# Memorandum

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

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Subject: Status of the Proposed New Starts Project in Honolulu

Date:

From: Susan Borinsky, Associate Administrator for Planning and Environment

Reply to Attn. of:

To: Peter Rogoff, Administrator

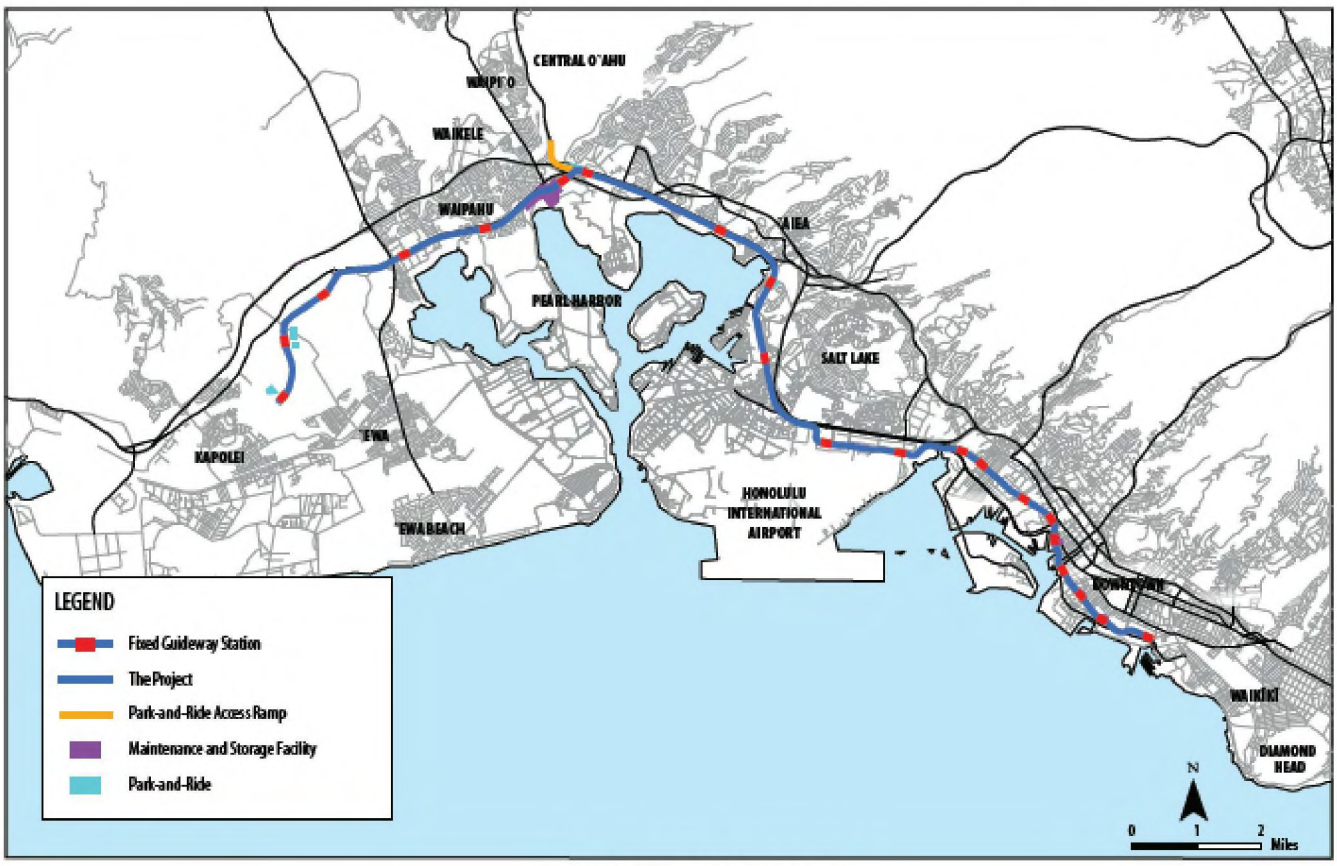
At out last meeting on New Starts projects, you asked for a summary of issues related to the Honolulu rapid transit project. In summary, the project sponsor – the City and County of Honolulu – has submitted a formal request for approval of the project into preliminary engineering (PE). The key remaining barrier to FTA's approval of that request is the financial plan, specifically 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 review 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.

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.

Construction segments. 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. 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 administration's credibility.

FTA review of the PE request. FTA has concluded reviews of the various materials supporting the PE request. At this point, it seems clear that the project will receive at least a "medium" rating for project justification and that the project sponsor is "ready" to undertake PE. Briefly:

- The project-management-oversight contractor (PMOC) review of the capital-cost estimate concluded that the $5.33 billion cost estimate (year-of-expenditure dollars, including $313 million in finance charges) is an acceptable basis for FTA evaluation of the project, subject to the PMOC-recommended addition of $116 million to the cost estimate and five months to the projected date of revenue operation for the full project in 2019.
- The PMOC review of project-readiness concluded that the sponsor is ready to undertake preliminary engineering of the project.
- The 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 be yield a higher FTA land-use rating. FTA has deferred reconsideration of the land-use rating, however, given the adequacy of the 2007 result.




**The Honolulu Rail Project**

Given the cost estimates and the ridership forecasts, the cost-effectiveness rating is solidly within the "medium" range. With a "medium" rating for land use, this result means that the "project justification" rating will be a solid "medium" as well. Consequently, the only remaining element of the overall project rating is the financial assessment.

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, year-of-expenditure), 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 exise 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.
- The financial plan anticipates annual appropriations of New Starts funds beginning in Fiscal Year 2010, 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.
- To fund operating deficits, the plan continues to rely on an annual appropriation by the City from general and highway funds. This method has been the traditional source of deficit funding for the bus system since 1990. 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 review by FTA's financial contractor will examine the reasonableness of assumptions on revenues from the GET, Section 5307, and City appropriations. Prior to that review, FTA will need to come to some conclusion on the reasonableness of the assumptions on New Starts funding.

<u>Projects Competing for New Starts funding.</u> To provide some perspective, the table below summarizes the anticipated annual funding requests for projects, including Honolulu, expected to seek New Starts funding over the next five years.

Options?
Recommendation?