

High-Speed Rail in California

Using Limited Funds in Cost-Efficient Manner Should Be a Priority

Background

Approved by the voters in November 2008, Proposition 1A provided for the issuance of \$9.95 billion in bonds to fund the construction of the 800-mile statewide intercity High-Speed Rail system. As promoted by the California High-Speed Rail Authority (CHSRA), the trains will eventually allow travel between San Francisco and Los Angeles in less than 3 hours. Provided the existence of additional funding, the system will stretch south to San Diego and north to Sacramento in subsequent years.

The project is expected to be completed in two phases comprised of five steps. Phase 1 will begin with the construction of 130 miles in the Central Valley estimated to cost \$6 billion (Step 1). The track then will be extended from Merced to the San Fernando Valley or alternatively from San Jose

California High-Speed Train Map, Statewide Overview



Source: California High-Speed Rail Authority

to Bakersfield with a projected cost estimate of \$24.7 billion (Step 2). To contain costs, the section will then blend in with the existing MetroLink in Southern California and Caltrain in the Bay Area (Step 3). Phase 1 will be completed after improvements have been made to the “blended” sections, providing a bullet ride between San Francisco and Los Angeles (Step 4). Ultimately, Phase 2 would extend service to the San Diego and Sacramento regions (Step 5).

Funding

In November 2011, the CHSRA released its 2012 Draft Business Plan. The draft included an economic analysis and a financing plan that estimated implementation costs at more than double the original projections, soaring to nearly \$100 billion over a 20-year construction period. The new figures, although more realistic, raised doubts over the feasibility of the project, even for the most optimistic supporters.

According to the plan, building the first usable segment that would stretch 300 miles would cost \$25 billion–\$31 billion. To date, however, only \$3.3 billion in federal funds and \$2.7 billion in state bonds have been gathered. CHSRA received the largest portion of the American Recovery and Reinvestment Act (ARRA) and the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) funds of any state.

The state funding source for CHSRA was secured, subject to appropriations by the Legislature, under the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century (Proposition 1A). The state funding may be used for initial engineering, right-of-way acquisition, purchase of rolling stock and related equipment, and construction of tracks, power systems, stations, and structures.

The other sources of funding identified in the plan, such as the federally secured tax credit bonds and federal grants, are only speculative as pointed out in the report released by the Legislative Analyst’s Office (LAO) in November 2011.

The funding plan released by CHSRA relies heavily on acquisition of funds from the federal government to continue construction after 2015. Several programs have been identified that would provide funding to California’s high-speed rail project, including the Federal Transit Authority’s New Starts Program, Federal Highway Administration’s (FHWA) Section 130 Railway-Highway Crossing Program, FHWA’s Surface Transportation Program, and FHWA’s congestion Mitigation and Air Quality Improvement Program. As indicated earlier, however, these funding sources are speculative and depend upon the passage of federal legislation and authorization. Given the congressional gridlock on spending issues, it is unclear when, or even if additional funds would be awarded to the CHSRA.

Alternatively, CHSRA could seek loans under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) and the Railroad Rehabilitation and Improvement Financing Program (RRIF). Nonetheless, the TIFIA loan program could be used only for the later stages of the program and RRIF requires an up-front risk premium that may or may not be affordable. Due to the magnitude of the project and the risk and uncertainties it creates, it is highly unlikely for the private sector to invest before the completion of the first operable sections of the system, most likely when the construction of “Bay to Basin” begins during Step 3 of construction. Even then, the level of interest in investment will depend highly on the strength of ridership numbers.

New and Continuous Concerns

Multiple concerns regarding the viability of the high speed rail system in California threaten the building and success of this project:

- **Questions regarding the accuracy of ridership estimates.** Although CHSRA updated some of the ridership numbers in its revised business plan in 2011, criticism regarding the model used to obtain those numbers and their practicality remain. The CHSRA’s ridership forecast is essential in determining the financial feasibility and the frequency of service. More important, injection of private investments into the system will depend on assessing the profitability of the system based on these ridership numbers. A report released by the Institute of Transportation Studies at the University of California, Berkeley in 2010 concluded that the ridership forecasts were unreliable for policy analysis. Also, under the new draft business plan, ridership numbers are 10% lower for Phase 1 compared to the 2009 plan.
- **Credibility of the business plan.** The latest business plan portrays a more realistic picture of the costs associated with building a high-speed rail system in California. Some lingering questions and

missing details continue to threaten the feasibility of a thorough analysis of the project, however. As pointed out in the LAO report, the business plan suffers from an imbalanced economic impact analysis, problematic cost comparisons, inadequate staffing, organizational structure deficiencies for CHSRA, and lack of details on the construction of the first segment.

- **Selection of the Central Valley as first part of construction.** Funding for this project is contingent upon building the first segment of the system in the Central Valley. The majority of passengers, however, are expected to come from the major urban locations in the San Francisco Bay Area and Los Angeles. Hence, the selection of the Central Valley as the first segment to be built appears to be more of a political move than a practical one. The Central Valley route was chosen to show the abilities of a high-speed train because of its flat landscape and dispersed population and therefore presents fewer challenges to building a new rail system. It is unclear, however, whether this decision would do more harm than good in attracting foreign and private investments as it cannot offer the same economic viability and passenger load provided by the more densely populated areas in the north and south.

- **Lawsuits delaying environmental impact reports and construction, increasing costs.** CHSRA is still in the process of completing the environmental clearances for construction of usable segments and many not receive all the necessary approvals in time for the 2012 construction date. Meanwhile, a number of lawsuits have been filed against the CHSRA and possibly more are on the way. The Bay Area cities of Menlo Park, Atherton and Palo Alto—along with a number of environmental and community groups—are seeking to use the California Environmental Quality Act to delay the project or force a different route. The issue of right-of-way also can be a point of contention that will raise costs and extend delays.

- **Unjustified prioritization.** If implemented, this project will be one of the most expensive infrastructure investments in California. However, the authority has yet to make a palpable case and justify such massive expense during these difficult economic times. CHSRA needs to justify why the state should invest in high-speed rail instead of investing in increasing the efficiency and capacity of the already-existing transportation infrastructures. The job creation argument used by CHSRA also is weak as any other transportation project can result in job creation as well.

CalChamber Position

The California Chamber of Commerce opposed Proposition 1A because of concerns with sustaining additional indebtedness when the state is facing such massive budget deficits. The CalChamber remains skeptical regarding funding plans that rely heavily on uncertain federal funds and ambiguous ridership numbers. In addition, there are many other high-priority issues that deserve legislative attention and funding.

Nevertheless, the CalChamber recognizes that voters passed Proposition 1A to make the initial investment in a high-speed rail system in California. Until the will of the voting public changes, the CalChamber seeks to limit further increases in costs. The CalChamber will seek to ensure that all interested private firms—whether foreign, out-of-state, or California-based—can bid for contracts without constraints so that the system can be built in the most cost-efficient manner.

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