



U.S. Department  
Of Transportation  
**Federal Transit  
Administration**

Headquarters

1200 New Jersey Avenue S.E.  
Washington DC 20590

## INFORMATION MEMORANDUM TO THE ADMINISTRATOR

From: *Susan Borinsky*  
Susan Borinsky, Associate Administrator for Planning and Environment  
Ext. 6-0789

Subject: Status of the Proposed New Starts Project in Honolulu

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### SUMMARY

You are scheduled to meet with Honolulu Mayor Mufi Hannemann on Tuesday, August 4, and he will inquire about the status of the PE request. On May 5, 2009, the City and County of Honolulu submitted a formal request for approval of the project into preliminary engineering (PE). The key remaining step in FTA's consideration of that request is FTA's detailed evaluation and rating of the financial plan, including the plan's assumptions that the project will receive \$1.55 billion in New Starts funds and that the annual appropriation of these funds will be at least \$200 million for six consecutive years – \$250 million for two of those years. If FTA views these assumptions as reasonable, then FTA's detailed evaluation and rating of the financial plan will proceed and a recommendation on PE approval will be possible in 30-40 days. If FTA views the assumptions as unreasonable, then FTA will need to provide guidance to the City on alternative assumptions to be used in a revised financial plan that will be needed by FTA to reach a conclusion on the PE request.

### BACKGROUND

The project. The proposed project is a 20.5-mile elevated rail line with 19 stations with automated trains running every three minutes in the weekday peak periods and six minutes during most off-peak hours. The map on the following page presents the project and key locations within the corridor.

The City intends to build the project in two segments: an initial segment between the western terminus and the vehicle storage/maintenance facility immediately north of Pearl Harbor, and a second segment comprising the remaining 14.5 miles. This approach is unusual in that the initial segment opening to service will be remote from downtown Honolulu and other major transit markets, will likely have very low ridership, and will commit the project to a construction sequence that completes the downtown segment last. The stated purpose of the City's construction plan is to demonstrate early success with a completed segment of the project. The City has solicited design-build proposals for this initial segment and intends to request a letter of no-prejudice (LONP) for major elements of the segment once the project

enters PE and FTA issues a Record of Decision bringing the environmental review to closure. The City's near-term schedule is driven by a high priority given to ground-breaking by the end of December, 2009 – a milestone goal set several years ago by the City administration. Much local discussion has focused on the feasibility of this goal and it has come to represent an early test of the mayor's credibility.

FTA review of the PE request. FTA has concluded reviews of the various materials supporting the PE request, as summarized below. The only remaining element of the overall project rating is the financial assessment.

- The Project Management Oversight contractor (PMOC) review concluded that \$116 million should be added to the \$5.33 billion cost estimate (year-of-expenditure dollars, including \$313 million in finance charges) and that five months should be added to the projected date of revenue operation for the full project in 2019. The PMOC review concluded that, with those additions, the City's cost estimate is an acceptable basis for FTA's rating of the project. The review included several rounds of detailed discussions with the City on draft PMOC findings and FTA has provided a copy of the final PMOC report to the City.
- The PMOC review of project readiness concluded that the sponsor is ready to undertake preliminary engineering of the project.
- The FTA contractor review of estimated operating and maintenance (O&M) costs concluded that uncertainties in labor requirements for new rail operations may lead to higher O&M costs, perhaps by 2.5 percent of the total annual costs.
- The FTA staff review of ridership forecasts concluded that the predicted mobility benefits and project ridership of 116,000 trips per day in 2030 are reasonable.
- The land-use assessment completed by an FTA contractor in 2007 (in anticipation of a Honolulu PE request that was eventually postponed) recommended a "medium" rating. The Honolulu city council has since passed ordinances that strengthen support for transit-oriented development and may yield a higher FTA land-use rating. FTA has deferred reconsideration of the land-use rating, however, given the sufficiency of the 2007 result.

Project funding: The financial plan for the project relies on three principal sources of funds to meet capital expenses: local excise taxes (\$3.32 billion, YOE), Section 5309 New Starts funds (\$1.55 billion YOE), and Section 5307 formula funds (\$0.30 billion YOE). The plan relies entirely on annual appropriations from the City to cover system-wide transit operating deficits.

- In 2005, the state authorized a ½-cent increment in the general excise tax (GET) for 15 years for the purpose of building local rail systems. In 2006, the City and County of Honolulu exercised this option for the island of Oahu and began to receive revenues in January 2008. Thus far, revenue collections have lagged behind expectations – an outcome that the City says is a direct reflection of the current state of the economy. The City predicts that excise tax revenues will recover strongly as the economy improves and that this revenue stream will fund approximately 65 percent of capital

costs. Under the state's authorizing legislation, the GET increment will sunset in 2023.

