

CITY COUNCIL
 CITY AND COUNTY OF HONOLULU
 530 SOUTH KING STREET, ROOM 202
 HONOLULU, HAWAII 96813-3065
 TELEPHONE: (808) 768-5010 • FAX: (808) 768-5011

ANN H. KOBAYASHI
 COUNCILMEMBER, DISTRICT 5
 CHAIR, COMMITTEE ON PLANNING
 TELEPHONE: (808) 768-5005
 FAX: (808) 768-1227
 EMAIL: akobayashi@honolulu.gov

March 23, 2011

The Honorable Raymond LaHood
 Secretary of Transportation
 U.S. Department of Transportation
 1200 New Jersey Avenue, SE
 Washington, D.C. 20590

Dear Mr. LaHood,

Foremost, I hope you had a pleasant and comfortable stay during your visit to the City and County Honolulu. I regret not being able to communicate with you in person at the Pacific Resources Partnership dinner as I was celebrating my granddaughter's birthday.

As Honolulu prepares to begin construction of its transit rail project in the coming months, a sentiment of wide concern is growing amongst city residents. In addition to substantial legal concerns over the environmental review and inadequate analysis of alternatives, many pressing issues surrounding the project's finances have yet to be appropriately addressed by the City Administration.

As you may know, in its FY2011 New Starts Financial Assessment, the Federal Transit Authority (FTA) gave Honolulu's current rail financial plan a "low" rating in the category of *Capital Financial Capacity/Cost Estimates and Planning Assumptions* for the City's "...reasonableness of estimates and financial capacity". This rating reflected concerns over future debt capacity and the City's ability to absorb potentially large revenue risks. Furthermore, the assessment questioned whether the City could absorb the project's required operating subsidies without tangible cuts in City services or increases in taxes as O&M costs may have been understated in the financial plan.

Locally generated revenues resulting from the General Excise and Use Tax (GET) are experiencing year-over-year losses, with collection totals coming in below financial projections. With the State facing substantial budget deficits, Senate Bill 1426 calls for \$200 million of Oahu's general excise tax currently being directed to the City's transit fund to be claimed by the State. This measure will undoubtedly cripple the rail project if

RECEIVED
 CITY CLERK
 C & C OF HONOLULU
 2011 MAR 24 AM 10:17

The Honorable Raymond LaHood
Secretary of Transportation
March 23, 2011
Page 2

the amount is not able to be refunded in full and on time. Additionally, these revenues will inevitably fall much further as the impact of the Japan tragedy reverberates through the tourist economy of Hawaii. Honolulu transportation officials recently stated that they are unaware of the financial impact the decrease in Japanese tourism will have on the GET surcharge dedicated to the City's transit fund.

Another questionable financial assumption is the City's plans to transfer \$300 million in funds normally allocated for bus purchases and maintenance to the rail transit project. The FTA has already stated that the City's financial plan needs to demonstrate sufficient resources capable of sustaining the existing bus service operations and maintenance. In its proposed FY2012 executive capital budget, the City is allocating \$6.8 million in Highway Improvement Bond Funds for the purchase of new buses and handi-van vehicles, instead of using City Bus Transportation Funds. As Honolulu's roadways are already in poor condition, the City can ill-afford to fund the rail project at the expense of other City services.

Even prior to the execution of a Full Funding Agreement, the City continues to issue enormous rail construction contracts. A few days ago, the City awarded two new contracts worth a total of \$949 million. The recent issuing of these contracts brings the combined total of all four rail construction contracts awarded to date to \$1.6 billion. The \$574 million contract awarded to Ansaldo Honolulu guarantees a five year period for the operation and maintenance of the systems vehicles. But the \$574 million only covers the construction cost of 80 train cars, as well as providing power and communications for the system, and does not provide for O&M funds for the five year period. City officials have stated that they do not know operation and maintenance costs for the core systems at this time. This example and the potentiality of future change orders for all construction contracts presents a bleak confidence that the City will have the ability to absorb such high construction costs without secured federal funding.

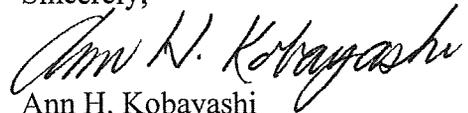
In an attempt to offset shortfalls in revenue, the FY2012 capital executive budget for the City's Public Transit Authority reflects the issuing of \$104 million in Transit Improvement Bonds. The City Council will soon be asked to approve the issuance of these bonds as a means of demonstrating to the Federal government our fiscal health and commitment to rail. In our current fiscal year's capital executive budget, the City appropriated over \$1.05 billion in Transit Improvement Bonds for the rail transit project. This reality brings dire financial concerns as the citywide debt service for FY2012 is at a total of \$383 million, comprising 19% of the City's total operating budget. By the end of

The Honorable Raymond LaHood
Secretary of Transportation
March 23, 2011
Page 3

fiscal year 2012, Honolulu's debt service will have increased by 98% over an eight year span. As our City needs to bend the debt curve down in order to ensure a more fiscally sustainable future, I would be inclined to vote no on such a large issuance of Transit Improvement Bonds without a firm commitment of federal funds and a strong, local foundation of revenues for the rail project.

Therefore, I respectfully ask for your kind consideration to these concerns. As the Federal Transit Authority continues its review of Honolulu's rail financial plan, all of these realities facing the rail transit project must be taken into account in order to ensure the sustainability of the system without further subsidies from our taxpayers.

Sincerely,

A handwritten signature in cursive script that reads "Ann H. Kobayashi". The signature is written in black ink and is positioned above the printed name.

Ann H. Kobayashi
Councilmember, District V