MEMORANDUM

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

The City and County of Honolulu seeks to advance a 20-mile elevated rail project into preliminary engineering (PE) in the New Starts process. 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 move 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 entry into PE for the 20-mile elevated rail line that has emerged as the "first project" within a more extensive rail line.

Local opposition is well organized, very vocal, and likely to bring legal action in an effort to stop the project. Significant comments have been received on the DEIS. 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 evaluation criteria defined by Congress, the Honolulu rail project appears to rate very well and may be among the best the program has seen. The project would generate large mobility benefits for current and new transit riders, support infill of already dense existing land uses, promote transit-oriented development in the outer 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. Further, the City has so far suggested that they will rely primarily on local funding and ask for New Starts funding for only 21-23 percent of project costs.

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 FTA's Project Management Oversight Contractor (PMOC) 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 airport.

In 2008, FTA provided guidance to the City on reasonable expectations for New Starts funding: $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. FTA expects that once the City revises the financial plan, significant changes will be necessary to produce a financially feasible outcome including (1) an increase in New Starts funding; (2) a lengthening of the 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 controversial locally.

A Way Forward

Without any additional guidance from FTA, the PE approval request from the City 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 identify an early-construction phase of the project that the City would build with its own funds but would like to include as part of the overall federal project. The $2 billion request for New Starts funding would represent roughly 16 percent of the total commitment authority provided in the next authorization period (assuming similar authorized levels as in SAFETEA-LU), a share that is very unlikely to be secured for any single project. Over the history of the program, when projects sponsors have requested similarly large amounts of New Starts funding it has been because no smaller operating segments were possible.

Other FTA difficulties with the request may well include (1) the apparent challenge to local resources for funding of both construction 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.

As an alternative to the PE-request scenario described above, FTA might propose to the City a modified approach described in a memorandum of understanding (MOU), in which FTA would approve the project for federal funding assistance, but would build and fund it as two or more FFGAs spanning multiple authorization periods. As an incentive to the City to go with this approach, FTA would indicate it is willing to provide $2.0 billion in New Starts funding. The advantages to the City of this approach include:

- more New Starts funding than FTA has previously suggested as an 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:

- New Starts funding that fits more readily within future commitment authority; 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 a supplemental environmental document. The City may resist this approach because it would lengthen the project schedule