Auditor’s Summary

Audit of the Honolulu Authority for Rapid Transportation: Report 1

Report No. 19-03

PHOTO: HONOLULU AUTHORITY FOR RAPID TRANSPORTATION

As the Honolulu Rail Transit Project progressed, costs swelled from $5.122 billion in 2012 to $9.188 billion in 2018.

IN 2012, THE CITY AND COUNTY OF HONOLULU (City) broke ground on a 20.1 mile elevated rail transit system extending from Kapolei to Ala Moana. We found that, as the Honolulu Rail Transit Project (Project) progressed and costs swelled from $5.122 billion in 2012 to $9.188 billion in 2018, Honolulu Authority for Rapid Transportation (HART) began reporting information to the public that often contradicted its own internal projections or differed from what it was telling the Federal Transit Administration (FTA). Since federal funding for the Project is fixed at $1.55 billion, the financial burden on State residents, as well as visitors, has escalated along with the estimated costs to complete Honolulu’s rail transit system.

What Did We Find?

In Report No. 19-03, *Audit of the Honolulu Authority for Rapid Transportation: Report 1,* we examined records relating to the Project, including internal documents of the HART materials provided to the HART Board of Directors, and reports published by the FTA project management oversight consultant. We found that HART’s inaccurate reporting of its estimated costs to complete the Project and the estimated date by which it expected to begin full operations undermined the Board’s oversight, obscured the extent of the Project’s financial problems, and eroded public confidence. The Full Funding Grant Agreement with the FTA, which commits the City to completing the project on time, within budget, and in compliance with certain federal requirements, was based on a cost of $5.122 billion. That estimated cost to complete the Project has been revised upward repeatedly since 2012 because of change orders, scheduling delays, inflation, a lengthy environmental review, lawsuits, utility line relocation, and other unanticipated expenses. Our review of project cost estimates from 2014 to 2016 found that internal alarms of rising project costs and scheduling delays were not shared in a timely manner by HART management with the Board, the Legislature, or the public.

Why Did These Problems Occur?

The City prematurely entered into contracts under an artificial timeline and fragile financial plan, stemming from a desire to demonstrate that the Project was progressing satisfactorily and to minimize public criticism. For instance, when the City awarded its first construction contract in 2009, the environmental review process was still underway and the FTA had not yet approved entry into the final design phase of the federal grant process or authorized pre-grant award construction activities. The City awarded the $483 million contract anyway, citing concerns over rising costs and loss of tax revenue. Over the next two years, prior to receiving FTA approval to begin construction in 2012, the City would award more contracts totaling nearly $2 billion. Overall, these prematurely awarded contracts resulted in $354.4 million in change orders, as of August 2017, with major change orders still unresolved due to the opening date being pushed back to 2025.

Additionally, as early as April 2014, HART began reporting different project contingency amounts to different audiences, which may have distorted the Project's financial outlook and delayed triggering of a recovery plan. Among other things, we found that throughout 2015, while HART was grappling with major unanticipated cost increases, HART's monthly progress reports to the Board failed to include updated project cost estimates and opening date projections that were otherwise reported in FTA oversight contractor meetings and documented in FTA monthly reports. We also found that between 2014 and 2016, the Project's contingency reserves fell significantly below FTA-recommended levels; by 2016, total contingency had fallen $1.189 billion below the FTA's recommendation.

Why Do These Problems Matter?

Since 2009, when the first rail contract was awarded under an artificial timetable and financial plan, City officials have neglected their responsibility to spend money prudently. We found that as early as 2014, HART's methodology for reporting of contingency became opaque and inconsistent, obscuring the need for a recovery plan until June 2016. Moreover, the cost overruns and delays that have sent the City's share of the final price tag soaring also have eroded public confidence in a project that relies largely on local funding. A one-half percent general excise tax surcharge on purchases and business transactions in Honolulu represents a major source of rail funding, and has been extended twice to December 31, 2030. Additionally, on January 1, 2018, the statewide transient accommodations tax was increased 1 percentage point to 10.25 percent to help cover the Project's capital costs, including construction and land acquisition. As the estimated cost at completion has since increased to $9.188 billion, and federal funding is fixed, the burden on State taxpayers, as well as visitors, has risen to $7.684 billion as of November 2018.

By Fall 2018, the Project was about 46 percent completed, with roughly 10 miles of elevated guideway and a maintenance and storage facility built in West O'ahu. In September 2018, HART's board approved the solicitation of a public-private partnership, or "P3," to help pay the now $1.4 billion cost of the city center section of the rail project and build a Pearl Highlands Parking Garage and Transit Center. In its 2018 revised recovery plan, released on November 19, 2018, HART wrote: "Consistent with FTA direction, the Project will be completed at a cost of under $8.299 billion[1] excluding financing costs with a Revenue Service Date (RSD) for the full system no later than September 2026."

But then HART went on to make its own optimistic projection: "HART's commitment to the residents of Honolulu is to complete the Project at a cost no greater than $8.165 billion[2] and open for full revenue service by December 2025."

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[1] The FTA's recommended cost estimate is $9.188 including financing costs, as of November 2018.

[2] HART's total project cost estimate is $9.020 including financing costs, as of November 2018.

Clarification: The Auditor's Summary has been revised to clarify that HART's board approved pursuing a public-private partnership (P3) to finance and construct the city center section of the Project and the Pearl Highlands Parking Garage and Transit Center, removing a clause that implied the City lacked the funds to complete those projects.