

Will The High-Speed Train Benefit California's Middle Class?

- A Briefing Paper from the authors of -

The Financial Risks of California's Proposed High-Speed Rail Project

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Précis: A middle-income family of four, earning \$50,000/year might want to ask if the proposed high-speed train will be near them; whether they can afford to ride it, or get a job building or operating it. The answers to those questions are largely 'No.' The new \$66Billion cost to build the Anaheim/LA-SF train means a middle class family will have to pay an extra 8-11% more per year in State income taxes because construction costs have risen sixty percent. And that rise will cost your family more if you earn more. The train will also likely need a substantial annual operating subsidy, requiring even more taxes. Budgets for California's education, parks and police will have to be cut to subsidize the train's wealthy and business riders. California's proposed high-speed train doesn't benefit middle and working class families and 'eats the seed corn' of our children's future.

We are grateful to the Community Coalition on High Speed Rail for providing a virtual 'home' for this and our other Briefing Papers, plus our original (October 2010) report *The Financial Risks of California's Proposed High-Speed Rail Project*.

For downloadable copies of this and all our work, visit their website <http://www.cc-hsr.org/>

Other Briefing Papers found at that web site are:

Dubious Ridership Forecasts Threaten The High-Speed Rail Project

Six Myths Surrounding California's High-Speed Rail Project

A Train To Nowhere But Bankruptcy

Seven Deadly Facts For California's High-Speed Rail Authority

Big Trouble For California's \$66Billion Train

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Who Am I And What Do I Need To Know? – Suppose you are a nurse, a high school teacher (or in the case of the jobs promised by the California High Speed Rail Authority), an iron and steel worker earning \$50,000 per year.¹ You are part of a family of four.² Your income is higher than the national average for your profession and about 15% higher than the median income in California.³

To understand if the proposed high-speed train is a good deal, you need to know how the project will affect you and your family. So you need answers to five questions.

- 1) Will the train run where my family can use it?
- 2) Will my family be able to afford to ride the train?
- 3) Will there be a job for someone in my family to build or operate the train?
- 4) Will it cost me more in taxes to support the train?
- 5) Will the train help assure my kids' future?

Will The Train Be Where My Family Can Use It? – The project scheduled to start at the end of 2012; from north of Fresno towards Bakersfield will not have riders. That's because the State and Federal governments plan to spend over \$5Billion to build a track bed in the Central Valley without a locomotive, passenger car or electrification. So the answer for at least the next five to seven years is definitely no.

If the government assembles \$66Billion to build the Anaheim/Los Angeles to San Jose to San Francisco project, it is supposed to benefit all Californians. However, if you are among the 7 million residents north of that route you aren't likely to drive south to use the train. Ditto for the 3.2 million residents to the south and east of the route, and the 1.7 million in the coastal counties.⁴

Including the Los Angeles Basin, Orange County, and all the counties where the train will run, plus the nine counties that circle the San Francisco Bay, the route will still leave out 30% of California's 38 million residents. But those twelve million people still get to pay for it.

Will My Family Be Able To Afford To Ride The Train? – The California High-Speed Rail Authority (CHSRA) said in 2008 that the cost of a one-way ticket between Los Angeles and San Francisco would be \$55. By the end of 2009, that one-way fare had risen to \$105.⁵

If you drive that 407 miles, and use the standard deduction the Federal government allows for business trips by car, your total cost would be \$206.⁶ That puts a round-trip at \$412, including all the costs of owning the auto;

that is, fuel, taxes, insurance, amortization, depreciation, etc. Only counting gasoline costs at \$4.50/gallon, the round trip would be about \$200.

For the family to ride the train it will cost \$840 round trip, twice as much as the total cost of driving and four times the gasoline costs. You'll also have to rent a car when you get to San Francisco or Disneyland, adding another \$45-\$65/day even for a compact. The same is true if you're not going the entire length of the route. If you're going only to where it stops, the trip may take less time, but can your family afford the extra costs?

Will There Be A Job For Someone In My Family To Build Or Operate The Train? - Ask yourself; in the thirty months since Prop1A passed in 2008, have you seen jobs for your family, your colleagues or other middle-income workers? By July this year, the State will have spent about \$500Million on studies and public relations. The present CHSRA budget for July 31, 2010 to June 30, 2011 is \$231 million, over \$1M/working day. That supports about 30 staff and 600 full time equivalent (FTE) consultants. These planners, engineers and managers each cost an average of \$355,385 this fiscal year. For that price the project could have given jobs to seven of your colleagues or neighbors.