- The financial plan anticipates annual appropriations of New Starts funds beginning in FY2010, ramping up quickly to \$250 million in FY2013 and FY2014, continuing at \$200 million through FY2017, and concluding with \$135 million in 2018.
- The plan also has the City using \$30-35 million annually in Section 5307 formula funds for project capital costs, beginning in FY2011 and concluding in FY2019. This assumption runs counter to FTA policy guidance discouraging the use of formula funds for New Starts project.
- To fund operating deficits, the plan continues to rely on an annual appropriation by the City from general and highway funds, the traditional method of deficit funding for the bus system since 1990. The plan also calls for the annual appropriation to cover bus-system maintenance expenses left unfunded by the diversion of Section 5307 formula funds to the rapid transit project. Over that time, the transit appropriation has averaged 11 percent of total City funds, peaking in 2001 at 15 percent. The financial plan anticipates the average to rise to 13.8 percent through 2030, peaking at 16.3 in 2019.

The detailed evaluation and rating by FTA's financial contractor will examine the reasonableness of the financial plan including assumptions on revenues from the GET, Section 5307, and City appropriations.

Projects Competing for New Starts funding: To provide some perspective on overall demand for New Starts funding, the attached table summarizes the anticipated annual funding requests for projects, including Honolulu, expected to seek New Starts funding over the next five years.

## **FOLLOW-UP**

FTA needs to reach a conclusion on acceptable assumptions regarding New Starts funding for the project so that we can complete the review of the financial plan and reach a conclusion on Honolulu's PE request. Options for an FTA response to Honolulu on the current financial plan and its New Starts funding assumptions might include:

1. the current plan is based on acceptable assumptions of \$1.55 billion total and a maximum of \$250 million per year;
2. the current plan is based on unacceptable assumptions and the City will need to revise the plan to assume \$1.2 billion total and a maximum of \$200 million per year – consistent with the August 2008 plan and previous FTA guidance to Honolulu; or
3. a revised financial plan is needed to present the financial implications of both sets of assumptions so that FTA can make a better-informed decision on whether to allow the increase to \$1.55 billion.

