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

By Wendell Cox
Smart Business Hawaii Conference
Ala Moana Hotel
12 January 2012
HK way ahead of rivals for severely overpriced homes

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

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.

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.

City ranked last in int'l housing affordability index

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 US-based organization Demographia, covered 335 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 gross annual median household income, followed by Sydney at 9.8 and Vancouver at 9.5.

According to the survey standards, a city's median house price should not exceed three times of gross annual median household income to become "affordable".
The Broader Context: The New Realities

East Kapolei Rail Station Site
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

Billions

- $0
- $10
- $20
- $30
- $40
- $50
- $60
- $70

Birmingham, Alabama: 2011
Jefferson County Bankruptcy
Sewer System Debt
Honolulu
The Situation
State & Local Taxes per Capita

2009: HAWAII 8TH HIGHEST

HAWAII is circled in red as the 8th highest state for state and local taxes per capita in 2009.
Cost of Living: MSA’s Over 900,000

HONOLULU: 5TH MOST EXPENSIVE IN 2009

Bridgeport
San Jose
San Francisco
New York
Honolulu
Los Angeles
Washington
San Diego
Boston
Philadelphia #10
Cincinnati #53
St. Louis #59

US Bureau of Economic Analysis Data

STL$ Worth $1.40 Honolulu$
International Housing Affordability
HONOLULU: MOST EXPENSIVE US/NEAR 3X AVERAGE

Honolulu Most Expensive in US

Median House Price Divided by Median Household Income

UNITED STATES METROPOLITAN AVERAGE
People are Leaving Unaffordable Areas

BY METROPOLITAN AREA HOUSING AFFORDABILITY

Domestic Migration: 2000-2009

Net Domestic Migration: Population

Housing Affordability: Median Value Multiple: 2007

More Expensive Metropolitan Areas
Less Expensive Metropolitan Areas
Domestic Migration: 2000-2009

LARGE LOSSES IN HONOLULU

Extra Time in Peak Hour Traffic

Honolulu

Balance of State
Excess Time in Peak Hour Traffic
HONOLULU WORST IN NATION 2007

Honolulu: 47%
Los Angeles: 44%
Bridgeport: 32%
Township: 31%
Excess Peak Hour Traffic Delay

16th MOST CONGESTED: 200 US & EUROPEAN CITIES

Worst 25
San Francisco is 28
Democratization of Prosperity
ASSOCIATION BETWEEN MOBILITY & AFFLUENCE

HARTGEN-FIELDS
Mobility Improves Productivity

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
Report on the State of Physical Infrastructure in Hawaii

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

July 2010

Repairs tab may top $32B
Unfunded Government Pension Liability
STATE & LOCAL: 2000 – 2010: IN BILLIONS

Unfunded Liability
In Billions

Billions

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
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

Retiree Health Benefits

Pensions
Demographic Time Bomb
AGE 65 & OVER PER 100 WORKING AGE
Deferred losses

Higher salaries

Retirees living longer

Government contributions too little

Rosy investment return assumption (8%)
Sewer settlement will cost Honolulu $4.7 billion over 25 years

**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.
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."

Rocinda Favela – Rio de Janeiro
70% Water Rate Increase
45% of pipes more than 40 years old
How are people going to make it? I just don’t know.

City Council Budget Chair Ann Kobayashi
HONOLULU’S WORLD CLASS TRAFFIC Will only get worse
Financing Rail: Taxpayers Pay for Rosy Projections

Prime Agricultural Land: Adjacent to Rail: East Kapolei
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

California's High-Speed Rail Fibs

*Florida and Ohio have walked away from dubious train projects. Are Golden Staters more gullible?*

By WENDELL COX And JOSEPH VRANICH
Honolulu Warning Signs

EXCESSIVE DEBT LEVELS

- FTA
- STATE

Paris 1890s
Honolulu Warning Signs

ROSY “GET” TAX REVENUE PROJECTION -STATE
Honolulu Warning Signs

- State

Paris 1890s
Honolulu Warning Signs

ROSY OPERATING COST PROJECTION

-FTA

Paris 1890s
Honolulu Warning Signs

CONSTRUCTION COSTS COULD BE MUCH HIGHER

Paris 1890s
Additional City General Fund Costs?
IMG/STATE REPORT

Optimistic: $1.7
Worst Case: $4.5
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

Drivers
8%

Car Pool Passengers
92%
Rail Will Not Reduce Traffic Congestion

2007 & 2035 OAHU REGIONAL TRANSPORTATION PLAN

Daily Person Trips

- Transit
- Auto

2007

2035
The Way Forward
PRINCIPLES FOR THE NEW REALITY

- 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?