The CHSRA's 2009 Plan for the Anaheim/LA to SF route said, "*In California, the initial system is projected to create the equivalent of 600,000 full-time, one-year jobs over the course of its construction.*"⁷ This construction employment claim is nearly four times larger than their 2008 forecast, when the Authority predicted 160,000 construction-related jobs for the LA/Anaheim to SF project.⁸ Which job creation number did the Authority really mean?

A study by Californians Advocating Responsible Rail Design (CARRD) challenged the Authority's 600,000 FTE claims for the SF-LA/Anaheim project. "*The total number of construction-related jobs could be equivalent to 10-12,000 jobs that last the 10 years that construction is expected to last.*"⁹

CARRD's findings are supported by the US Bureau of Labor Statistics' (BLS) approach to job creation that computes 3,000 annual jobs created per \$1Billion spent. In the Central Valley project the CHSRA's \$5Billion suggests at most 3,000 full-time equivalent (FTE) construction jobs over five years. For LA/Anaheim to SF, that works out as 200,000, not 600,000 FTE jobs for the construction. This suggests the CHSRA's construction job forecasts are at least three times what they should be.

During the Prop 1A campaign, proponents officially committed that "*These are American jobs that cannot be outsourced*".¹⁰ The CHSRA has since then gone silent about where these jobs will be created – in California, elsewhere in the USA, France, China, or Germany or another country. Cost containment means the equipment probably will be built outside the US, and certainly outside California with its premium wages and benefits for skilled labor.

How about permanent jobs? The CHSRA promised Phase One would create 450,000 permanent a 40% increase over the 320,000 permanent jobs in their 2008 materials.¹¹ That 2009 forecast is nearly twice the number of total State of California employees: 239,586 in May 2010.¹² If such jobs were actually permanent, this would represent almost three percent of the state's entire workforce.¹³

Think for a moment like an economist. If CHSR passengers replace auto and airline passengers– which the project proposes to do – and is not creating net new jobs, but only replacing one form of transportation for another, what is the net effect on employment? Even if the new CHSR service meets its 'better, faster, cheaper and safer' claims, there will be job loses in airlines and auto services for gains by the train. That means CHSR 'permanent' employees will take jobs from other transportation industry workers.

Will It Cost Me More In Taxes To Support The Train? – A

\$66Billion Phase One construction cost doubles the State's long-term debt.¹⁴ To help pay that off, your middle income California family will pay 8-11% above the \$1,300 in State income tax you already pay.¹⁵ That's an unannounced \$100-\$140 annual tax increase. And the more you earn, the larger bite of your income that 8-11% takes.

This tax rise happens for three reasons. First, when you were promised in 2008 that there would be no new taxes to pay for the system, your 'Yes' vote showed you were willing to fund up to \$9.95Billion in bonds to build a then-\$33Billion project.¹⁶ Using bonds to pay off \$9.95Billion means the State of California will pay creditors nearly \$650Million per year for 30 years, about \$21Billiion in total. Your family's portion will be \$13 in taxes.¹⁷

Second, the new construction price tag requires the State to borrow \$35-\$54Billion from private sources. If there isn't anything left over each year from running the train, your family will have to help pay off that debt over thirty years. That will cost you at least \$95 per year.

Third, because General Obligation (GO) bonds are tax-free for California residents, the State also loses. If the \$66Billion project 'only' needs \$38Billion of private credit, the State can't afford to put another \$550Millon a year into schools or police. If the State needs to borrow \$54Billion to build the train, it loses \$630Million per for thirty years that might have funded vital public services.¹⁸ Your family's annual tax portion of this subsidy to bond buyers adds up to \$13 per year.

In sum, your family will pay at least another 8%-11%, about \$100-\$140 per year in new income taxes each year to build Phase One.

It gets worse. Proponents claimed that if the entire system promised in 2008 got built it would cost about \$45Billion.¹⁹ But present estimates put the costs to build the system to those six cities at about \$116Billion. The more of the high-speed rail promise that gets built, the more your family's income taxes will have to go up to support just building it.

There's even more downside. History teaches us that nowhere in the world does a high-speed rail system collect its entire operating costs from riders.²⁰ It's impossible to know precisely what passengers will bring to the fare box. But it's not impossible to be skeptical about the CHSRA's claims that, on average, nearly every Californian will ride the train every year and the CHSR operator will collect all of the relatively high fares all the time.²¹ So, you must assume that your family is exposed for even more, probably substantial annual income taxes, to pay creditors' in order to subsidize the operations.

