The Dulles Rail Financial Disaster Continues:

Will Virginia Taxpayers Bail It Out?

By Ronald D. Utt

Gosh, what a surprise! The yet to be completed 23-mile extension of the Metro rail line to Dulles airport is already confronting serious financial difficulties. Added to the money problems are a series of lapses in management's performance and the revelation that flaws in the system's design will discourage ridership and further diminish its currently projected marginal contribution to regional mobility. In response, the system's manager – the Metropolitan Washington Airports Authority (MWAA) – is seeking bailouts from the state of Virginia and from the federal government.

A Project Doomed to Fail. The only surprise in all of this is that the many people in charge of overseeing the project are surprised and disappointed by these revelations: As the record reveals, the mediocre performance of the system was predicted by the project's own justification report submitted to the federal government in 2004[1], and recognized by the leadership of the United States Department of Transportation (USDOT) during the Bush Administration who refused to fund the project until beaten into submission by Congress.

Consider the key findings of WMAA's 2004 report to USDOT:

- By the project's completion in 2025, traffic volumes on the ten highway links in the corridor would be reduced by only 1.5 percent compared to levels that would occur without the extension.

- This negligible gain in traffic relief would be erased by 2027, given projected traffic growth rates. In effect, an estimated $6 billion (in current dollars) would be spent for two years of trivial traffic relief.

- As a consequence, net energy saving by 2025 (measured in energy saver per BTU, as car usage declines and transit usage rises) would be 0.5 percent for the full 23 mile project, while the Phase I (to Reston's Wiehle Avenue) link of 11.7 miles of track would actually increase energy usage.

Importantly, given the new automobile mileage standards since adopted, and the proposed 54.5 mpg requirement, this projected energy savings may already have turned into a loss.

[1] The information presented in the bullet points below is reported in, or calculated from, data presented in Metropolitan Washington Airport Authority, Dulles Corridor Metrorail Project, *Final Environmental Impact Statement and Section 4(f) Evaluation*, December 2004, at ***www.dullesmetro.com/community/impact_report.cfm***.

Again, keep in mind that the data in the above three bullet points were provided by consultants to MWAA and submitted by them to the Federal Transit Administration (FTA). To put this in perspective, the Heritage Foundation estimated that the cost per new rider attracted from a car (daily rider annualized) exceeds $15,000. That is enough to lease each new Dulles rail transit rider two BMW 328i convertibles for life and still return a few thousand dollars back to the taxpayer. By this measure, the Dulles extension would be one of the most expensive new transit projects ever conceived.

The federal government was skeptical about the project, in part because WMAA – the manager of the two airports in Virginia – had no experience in managing a major transit project. Indeed, the performance of its newly completed people mover at Dulles airport leaves much to be desired, and is not much of an improvement over the clumsy “mobile lounges” it partially replaced. The 3.8-mile AeroTrain cost $1.5 billion and has four underground stations.3

In 2007 U.S. DOT’s Inspector General (IG) expressed concern about WMAA’s involvement, observing that the project has experienced substantial growth in estimated costs and large schedule slippages, and recommended that FTA exercise “extra vigilance” in assessing the risks posed by the MWAA’s takeover of the project. Making reference to Boston’s mismanagement of its infamous “Big Dig” tunnel project, the IG noted that “These lessons are relevant in light of MWAA’s lack of experience in managing a mass transit project.”[4]

- Combined with the lackluster performance projections in MWAA’s 2004 report and the IG’s warnings, in January 2008 the FTA notified Virginia’s Governor Kaine that “the Dulles rail project in its current form would receive an overall New Starts rating of “Medium – Low” which would render it ineligible to advance into the Final Design stage and receive federal assistance of up to $1.5 billion.”

