

Footnoted version of the op/ed in the February 15, 2009, Honolulu Advertiser.

## **Rail inevitably will become financial burden**

*Cost overruns on both construction and operations are big risk*

By Cliff Slater

The city's rail project is not merely the largest public works project in Hawai'i. It will be the fourth most expensive of any post-1950 metro area rail system in the nation, exceeded only by Washington, San Francisco and Los Angeles.<sup>i</sup>

Since we would also be the most lightly populated metro area in the country with rail transit, our rail cost per capita would be far higher than any other metro area. That is why our taxpayers are at far greater financial risk than taxpayers elsewhere.

Further, excluding only the New York's metro area, which carries 61 percent of all rail transit in the U.S., the projected federal contribution to our rail project is the highest of any of the 24 projects on the Federal Transit Administration's project list.<sup>ii</sup>

What are our risks?

First is the probability of construction cost overruns: We are told that \$5.35 billion is the final environmental impact statement projection of cost, including contingencies. According to the FTA's own surveys, the average cost overrun between the final EIS projection and the final built cost for heavy and light rail lines averages 18 percent. If the Honolulu project was 18 percent over projection, that would amount to just under \$1 billion, if double that, just under \$2 billion.

Second is the potential for operating cost overruns and its effect on the city budget. The FTA wrote last week that, "Assumptions regarding state operating subsidies and growth in rail unit operating costs and bus and paratransit operating costs are optimistic compared to historical experience."<sup>iii</sup>

One is reminded that Mayor Frank Fasi, at the time he socialized our bus system, promised that it would continue to run at a profit. Its subsidy this year will total about \$127 million.

Third, general excise tax revenue shortfalls should be expected. The FTA wrote last week that, "Assumptions regarding growth in GE [Tax] revenues and Section 5309 bus discretionary funds are optimistic compared to historical experience. Financing costs appear to be understated."

Fourth, the city plans on using \$300 million to build the rail line using federal funds originally anticipated for buses. It means that to keep the bus system intact, future mayors will have to hit the city's general fund.<sup>iv</sup>

Fifth, federal funding may be less than the \$1.55 billion projected. Outside of the New York metro area, no one is getting even \$1 billion even though they all have much larger populations than we do.<sup>v</sup>

Overall, this week's FTA release said, "The financial plan shows the city has little ability to address funding shortfalls or cost increases ... The GE [Tax] surcharge revenues that will be applied to project-related debt service provide very slim coverage."

A real fiscal danger is that the city will apply for, and get, permission to build the first rail segment from East Kapolei to Waipahu using only city funds before actually receiving any federal funds.<sup>vi</sup> If that happens we will start construction before knowing the final amount the government will pay.

If we then get halfway through the project and significant cost overruns and tax revenue shortfalls occur, then the city will have to turn to the state to help. The state will have no choice since, if the full project is not completed, the city must return all federal funds it has received.<sup>vii</sup>

In short, the rail project could turn into a total financial nightmare. Gov. Linda Lingle will not want to visit this on the next governor, if only to avoid such a stain on her legacy.

*Cliff Slater is chairman of <http://www.Honolulutraffic.com>, a group that opposes the Honolulu rail project.*

**End notes:**

<sup>i</sup> The rail cost in the table below shows the nine most expensive rail systems in the country plus Honolulu. It is by far the most expensive rail line per capita of population. And we would also be the smallest metro area in the country with any kind of rail line. [Rail costs, other than Honolulu, were compiled by Cato Institute's Randal O'Toole](#). U.S. Census Bureau's metro area population data and ranking available from Wikipedia.

Metro area	Rail Cost in \$billions	Population	Cost per capita	Population Ranking
Washington DC	\$18.2	5,358,130	\$3,403	9
San Francisco	\$13.3	4,274,531	\$3,107	13
Los Angeles	\$12.3	12,872,808	\$953	2
<b>Honolulu</b>	<b>\$5.3</b>	<b>905,000</b>	<b>\$5,875</b>	<b>55</b>
Atlanta	\$4.2	5,376,285	\$779	8
Dallas	\$3.6	6,300,006	\$565	4
Portland	\$3.0	2,207,462	\$1,345	23
Seattle	\$2.9	3,344,813	\$857	15
Baltimore	\$2.7	2,667,117	\$1,015	20
Miami	\$2.0	5,497,709	\$365	7

<sup>ii</sup> [http://www.fta.dot.gov/documents/NewStarts\\_mainText\\_Jan\\_2010.pdf](http://www.fta.dot.gov/documents/NewStarts_mainText_Jan_2010.pdf) page 11 of 17.

<sup>iii</sup> [FTA's FY 2011 New Starts funding, Appendix A, p. 139](#).

<sup>iv</sup> In any case this is risky because it likely does not meet the requirements of [Council Bill 79](#) which says that only federal, state and private funds can be used for construction. Replacing federal bus funds used for rail construction with General Fund moneys is likely illegal.

<sup>v</sup> [http://www.fta.dot.gov/documents/NewStarts\\_mainText\\_Jan\\_2010.pdf](http://www.fta.dot.gov/documents/NewStarts_mainText_Jan_2010.pdf) page 11 of 17.

<sup>vi</sup> See [www.honolulutraffic.com](http://www.honolulutraffic.com) posting for January 23, 2009, "What is a Letter of No Prejudice?"

<sup>vii</sup> Normal terms of the FTA's Full Funding Grant Agreements.