From: Ryan, James <FTA>
To: Day, Elizabeth <FTA>
Sent: 4/1/2009 6:17:41 AM
Subject: 090401 Honolulu strategy

MEMORANDUM

From: Matt Welbes
To: TBD
Subject: Proposed Strategy for Moving Forward with the Honolulu Rail Project

The City and County of Honolulu anticipates a request of FTA to advance a 20-mile elevated rail project into preliminary engineering. The project appears likely to exceed the capacity of both the City and the New Starts program to provide funding within the timeframe publicly endorsed by the City. This memorandum outlines a strategy that FTA proposes to pursue to more forward with the project in a way that is more likely to succeed financially than the current plan.

Background

Honolulu mayor Mufi Hannemann has championed a rail project since his election in 2004. In 2006, the Hawaii legislature authorized individual counties to implement an excise-tax increment for 15 years to generate local funding for construction of rail transit. The Honolulu city council exercised that option shortly thereafter and the City began collecting the tax increment in January, 2007. The City completed an alternatives analysis in late 2007 and a Draft Environmental Impact Statement in early 2009. The City expects to request that FTA approve into preliminary engineering the 20-mile elevated rail line that has emerged as the "first project" within a more extensive rail line for Honolulu.

Local opposition is well organized, very vocal, and likely to bring legal action in an effort to stop construction of the project. The rail line was a prominent issue in the November, 2008, mayoral election in which Mayor Hannemann was re-elected after winning a plurality against two anti-rail opponents and a subsequent run-off election. Also on the ballot in November was a question on the construction of the rail line, resulting in a 53-47 affirmative outcome.

In terms of the ratings criteria defined by Congress for FTA's evaluation of proposed projects, the Honolulu rail project is among the best in the history of the program. The project will generate very large mobility benefits for current and new transit riders, support infill of very dense existing land uses, promote transit-oriented development in the outlying parts of the corridor, and – despite its large costs – yield these benefits at a commendable level of cost-effectiveness. On the ground, the project would save large amounts of travel time for large numbers of existing transit riders who must contend with slow bus services mired in very congested traffic throughout the rail corridor. To date, the City has indicated a need for New Starts funding that would represent only 21-23 percent of total capital costs, with the balance funded through the local excise tax increment.

Funding

FTA estimates that the 20-mile rail project will cost approximately $6 billion (in year-of-expenditure dollars) based on the $5.2 billion estimate provided by the City in late 2008, plus a $500 million increment recommended by an FTA oversight contractor after a thorough review of the project, plus $200 million estimated by the City to be the incremental cost of a local decision to re-route the project through the Honolulu International Airport.

In 2008, FTA provided guidance to the City on reasonable expectations for New Starts funding of the project: $1.2 billion total and a maximum of $200 million per year. With that guidance, the City was able to formulate a financial plan that appeared to be feasible, though clearly at the full capacity of local funding resources. Since then, local revenues from the excise tax increment have run below expectations and the capital cost of the project has increased by at least $700 million. Consequently, FTA expects that the City to revise the financial plan and to find that

significant changes will be necessary to a financially feasible outcome. Possible changes include (1) an increase in New Starts funding; (2) a lengthening of the now-15-year period of the excise tax increment; and/or (3) a shortening of the project to reduce costs. Items (2) and (3) are likely to be very controversial locally.

A Way Forward

In the next several months, FTA anticipates a request from the City for approval to advance the project into preliminary engineering. Without any additional guidance from FTA, the request is likely to propose the full 20-mile project, present a financial plan that calls for as much as $2 billion in New Starts funding, and identifies an early-construction phase of the project that the City would build with its own funding but as part of the overall federal project.

The $2 billion call on New Starts funding would represent nearly 20 percent of FTA's remaining commitment authority – a share that is very unlikely to be secured for this or any single project. Further, the uncertain schedule for reauthorization makes the timing of additional commitment equally uncertain. Consequently, FTA may find the City's financial plan to be unreasonable and an insufficient basis for approval of the request to advance the project into preliminary engineering.

Other FTA difficulties with the request may well include (1) the apparent challenge to local resources for funding of both construction of the project and the ongoing costs of operation and maintenance of the transit system, (2) the challenge to the City's capacity to manage construction of the largest public works project ever built on Oahu; and (3) the high risk of environmental litigation associated with the initial construction segment.

Alternatively, FTA might propose to the City a modified approach described in a memorandum of understanding (MOU), in which FTA would approve the entire project for federal funding assistance but then build it in two or more segments. As an incentive to the City, FTA would recommend $2.0 billion in New Starts funding for the project. The advantages to the City of this approach include:

- substantially more New Starts funding than FTA has previously suggested as a reasonable upper bound;
- political cover locally for the phasing of project construction; and
- an approach to project construction that is more likely to be financially feasible and within the City's project-management capacity.

The advantages to FTA include:

- the commitment of New Starts funding for the project that fits more readily within current and future commitment authority;
- a shift of risks on costs and schedule to the City by deferring the initial full funding grant agreement until after the City-funded initial segment is substantially underway; and
- consistency with FTA's long-standing approach to funding very large projects with individual FFGAs for two or more operable segments of the overall project.

This alternative approach would require the City to identify the operable segments and document the interim impacts of the segments in an environmental document. This work would ideally precede completion of a Final Environmental Impact Segment and Record of Decision so that both documents could acknowledge the phasing approach. Resistance by the City to a delayed Record of Decision might lead to a compromise approach in which the phasing questions would be surfaced in supplemental environmental work and documented in a revised Record of Decision.