Despite these warnings and concerns, Congress stepped in and forced the USDOT to approve funds for the project. As the *Washington Post* reported in 2008: “The reversal caps a year of frantic activity by the region’s top politicians, who have steadfastly pressured Peters [Mary Peters, then Secretary of Transportation] and the White House to keep alive a project that state, federal and airport officials have planned for more than 40 years… ‘God bless Mary Peters’ said U.S. Rep. Frank R. Wolf (R-VA), who along with [then Virginia Governor] Kaine and recently retired U.S. senator John W. Warner (R) led state efforts to revive Dulles rail.”[5]

The Project’s Many Deficiencies. As the project has since progressed, the 2007 concerns of the IG -- and those of the leadership of USDOT -- have turned out to be remarkably prescient.

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[3] http://www.thetransportpolitic.com/2010/01/26/dulles-airport-replaces-distinctive-mobile-lounge-system-with-aerotrain/

[4] Ken Orski, "Toro! Toro!" Guest Column, *Bacon's Rebellion: The Op/Ed Page for Virginia's New Economy*, February 1, 2008, at ***www.baconsrebellion.com/Issues08/02-11/Orski.php***.

[5] Amy Gardner, “U.S. Transportation Chief Backs Dulles Rail Project,” *The Washington Post*, January 8, 2009, p. B1.

Consider the following series of developments and admissions that have occurred during the past year:

- Reflecting a "bait and switch" approach to the project's budgeting, in April 2011 the MWAA board approved $300 million increase in the budget to build an underground station at the airport instead of the less expensive above ground station originally requested. The original station would have been located more than a fifth of a mile from the main terminal, and after 40 years of planning it finally dawned on the planners that few prospective passengers would be inclined to drag their luggage more than a fifth of a mile from a rail car to a terminal that one Dulles official admits "is yet another trek at another airport that right now has too many treks."[6] In response to severe criticism from Virginia officials, the MWAA retracted the proposal a few months later.

- Another planning oversight was the discovery that the 23-mile trip from downtown Washington to the airport would take 52 minutes, plus the fifth of a mile walk from the rail car to the ticket counter. Counting that long walk, plus the time taken to get from home/office to a Metro station (and struggling with baggage on Metro escalators that often don't work) MWAA planners discovered that the multi-modal one hour plus commute was twice as long as a car could take to make the same trip. Recognizing that this arduous and time consuming trek might discourage all but die-hard rail fans, MWAA has proposed a third rail line from Washington through the close-in Virginia suburbs to offer express service bypassing several existing stations in Arlington County. Although no cost estimate for this scheme has been revealed, MWAA estimates that this costly investment would shave ten minutes off the travel time, making it closer to an hour.[7] No estimate was provided on what impact this change would have on usage by prospective Arlington County passengers.

- Despite 40 years of planning and vast federal subsidies, it turns out that the MWAA doesn't have the financial resources to complete the project and is now seeking additional funds from the federal government and the state of Virginia. Part of the existing funding is to come from higher tolls on the Dulles Toll Road, which former Governor Kaine transferred to MWAA in 2005. As it turns out, however, some estimate that the tolls will have to be increased from $2.00 today to an estimated $8.00 to $11.00 for a 14 mile ride. At that level few will use the road, so the MWAA will not receive anywhere near the expected revenues; hence the search for new taxpayer subsidies.

- To date that search has focused on a TIFIA (Transportation Infrastructure Finance and Innovation Act) loan of an estimated $1.7 billion from USDOT. Although TIFIA loans

[6] Kafia A. Hosh, "Airports authority Oks underground Metro station at Dulles," *The Washington Post*, April 6, 2011.
[7] Hosh, ibid.

involve concessionary credit arrangements that would make a subprime lender blush,[8] the $1.7 billion requested is well beyond the size of any previous TIFIA loan, and $700 million more than the annual allotment for the federal program. With San Francisco, Los Angeles, and Honolulu also seeking big TIFIA loans to fund their own transit boondoggles, it is unlikely that this wish would be accommodated unless Congress revises the program in the temporary extension of SAFETEA-LU at the end of September, 2011. This is unlikely to happen.