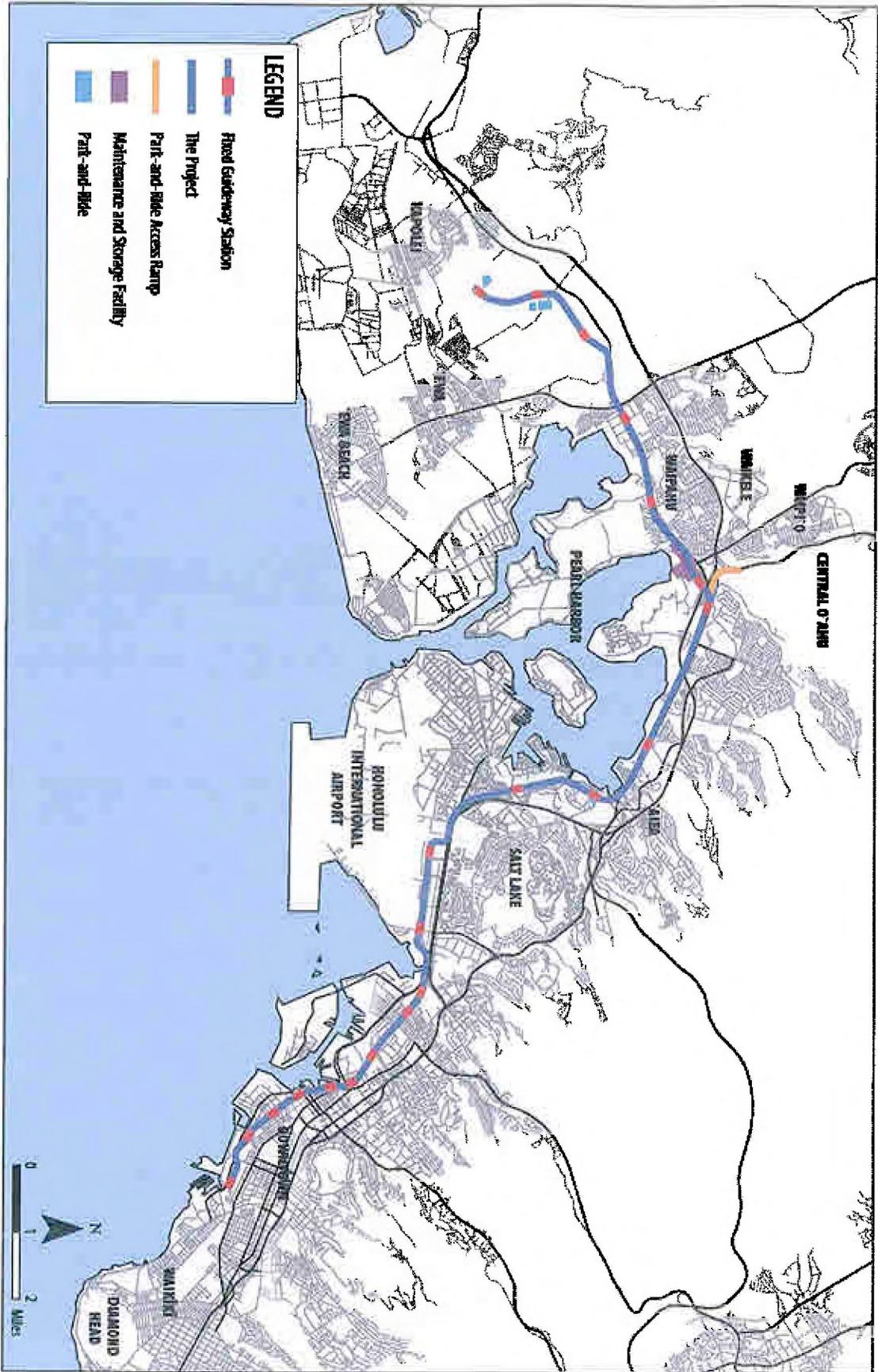
Attachments

The Administrator

REVIEWED: \_\_\_\_\_

COMMENTS: \_\_\_\_\_

DATE: \_\_\_\_\_



The Honolulu Rail Project

Approximate Section 5309 New Starts Funding Commitments and Expectations (per project sponsor's most recent submittal) -- in millions of year-of-expenditure (YOE) dollars

Project Status/List	Request by Fiscal Year as of Nov 2008					5-year Total
	2010 (Actual)	2011	2012	2013	2014	
1 <i>Full Funding Grant Agreement</i>	\$1,118	\$915	\$870	\$661	\$425	\$3,989
2 <i>Final Design</i>	\$527	\$610	\$830	\$466	\$259	\$2,692
CT Hartford, New Britain - Hartford Busway	\$15	\$75	\$107	\$73	\$0	\$270
FL Orlando, Central Florida Commuter Rail Transit	\$87 (\$40)	\$55	\$26	\$0	\$0	\$168
NJ Northern New Jersey, Access to the Region's Core	\$425 (\$200)	\$480	\$696	\$393	\$259	\$2,254
3 <i>Preliminary Engineering</i>	\$375	\$720	\$959	\$832	\$743	\$3,629
NC Charlotte, Northeast Corridor Light Rail Project	\$42	\$62	\$100	\$100	\$63	\$367
TX Houston, North Corridor LRT	\$100 (\$75)	\$100	\$100	\$27	\$0	\$327
TX Houston, Southeast Corridor LRT	\$100 (\$75)	\$100	\$100	\$26	\$0	\$326
CO Denver, East Corridor	\$0	\$54	\$115	\$111	\$111	\$392
CO Denver, Gold Line	\$0	\$36	\$25	\$39	\$39	\$138
MN St. Paul-Minneapolis, Central Corridor LRT	\$0	\$95	\$95	\$95	\$95	\$380
CA Sacramento, South Corridor Phase 2	\$43 (\$40)	\$52	\$31	\$5	\$0	\$131
CA San Francisco, Central Subway LRT	\$21	\$150	\$150	\$150	\$150	\$621
OR Portland, Milwaukie LRT	\$0	\$0	\$100	\$100	\$100	\$300
FL Miami, Orange Line Phase 2: North Corridor	\$65	\$55	\$75	\$80	\$85	\$360
MA Boston, Silver Line Phase III †	\$4	\$16	\$68	\$100	\$100	\$288
4 <i>Pre-Preliminary Engineering</i> ‡	\$135	\$180	\$375	\$450	\$450	\$1,590
OR Portland, Columbia River Crossing	\$0	\$0	\$75	\$100	\$100	\$275
HI Honolulu, Rail Transit Project	\$35	\$80	\$200	\$250	\$250	\$815
TX Houston, University Corridor	\$100	\$100	\$100	\$100	\$100	\$500
<b><i>Expected Demand for New Starts Funds</i></b>	<b>\$2,155</b>	<b>\$2,425</b>	<b>\$3,034</b>	<b>\$2,409</b>	<b>\$1,876</b>	<b>\$11,900</b>
5 <i>Project Construction Grant Agreement</i>	\$0	\$0	\$0	\$0	\$0	\$0
6 <i>Project Development</i>	\$174	\$226	\$65	\$23	\$20	\$509
<b><i>Expected Demand for Small Starts Funds</i></b>	<b>\$174</b>	<b>\$226</b>	<b>\$65</b>	<b>\$23</b>	<b>\$20</b>	<b>\$509</b>

† Expected to withdraw from Preliminary Engineering

‡ Other potential, but unlikely, FY 2011 funding candidates: Salt Lake City Draper; Chicago METRA West & NW