All the while, your State Government is collecting less in taxes to pay for education, police or other services from its middle class' shrinking incomes.²² You could choose to pay these taxes as-you-go. Or you could create more State debt that puts off the day of reckoning for your children to face. And this for a train you may not be near enough to use and can't afford to ride.

Will The Train Help Assure My Kids' Future? – California's prosperity was built on its then-unsurpassed education system. The education infrastructure was your investment in the future. Education brought higher paying jobs than in the rest of the US, which brought larger State tax collections based on those higher incomes, which when re-invested in education continued to support a 'virtuous cycle of development.' That cycle is threatened.

In 2011 alone, California's Community College system is facing cutbacks of \$400 million, plus another \$1.4Billion reduction in public support for the other two higher education systems.²³ Paying out two to four times that amount each year in subsidies from new taxes or new debt to build a train is 'eating the seed corn' of California's future. Three other Governors understood that and have rejected 'free money' saying the Federal 'gift' would lead to an unfunded State 'burden' to their already stressed financial situations.²⁴

To continue the virtuous cycle that has fueled California's growth and provided long-term jobs, your taxes would have to increase, more debt created or choices made to cut present State spending on other programs. What will benefit the next generations more: a world-class education system, or the profits of a few engineering, equipment, software and train-operating companies? Choosing the later might bring California a train your family may not be near enough to use or afford to ride; raise your State taxes, cut essential services like police and cripple California's education system that sustained its virtuous cycle. That threatens the kids' future.