Why It Won't Work. Dulles rail is a poorly conceived and mismanaged project whose limited benefits will be well below the costs to build and operate the system. As its financial problems worsen, WMAA will continue to cast an ever widening net in search of billions of dollars in subsidies from taxpayers in Virginia and the Nation to bail out a project that has been doomed to failure from the very beginning. Congress, the White House and the state of Virginia should reject these requests for more taxpayer subsidies, and instead force changes on WMAA's Dulles rail project to protect innocent taxpayers from the cost of failure.

In crafting these solutions, the federal government and the state of Virginia need to be cognizant of a few metrics to put the value and cost of the project in an appropriate context.

- For starters, any state bailout of the project would involve a transfer of income from lower income Virginians to some of the wealthiest people in the state and the Nation. Whereas the median household incomes of all Virginians is $59,300, that same measure in the three counties served by Dulles rail – Fairfax, Arlington and Loudoun - range from $96,200 to $114,000.[9]

- As a transportation project, Dulles rail is likely to capture only a small portion of the passenger/commuter market as long travel times, high fare costs, and inconvenient station access preserve the automobile's competitive advantage.

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[8] TIFIA loans are at the discretion of the USDOT, are granted on a competitive basis, are often on liberal terms, and are usually subordinate to other debt taken on for the project. In the case of another Virginia project now underway the TIFIA interest payments are expected to begin not until 2018. Loan repayments are scheduled to begin in 2033 and conclude in 2047. The TIFIA loan is structured with five years of capitalized interest during construction followed by five years of partially capitalized interest during ramp-up; then current interest only for 15 years followed by 15 years of interest plus principal. In the case of a TIFIA loan for Dulles rail, future debt service will have to be covered by future tax revenues since no American transit system covers more than 50 percent of operating costs through the fare box.

[9] U.S. Census Bureau, American Community Survey, Selected Econmic Characteristics: 2009, Virginia and the counties of Arlinton, Fairfax and Loudoun, at http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=04000US51&-qr_name=ACS_2009_1YR_G00_DP3&-context=adp&-ds_name=&-tree_id=309&-_lang=en&-redoLog=false&-format=

- As is apparent from the long-debate over the decision to do the project, USDOT's initial rejection of it, and the consultant's lackluster performance projections, the real driving force for the project is the substantial benefits that many believe would accrue to the existing commercial property owners in the corridor it would serve. In the (overly optimistic) belief that a new rail line would deter automobile usage by diverting shoppers and employees to public transportation, property owners in the corridor expect to substantially densify their properties by building higher, and by converting existing parking lots to income-generating office and retail space.

How to Solve the Problem. To protect the people of Virginia from this pending disaster, Governor Bob McDonnell, Secretary of Transportation Sean Connaughton, the state legislature, and the USDOT must take these necessary steps to protect Virginia taxpayers and resist any state or federal bailout. Options to contain the damage from this act of fiscal incontinence include:

- Terminate the system at Wiehle Avenue, thereby limiting the project to its 11.7 mile Phase I goals and the funds currently available to complete and operate this leg of the system.

- Prohibit any state or Federal funds from being used to fund Phase II of the system: the extension from Wiehle Avenue in Reston to Dulles Airport and beyond.

- Require that any and all funds needed to complete Phase I and to start and finish Phase II s come from the taxpayers in the Virginia counties of Arlington, Fairfax and Loudoun who will be the only ones to "benefit" from the project.

- Revenue options that these counties should impose, or be permitted (through local referendum as appropriate) to impose on their citizens to complete the project could include a regional increase in the sales tax, an increase in the surcharge on the property tax levied on commercial properties within the three counties, a surcharge on the corporate income tax levied on corporations within the three counties, a user fee or surtax on passengers using the Metro in Virginia, and any other revenue raisers confined to the citizens and the business community who would directly benefit from the project.