Quick excerpts from the Governor's Report on Rail Transit.

"The FTA's financial consultant (FMOC) reached the following conclusion in his report on the Financial Plan: "The debt financing assumptions for the project maximize the leverage that could be gained from the GET surcharge revenue stream, leaving little if any upside to debt capacity. The Project-related debt will also push the City to its limit of affordability for general obligation debt." We concur with the FTA's evaluation of the C&C's fiscal capacity, and add to it our conclusion that the rail project's subsidies will need to be substantially higher than the assumptions in the Financial Plan (a concern also raised by the FMOC).

"Additionally, the need to comply with the EPA wastewater consent decree will impose an additional burden on Honolulu household income that will equal the new financial burden of the rail project. Finally, the C&C's unfunded retiree obligations are likely to add several times the financial burdens posed by the rail and wastewater projects, placing vastly greater pressures on Honolulu's government budget and necessitating significant tax increases and/or spending cuts. This will make it more challenging to provide the upfront and continuing subsidies for the rail project." (their emphasis)

Of 43 projects in FTA's current New Starts Funding report, Honolulu is the largest outside of New York.

FTA reviews are to protect the federal interest and rely upon the FFGA to place all risk of cost overruns on local agencies. Instead IMG used standard infrastructure investor due diligence processes.

Project is likely to require an additional subsidy of $1.7 billion over 20 years than assumed in the City's financial plan and substantial risk that it could be $4.5 billion..

Fare revenues are likely substantially to be less than planned because fare increases are not projected to result in ridership declines as is normal.

"Rail will compete with other large and previously ill-defined or unaccounted financial obligations of Honolulu, such as unfunded pension and retiree health care liabilities and increased capital and operating expenses related to compliance with the EPA wastewater consent decree."

The contingences built into the plan "is merely typical of the contingencies that were built into the" other rail projects listed in the report.

A 2007 report showed that ridership in rail projects turned out to be 47 percent less than forecast for new rail projects.

The $301 million in federal bus funds cannot be used for rail construction unless the city buys the buses.

"We believe that the federal New Starts grant assumptions [of $1.55 billion] in the Financial Plan are materially at risk despite FTA's tentative approvals to date.

"Rookie" systems, those built from scratch, rather than extensions of existing systems are more at risk for cost overruns.

There are almost no new elevated heavy rail systems with which to compare Honolulu.

GET growth unlikely to exceed 4 percent average growth rate, which is greater than was the experience 1995-2010. This leads to tax revenue collections being short by $800 million.

“The FTA’s independent financial consultant shared these concerns in its report evaluating the Honolulu rail project’s Financial Plan: “First, it is questionable whether the City can afford the growth in subsidies presented in this financial plan, which require a higher portion of the General Fund and Highway Fund revenues than has historically been the case. Second, the subsidies could be yet higher due to optimistic assumptions regarding operating cost growth for all services. Third, the projected cash balances of the Public Transportation System Fund, inferred from current cash plus investments and the forecasted balanced budget, fall below the 1.5 Month standard (12 percent of operating costs) that would be needed to support a higher rating. Finally, there is some prospect that the Project’s O&M costs could be understated, based on comparison to heavy rail and light rail operations in the US.””

“There is no historical precedent for the transit trip and passenger miles growth projected for Honolulu during the study… Accordingly, the Financial Plan’s post-rail ridership and fare revenue scenario appears implausible.”

Moreover, the recent FTA review of the Rail Project reported that “it is questionable whether the operating subsidy required by the project could be absorbed by the City without tangible cuts in City services or increases in other taxes” and that the city showed “very little capacity to absorb cost increases or funding shortfalls [with] potentially significant revenue risks.” As the IMG Team’s independent financial analysis shows, the rail project alone is likely to cause the City and County to exceed its statutory debt limit.

All we can say to rail proponents who will try to demonize the authors of this report, IMG, CB Richard Ellis and Tom Rubin, is “Good luck.” IMG and CB Richard Ellis are highly reputable national firms. Rubin's qualifications are impressive (see below). The fact that he comes to the conclusion that buses are generally preferable to rail does not disqualify him. FTA Administrator Rogoff said much the same thing a few months ago. See the video of his speech on this issue at the May 22 post at http://www.honolulutraffic.com/

Bachelors and Masters in Business Administration (BSBA, MBA)
Certified Public Accountant (CPA),
Certified Management Accountant (CMA),
Certified Management Consultant (CMC),
Certified Internal Auditor (CIA),
Certified Government Financial Manager (CGFM),
Certified in Financial Management (CFM)
Chief Financial Officer, Alameda-Contra Costa Transit District, Oakland, CA, 1995-1996
Chief Financial Officer, Southern California Rapid Transit District (now Los Angeles County Metropolitan Transportation Authority), Los Angeles, CA, 1989-1994
Partner, Founder and Director, National Transit Industry Practice, Deloitte Haskins & Sells (now Deloitte & Touche, LLP), San Francisco and Washington, DC, 1974-1989

Our message to rail proponents is what Jack Nicholson said in the movie, "You want the truth. You can't handle the truth."