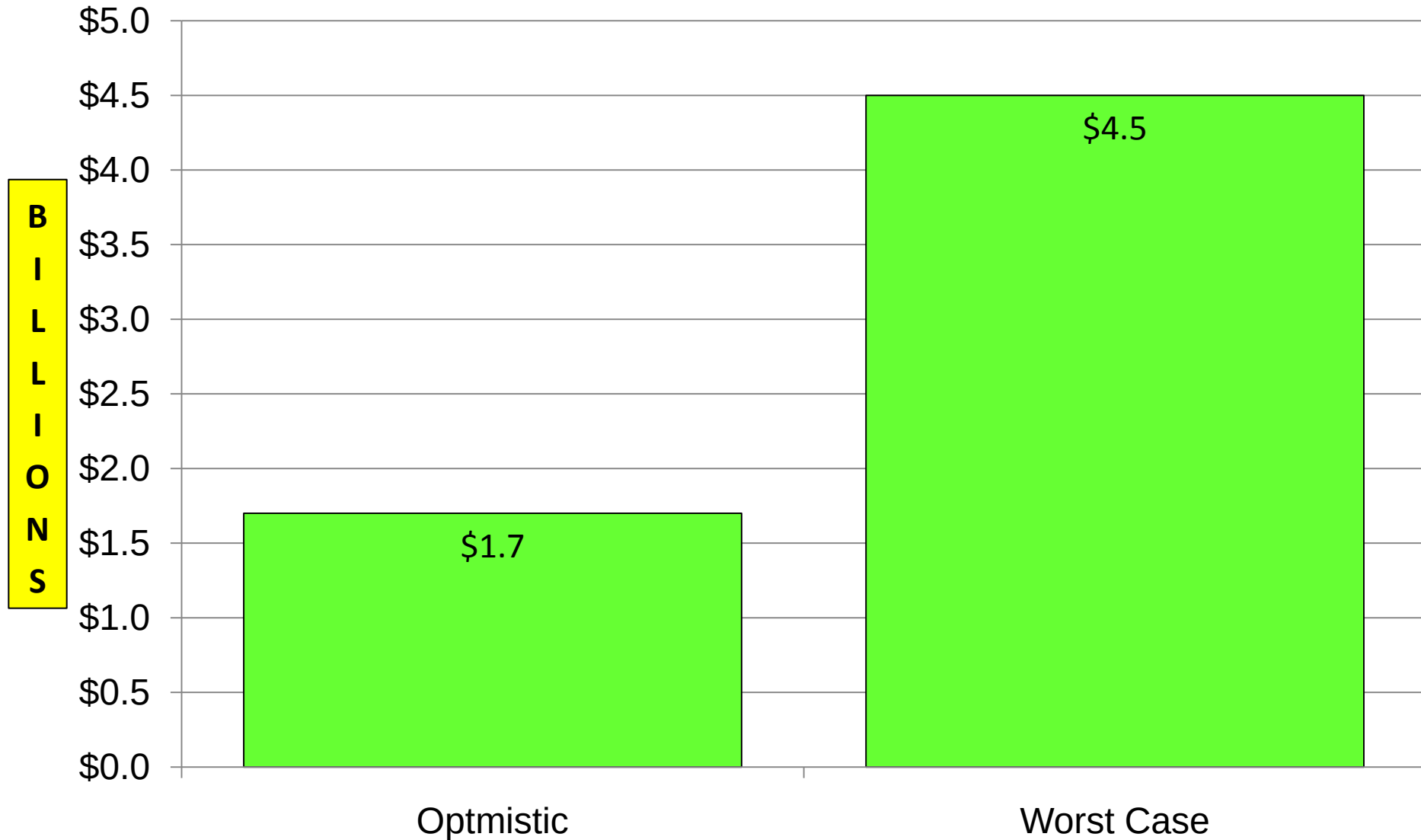


Honolulu Warning Signs

CONSTRUCTION
COSTS
COULD BE
MUCH
HIGHER

Additional City General Fund Costs?

