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Honolulu Can See Its Rail Line Finished Without Raising Taxes

The city should consider transitioning HART to a private entity that maximizes opportunities to capture value from real estate along the route.

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Now that the Federal Transportation Administration has cut Hawaii off from any additional funding as well as making sure the rail at least goes to Aloha Tower in downtown Honolulu, what is our next move?

While state House Speaker Joe Souki and others would like to reach in your pocket for a general excise tax increase or extension, there's still a better way and it's pretty simple and practiced by the best rail systems in the world.

Take Hong Kong for example: In exchange for development rights along the rail route for shopping centers, condos and retail stores, the government raised sufficient private money to build the rail.

In Hong Kong, the Mass Transit Railway Corporation was originally government owned, but was eventually privatized, with government as its major shareholder. MTR is profitable because of its “rail plus property” approach to financing and development of new rail routes.

Government grants MTR land development rights along rail routes and receives a cash premium based on the pre-rail value of the land; MTR builds the rail line in partnership with private developers to build up the station and surrounding areas. MTR receives a share of the developers’ profits from these developments, in the form of a lump sum payment, a share of total development profits or revenues generated by onsite businesses, or even partial ownership of developed properties. Japan has been equally prolific raising private money to build its elaborate rapid transit, bus and rail system. In Tokyo, “rail integrated communities” are the preferred model, and multiple private rail operators compete in a free market environment, which spurs innovation.

The city must find a sustainable way to complete the rail project without turning to our already overburdened taxpayers.Instead of relying on government subsidies, companies have diverse revenue streams from rail-related projects and services, such as real estate development, advertising, retail sales, and passenger travel services; Tokyu Corporation is one such company.

Thanks to these innovative approaches, passengers enjoy low fares, state-of-the art rail stations, and amenities like free wifi, on-site retail shops (food, clothing) and services (banking, dry cleaning, shoe repair).

The common thread here is that private companies, not government, drive rail development. Unlike government entities, private operators need not compete for limited government funding, navigate a complicated public procurement process, or yield to demands of public sector unions. Instead, they can respond quickly to changing conditions and deliver maximum value to passengers.

While Oahu has less population density and more private vehicle use, there are still lessons to be learned from our neighbors across the Pacific Ocean. The City could consider transitioning the Honolulu Authority for Rapid Transporation to a private entity, and lessen the burden on taxpayers by maximizing opportunities to capture value from real estate along the rail route.

One proposal that’s been getting recent attention would require the city to assess a fee on landowners and developers who stand to benefit from higher property values once the rail system is in place; the fees collected could go toward rail construction as well as upkeep and future expansions.

Regardless of the type of value capture mechanism used, the city must find a sustainable way to complete the rail project without turning to our already overburdened taxpayers. We can do this without touching taxpayers’ wallets and a company has already expressed interest in doing this for Honolulu.