



CITY COUNCIL

CITY AND COUNTY OF HONOLULU
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June 5, 2009

Memorandum

To: The Honorable Mufi Hannemann, Mayor

From: Councilmember Romy M. Cachola

A handwritten signature in black ink, reading "Romy M. Cachola".

Subject: Funding for rail transit project/ Proposed FD1 for Bill 16 (2009)

Recent media reports about the dire state of our economy have prompted me to again voice my concerns over funding for the rail project.

Just a few years ago, your administration and rail consultants initially submitted a price tag of \$3.7 billion (including FTA funds) for the 20-mile Minimum Operable Segment (MOS). They also stated for the record during previous committee and Council meetings that \$3.7 billion will be enough to build the MOS. In today's dollars, we now need \$5.4 billion, rather than \$3.7 billion, to complete the project.

I believe that to date, our transit funding will be short by about \$2.02 billion as follows:

	\$ 1.7 billion (the difference between \$5.4 billion and \$3.7 billion)
+	220 million (added cost to amend MOS from Salt Lake Boulevard to airport)
+	100 million (added cost for right-of-way acquisition as reported by the media)

=	\$2.02 billion total estimated shortage

In addition, the City may find itself deeper in the red due to the following developments:

1. **The half percent GET collection continues to be lower than what was projected.** From January 2007 to April 2009 (the first 28 months), GET collections were short by about \$70-75 million. GET collections will continue to lag for the next two years, based on future projections by the State Council on Revenues and other economists.

2. **The 79 positions in the City's rail transit division will be funded using the half percent GET increase.** This translates to approximately \$83 million over the remaining 13 year GET collection period (2010-2022), not counting future salary increases and benefits. The \$83 million will further reduce the amount of GET revenues collected.
3. **The administration's proposal to float \$917 million in General Obligation (GO) bonds.** It is being made under the premise that it is only short-term borrowing for cash flow purposes and that the debt service will be paid for by the half percent increase in the GET. This bond float translates to an added cost of about \$37 million to \$55 million per year in interest only, depending on an interest rate of 4 to 6 percent.
4. **Costs for O&M.** When the first segment from East Kapolei to Waipahu is completed, the expected shortfall in ridership revenues will be a further draw on the half percent GET collection. Any O&M costs paid using GET funds will further reduce the half percent tax collection.

In view of the aforementioned statements and for the success of the rail project, I respectfully suggest the following:

- Since GET collections are lagging short of projections, **please refine and submit a revised financial plan for the rail transit system to the Council and especially the public**, for the sake of transparency and accountability. We owe it to our taxpayers to be honest and to tell them upfront that transit funding will fall short and that revenue assumptions and projections have changed. All of these should be done soon in order to still gain the confidence and support of the taxpaying public for the rail project.
- **Delete for now funding in the City's current operating budget for the proposed 79 positions in the rail transit division.** Funding these positions will be a further draw on GET collections. Also, we have professional consultants on board who are already doing the work that the new positions are calling for—positions such as informational officers, secretaries, engineers, planners and others. Furthermore, the public is expecting the administration and the Council to fiscally-tighten the City's belt during these tough economic times.
- **Delete for now the authorization of the \$917 million in GO bonds.** There should be no need to float bonds now. With \$349.3 million in GET revenues for the first 28 months, with four more collection years to go and with FTA New Starts funds, we are well on our way to collecting the amount needed for construction and operation of the first segment which is scheduled for completion in 2013. Delaying this bond float **WILL NOT** affect construction jobs, since construction of the first segment will proceed and still boost the economy.
- **Consider applying for a Full Funding Grant Agreement (FFGA).** Most, if not all, municipalities and/or cities with big transit projects such as Honolulu, have applied for an FFGA prior to construction. Currently, there are at least 20

municipalities and/or cities ahead of us that have applied for an FFGA. Also, the \$1.4 billion that has been reported as the FTA's share for our project is just an estimate until we have applied for and secured an FFGA.

The benefits of an FFGA are that it:

- Defines the project scope
- Establishes a firm date for project completion
- Provides a mechanism for designating funds for future years
- Leads to the development of accurate cost estimates
- Permits the use of state and local funding for early project activities without jeopardizing future federal funding for those activities
- Most importantly, it determines the amount of funding we will receive from the FTA for this project.

An FFGA will also result in better predictability and transparency and prevent cost overruns and delays.

I hope my concerns and suggestions will merit your and the Council's understanding and concurrence. Taxpayers are already coping with the loss of their homes and jobs. Many more face worker furloughs, increased taxes, reduced benefits and are understandably apprehensive about the future given the dire state of our economy.

Speaking of the economy, the City's and State's budget shortfalls total hundreds of millions of dollars—which is small compared to the billion dollar deficit taxpayers may inherit for the rail transit project. I hate to imagine what it would be like for taxpayers when the GET collection ends in 2022 and there is still a substantial debt service left to pay.

It is for these reasons and for the best interest of our taxpayers that I have introduced an FD1 to Bill 16. For the record, I am a firm believer in an efficient mass transit system—but not at the expense of overburdening our city and taxpayers.

In closing, I'm also raising these concerns now so that future mayors and councilmembers, as well as current and future generations of taxpayers, will not look back and blame this Council or the current administration for the financial predicament we will find ourselves in.

cc: All Councilmembers
All Neighborhood Boards