

## ON THE LIKELYHOOD OF MORE FEDERAL CONSTRUCTION MONIES Brief Note #1 – June 28th 2011

From the authors of *The Financial Risks Of California's Proposed High-Speed Rail Project* and six subsequent Briefing Papers. Available at <http://www.cc-hsr.org/>

**Finding:** On May 2<sup>nd</sup> 2011 the Peer Review Group said the Authority “. . . will soon need assurance of more federal funding.” and “. . . private sector funding will be difficult to secure unless the public sector funding is available and reliable..” A week later the LAO's report noted that the availability of additional funding “. . . necessary to complete the project is highly uncertain.”<sup>1</sup> On May 11<sup>th</sup>, the Authority's CEO said that without a Federal commitment, the project would not attract private investors”.<sup>2</sup> And on June 28th, Treasurer Lockyer said: *“I think the federal funding is too speculative,”* and *“I think the likelihood of significant private capital is questionable”* and *“Is it prudent to cancel another worthwhile project and sell bonds for rail, given the project's unsettled finances?”*<sup>3</sup>

**Background:** Thirty months after Prop1A, only \$3.3Billion of Federal grants is available to be matched with up to an equal amount of California's GO bonds. Given that the project's designers assumed at least \$18Billion of 'free' Federal grants to 'jump start' the project, what is the potential for further Federal funds?<sup>4</sup>

While the DOT still has some yet un-obligated high-speed rail (HSR) grant funds from the FY2009 ARRA program, this March the President agreed to 'zero out' new HSR funds for the present fiscal year (FY2011). And besides giving the project the 'Boondoggle Of The Year' award, the House Budget Committee has vowed to eliminate funding in FY 2012. Then on May 4<sup>th</sup>, the President (OMB) submitted the "Transportation Opportunities Act" requesting \$37.6Billion over the next six years to build new high-performance rail.<sup>5</sup> This is part of his \$53Billion vision to connect 80% of Americans by high-performance rail.

Unfortunately for that vision, the submission is in a budget category commonly called Pay-Go. This means the Administration is required to either show where new revenues come from to provide the \$37.6Billion, or where they intend to cut existing programs' spending to fund the vision. No such documentation accompanied the \$37.6Billion request.

**Conclusions:** Today, there is no reliable source of where over 70% of the construction costs' funds will come from. Public transportation proponents agree there is little to no chance of gaining new Federal project monies for high-speed rail until at least the close of 2017; a year after even a re-elected Obama Administration leaves office.

With the near certainty that there will be no new Federal monies for six or more years, and a gap in Federal funds of at least five times what the project has in hand, it seems prudent to cut the losses to the State's fiscal balance until a clear demonstration of both full financial resources for construction as well as operating financial sustainability.

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<sup>1</sup> Letter from Chair Will Kempton to CEO Roelof Van Ark; May 2<sup>nd</sup> 2011.

<http://www.google.com/search?q=ca+high+speed+rail+peer+review+letter+may+2+2011&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>

<sup>2</sup> CEO Roelof Van Ark; CA Assembly hearing on high-speed rail; May 11<sup>th</sup> 2011, minute 59 of YouTube recording.

<sup>3</sup> *State Treasurer worries about bullet train's finances*; California Watch, June 28, 2011; at <http://californiawatch.org/dailyreport/state-treasurer-worries-about-bullet-train-s-finances-11126>

<sup>4</sup> California High Speed Rail Authority, Report to the Legislature, December 2009; page 93

<sup>5</sup> For the award see: <http://budget.house.gov/News/DocumentSingle.aspx?DocumentID=247848>. For the OMB submittal, see: Section 24602 (a), Network Development Program; Transportation Opportunities Act; pg. 12. This six-year capital budget covers FY2012 through 2017. See:

<http://www.google.com/search?q=Transportation+Opportunities+Act&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>