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Federal transit panel puts city on the spot over funding for rail

By Kevin Dayton

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The Federal Transit Administration is raising new questions about the financial plan for the $5.27 billion Honolulu rail project, and city officials are trying to find out exactly what new requirements the agency might impose before Honolulu can lock up federal funding for the project.

The FTA last week allowed the Honolulu rail project to advance to the final design phase, a milestone that city officials hailed as a major step forward for the 20-mile system being planned to extend from East Kapolei to Ala Moana Center.

However, FTA Regional Administrator Leslie T. Rogers warned the city in a Dec. 29 letter that the financial plan

for the rail project must be "further strengthened" before the FTA will consider committing up to $1.55 billion in federal funding to the project.

Rogers specifically questioned some contingency plans the city has offered as ways to cope with any unexpected cash shortfalls or cost overruns for the rail project.

One strategy the city proposed if extra money is needed is to extend the half-percent excise tax that provides most of the funding for the rail project.

Toru Hamayasu, interim executive director of the Honolulu Authority for Rapid Transportation, said that "at this point we don't intend to go to the Legislature this year for the (excise tax) extension." He said the FTA has not specifically demanded that the city seek an extension of the half-percent excise tax.

Hamayasu traveled to Washington, D.C., this week to meet with FTA Administrator Peter M. Rogoff in part to ask what changes to the rail financial plan will be required.

"The meeting was the start of the conversation, and no decision or requirements were made regarding how to best demonstrate the availability of additional resources," Hamayasu said in an emailed response to questions. "We agreed to work together on this in the coming months, and we remain confident that we will be able to reach our goal of completing our Full Funding Grant Agreement with the FTA (to obtain federal funding) in the fall."

ROGERS WROTE that to strengthen the city's financial plan, rail officials should "demonstrate the availability of additional revenue sources that could be tapped" in the event of a shortfall.

But when asked exactly what that means, FTA Senior Public Affairs Officer Paul Griffo referred questions about Rogers' letter back to Hamayasu.

The city suggested in its September 2011 financial plan that it might seek to extend the half-percent excise tax to help cover any cash shortfall for the rail project. The surcharge is scheduled to end on Dec. 31, 2022, but extending the surcharge for two years would generate an extra $740 million.

The city also suggested it might be able to raise money to cope with any shortfall by using "value capture" strategies. Those might include issuing tax increment financing bonds, which would allow the city to borrow against expected future increases in property tax collections.

The city might also seek payments from private companies that stand to gain from the extra business that could be generated by transit traffic, according to the city's latest financial plan. Other cities have raised up to about 10 percent of their projects' costs by using that tactic, according to the financial plan.

Rogers questioned those contingency plans because at least some of them would require approvals by city or state officials, and rail officials cannot guarantee or control those approvals.

In fact, convincing the state Legislature or the City Council to agree to extend the half-percent excise tax in an election year would be extremely difficult.

House Finance Chairman Marcus Oshiro said lawmakers always understood the excise tax surcharge for rail would end in 2022, and predicted there would be little support for any request to extend the tax.

"It doesn't appear that a proposal like this would go very far" at the Legislature, Oshiro said.

Hamayasu stressed that the city believes the financial plan for rail is adequate to pay for the project and that the FTA is raising questions only about what might be done "in the highly unlikely event" that funding for the project is exhausted before construction is complete.

"The HART staff has developed those options in its financial plan," Hamayasu wrote in an emailed response to questions. "We also discussed mechanisms associated with those options. We will continue to provide the FTA with the funding assurances it may need should the FTA require such additional assurances during the Full Funding Grant Agreement process."

Longtime rail opponent Cliff Slater said he believes the FTA is essentially warning the city to prepare for major cost overruns on the project. Slater said similar elevated rail systems built in San Juan, Puerto Rico, and Miami experienced large cost overruns.

"You've got to be prepared for that kind of thing, is what I think they're saying," Slater said.