IMG/STATE REPORT



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***

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

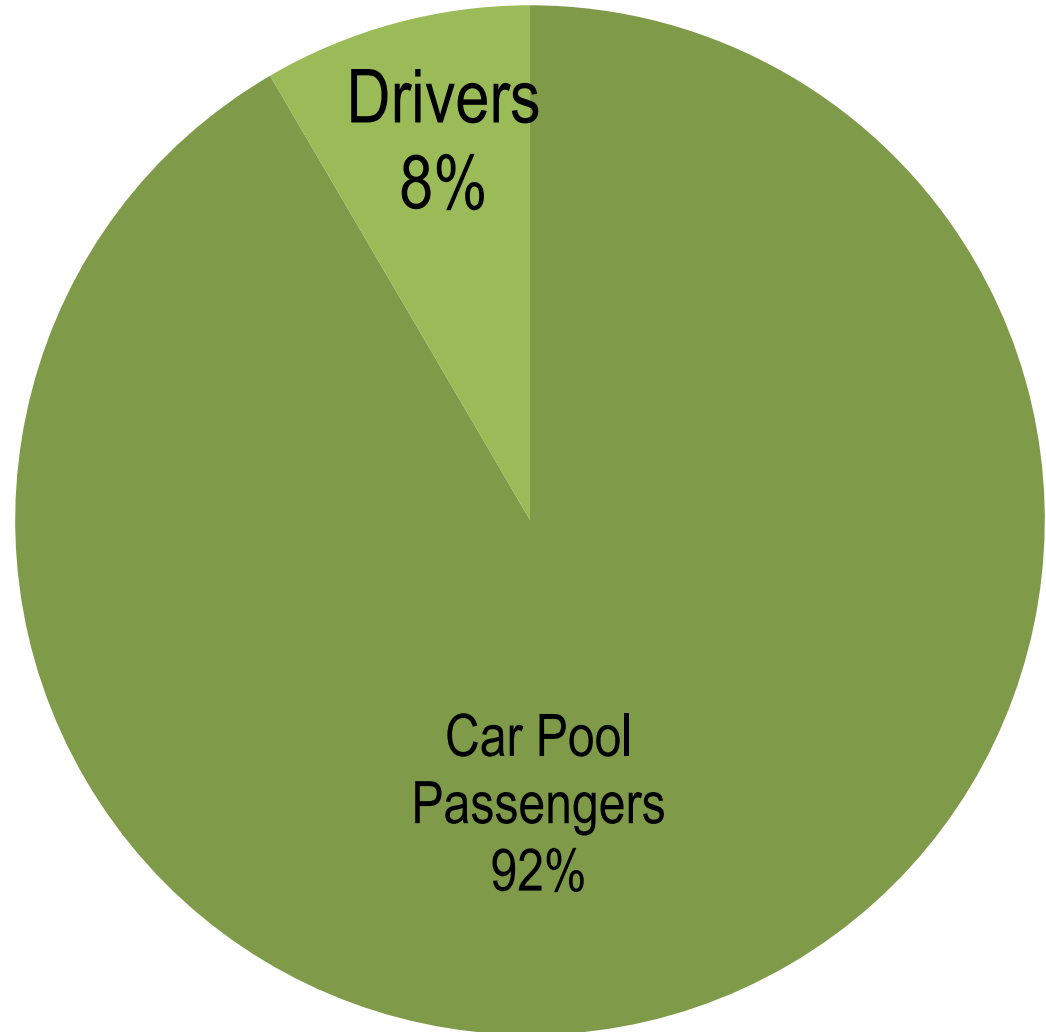
BOSTON'S "BIG DIG:" PROMISE \$4 BILLION, ACTUAL \$22 BILLION