REFERENCES

- ¹ For nurses salaries see: http://www.payscale.com/research/US/Job=Registered_Nurse_%28RN%29/Salary/by_City. For high-school teachers see: http://www.payscale.com/research/US/Job=High_School_Teacher/Salary/by_State. For iron and steel workers see: http://www.ehow.com/info_7976122_average-salaries-steel-workers.html
- ² In 2009, the California median household income was \$42,548 in current 2009 dollars and \$38,943 in constant dollars (i.e. adjusted for inflation). Median is the mid-point along the entire scope of Californians' incomes. It doesn't average in what the mega-rich make with what the state's middle and working class earn. It reflects what the vast majority of California's households live on. Median household income has decreased; 3.4% in current dollars and a average of 4% for 2008 and 2009 in constant dollars. See: http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Income.htm
- ³ In May 2008, median hourly wages of structural iron and steel workers were \$20.68. In May 2008, median hourly wages of reinforcing iron and rebar workers were \$19.18. See: <http://www.bls.gov/oco/ocos215.htm#earnings>
- ⁴ There are twenty-seven counties north, seven east of and three west of the proposed LA/Anaheim to SF route. They represent 11.9 million of California's 38.7 million residents. See: <http://www.counties.org/default.asp?id=399>
- ⁵ Report to the Legislature; California High-Speed Rail Authority; December 2009; page 65 ". . . in 2009 dollars a high-speed train fare of \$105 vs. a \$125 air fare . . ." Using actual European and Japanese high-speed rail fares, the minimum one-way ticket should be at least \$190. Additionally, those systems are known to be subsidized by their national governments.
- ⁶ The 2009 optional business mileage deduction, used for comparison to the Authority's stated fare, was 50.5 cents per mile for business miles driven. At 407 miles SF-Anaheim; the deduction is \$205.50. See: <http://www.savingtoinvest.com/2009/12/2010-vs-2009-standard-mileage-rate-tax.html>
- ⁷ CHSRA Report; Dec 2009; pg. 110. *Nota bene*: this differs from the 2008 Business Plan, pg.8 which says "Experts calculate about 160,000 jobs will be needed to construct the high-speed train, and more than 320,000 permanent jobs will result by 2030."
- ⁸ California High-Speed Rail Authority CHSRA; California High-Speed Train Business Plan; November 2008; pg. 12.
- ⁹ Source: "Factcheck on Jobs" – a pdf file, December 2009; by Elizabeth Alexis, Californians Advocating Responsible Rail Design (CARRD). <http://www.calhsr.com/>
- ¹⁰ The Official Voter Information Guide says: "Vote Yes on Proposition 1A to IMPROVE MOBILITY and inject new vitality into California's economy by creating nearly 160,000 construction-related jobs and 450,000 permanent jobs in related industries like tourism. These are American jobs that cannot be outsourced."
- ¹¹ Op. Cit: 2009 CHSRA Report; page 110
- ¹² Report by John Chiang, California State Controllors Office, http://www.sco.ca.gov/ppsd_empinfo_demo.html
- ¹³ Source: Bureau of Labor Statistics: <http://www.deptofnumbers.com/unemployment/california>
- ¹⁴ The FY2010-11 budget shortfall is estimated at \$20-25Billion. But California has financed prior fiscal deficits with debt. As of early 2011 California has about \$140 Billion of long term debt: \$84Billion of outstanding long-term debt, at least another \$47Billion in voter authorized but unissued GO bonds (including the CHSR project's \$9.95 Billion) and another \$10 Billion of Public Works Board lease revenue bonds. See: *Status Report on California's Bond Debt; Assembly Budget Hearing*, Bill Lockyer-State Treasurer, December 14 2009. California's debt per resident of about \$4,600 is twice New York's, and three times that of the other top ten indebted states. See: Moody's Investors Service, Inc; California State Treasurer; Thomson Financial; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Census Bureau. Tax for a middle-income family is computed as married, filing jointly without deductions using the State of California, Franchise Tax Board Tax Calculator. Found at: http://www.ftb.ca.gov/online/tax_calculator/Calculator.aspx
- ¹⁵ Calculations for this are based first on the estimated \$5-\$7Billion seen in Figure 9 (items 3A to 3C) of Big Trouble For California's \$66Billion Train. Using the growth of personal income tax of the Legislative Analyst's Office (LAO) "Fiscal Outlook 2010" (found at lao.ca.gov) of \$48Billion in FY2012-13 to \$58B in FY2015-16 for the train's first operating year gives a FY2020 estimated tax income of \$70Billion. The \$5-\$7Billion for debt servicing the train must be added to that, which produces a 7.5% - 10.5% tax increase needed to supplement the LAO projected figure.
- ¹⁶ "The Prop1A 2008 Official Voter Guide promised, "THE USERS OF THE SYSTEM PAY FOR THE SYSTEM and "California's high-speed rail network requires NO TAX INCREASE . . ." See: Official Voter Information Guide for Prop 1A (color), page 1: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebut1a.htm>. The Official Voter Information Guide for Proposition 1, certified by Secretary of State of State of California, Debra Bowen, say the same regarding "NO NEW TAXES". Also see: page 3 at <http://www.google.com/search?q=Official+Voter+Information+Guide+certified+by+Secretary+of+State+of+State+of+California%2C+Debra+Bowen+Proposition+1a+2008&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>
- ¹⁷ This doesn't count the \$40-\$100 already contributed of 'free-to-the-train' money as part of your Federal taxes for the Central Valley 'Train To Nowhere.'
- ¹⁸ See: Figure 6, page 13: Big Trouble For California's \$66Billion Train; March 2011 found at <http://www.cc-hsr.org/>
- ¹⁹ The 6 cities of the 'entire' system were SD, LA, SJ, SF, Sacramento, Riverside, and Oakland. For this and the \$45Billion promise, see: Official Voter Information Guide for Proposition 1, certified by Secretary of State of State of California; page13. See: <http://www.google.com/search?q=Official+Voter+Information+Guide+certified+by+Secretary+of+State+of+State+of+California%2C+Debra+Bowen+Proposition+1a+2008&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>
- ²⁰ For references to independent analyses of the costs of subsidizing high-speed rail in Europe and Asia, see Section 5.2 of *The Financial Risks of California's Proposed High-Speed Rail Project* at <http://www.cc-hsr.org/>
- ²¹ Op.cit. CHSRA Report; December 2009; pg. 73. That plan asserts there will be 39 million riders in 2030; and that there will be no decreases during the first fifteen years of operations in fares or volumes of riders.
- ²² While this computation is for the \$66Billion LA-SF project, cost estimates for the entire system serving six major cities suggest a price tag of at least \$116Billion. See: *Big Trouble For California's High Speed Train* at <http://www.cc-hsr.org/>. Your family's tax bill to pay for the entire system would effectively double. For shrinking median incomes see Reference 2 of this Briefing Paper.
- ²³ "Proposed budget cuts \$1.4B from higher education"; UC Newsroom; January 10 2011. See: <http://www.universityofcalifornia.edu/news/article/24764>
- ²⁴ The Governors-elect of Ohio and Wisconsin campaigned against high-speed rail and their ARRA allocations were taken back prior to their inauguration. The Governor of Florida rejected the Federal grants less than three months into office.