Inflation Adjusted Costs



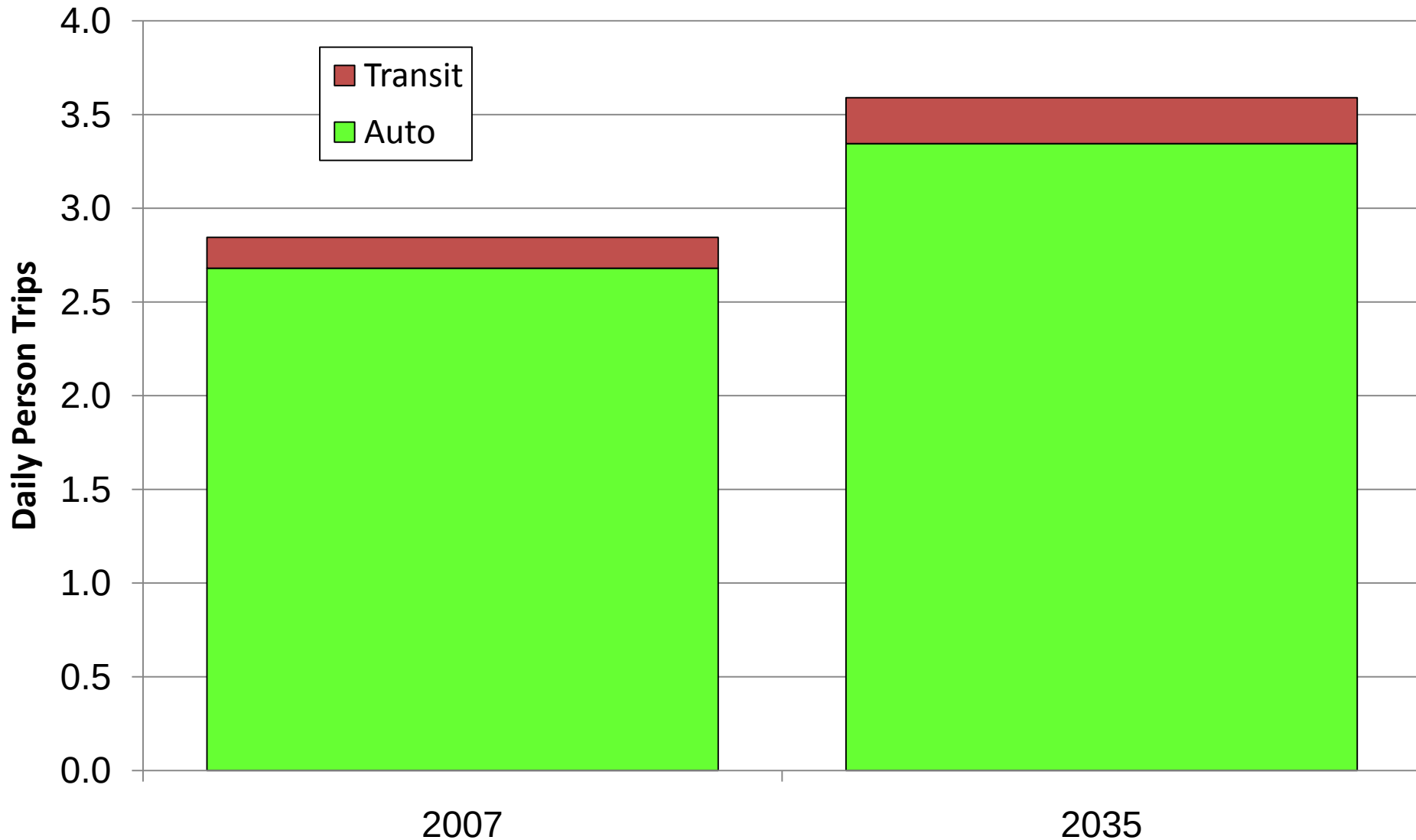
Washington Metro: Largest New System

CAR POOL RIDERS SWITCH, NOT DRIVERS OR CARS



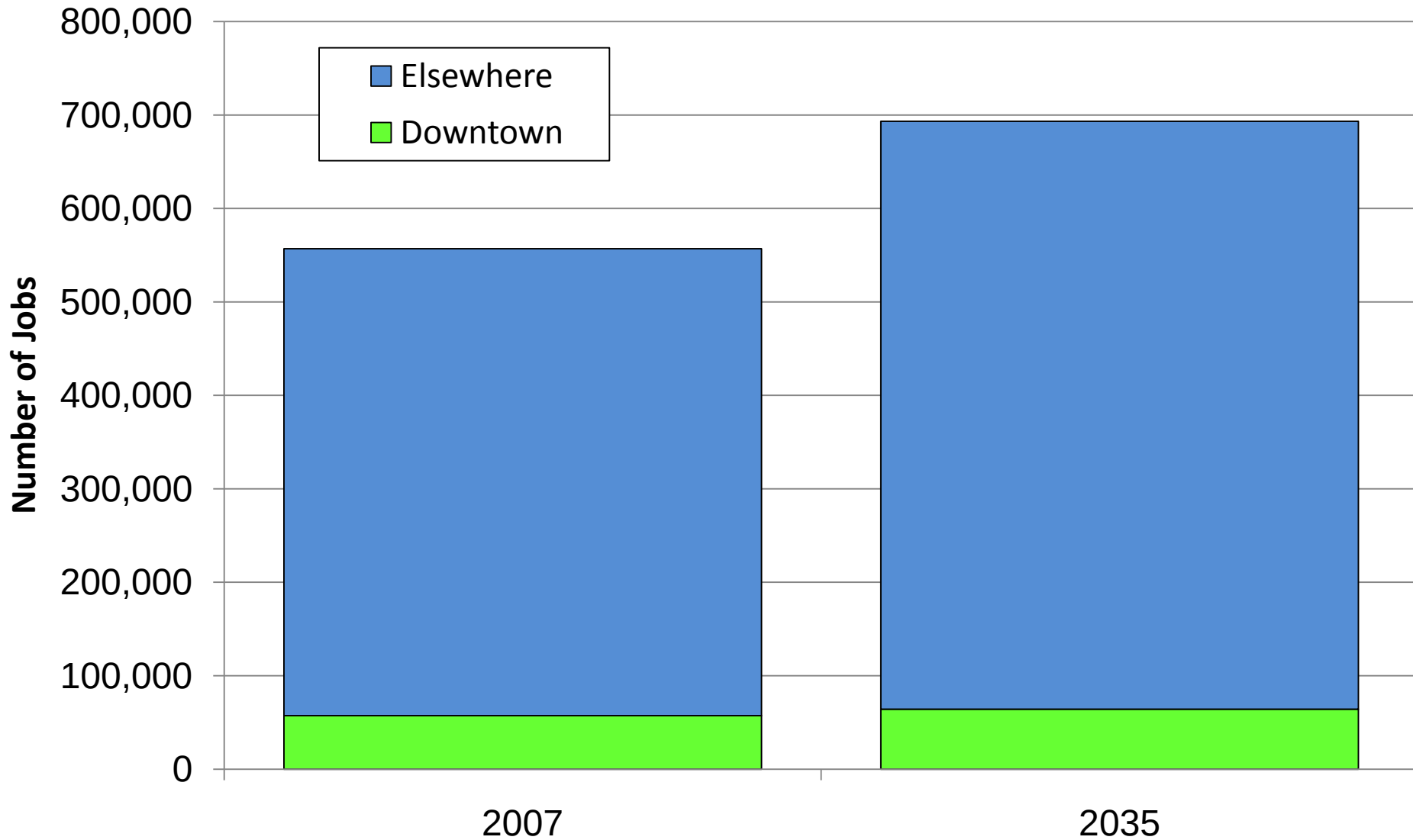
Rail Will Not Reduce Traffic Congestion

2007 & 2035 OAHU REGIONAL TRANSPORTATION PLAN



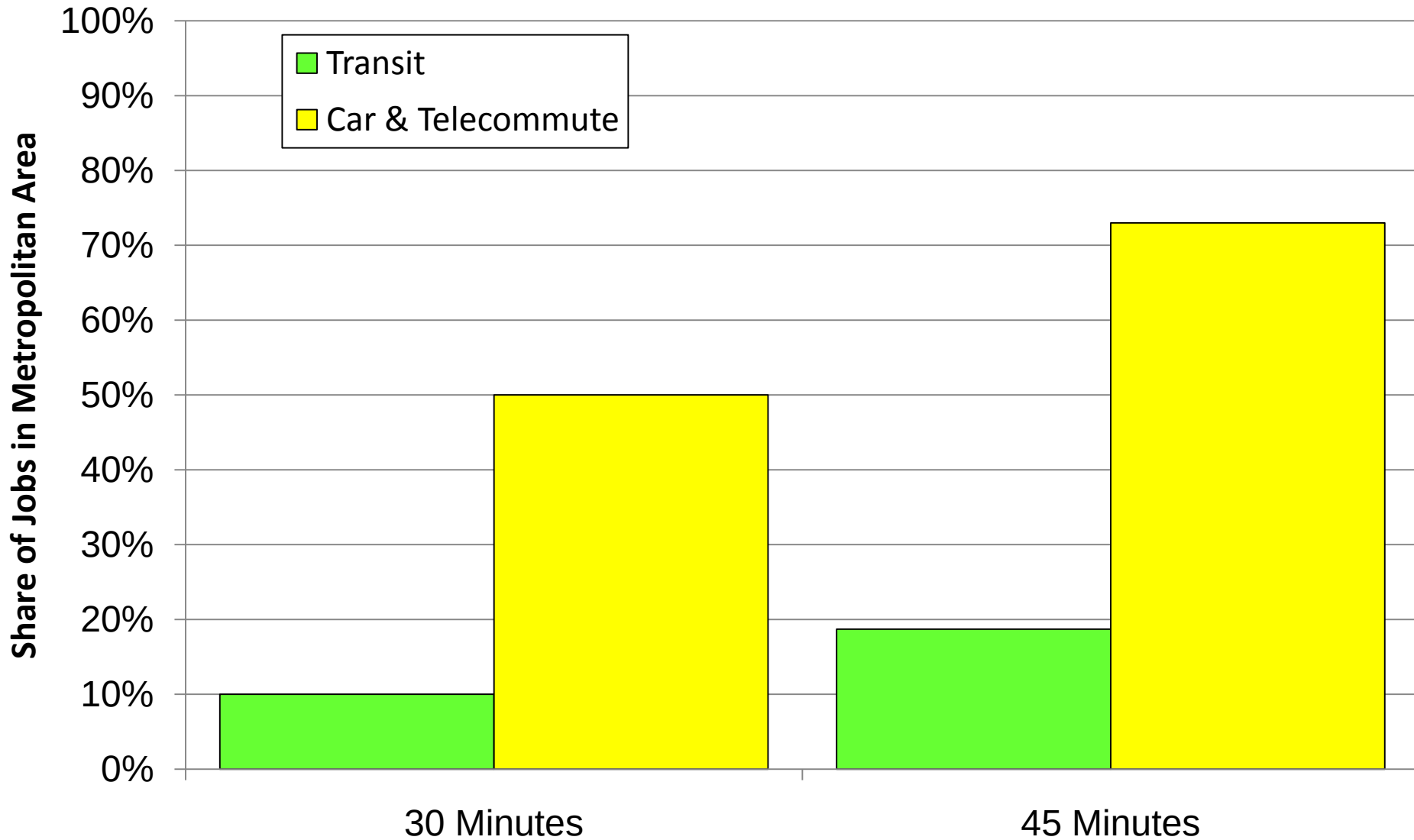
Jobs: Downtown & Elsewhere

2007 & 2035: 2035 ORTP



Share of Jobs Accessible by Transit

HONOLULU 2008



The Way Forward

PRINCIPLES FOR THE NEW REALITY

DEMOGRAPHIA

- **FINANCE REQUIRED PRIORITIES**
 - SUCH AS SEWER, WATER, PENSIONS
- **AVOID SPENDING ON THINGS NOT NEEDED**
 - CONSIDER THE PURPOSE (SUCH AS RAIL)
 - WHAT DIFFERENCE WILL IT MAKE
 - IS IT WORTH THE RISK IN THE NEW REALITY?