

ON – PRE-PHASE ONE CONSTRUCTION, MARGINS AND ACCUMULATED DEBT

Brief Note # 18 – August 15th 2011

From the authors of *The Financial Risks Of California’s Proposed High-Speed Rail Project*, six subsequent Briefing Papers, and *The Financial Analysis of Proposed CHSR Project*. Available at www.cc-hsr.org

Finding: Due to small or non-existent revenue streams plus higher construction costs, neither of the contemplated Pre-Phase One projects produce positive operating margins, but rather create another burden for the State and taxpayers.

Background: The CHSRA will start construction in the Central Valley faced with two major changes over the past two years: 1) construction costs increased over 50%: and 2) the decreased availability of ‘free’ Federal money. It has also been recommended they consider the initial termination of Phase One at Sylmar in the LA Basin and south of San Francisco at San Jose.

Results For The Central Valley – The Central Valley column shows the CHSRA projected cost of about \$5.9B to build about 100 miles of track somewhere between Bakersfield and Merced. This excludes train sets, electrification, and systems, therefore no revenue. Assuming that about \$1B of yet un-obligated funds become obligated, \$3.0B-\$3.3B of Federal grants are available.³ Prop 1A matching Bonds will be in the range of \$2.9B which will require an annual debt service of about \$0.2B per year, or about an accumulated negative cash flow of \$3.2B by 2035. If the track is only used for Amtrak service, there is no known expectation that traffic will increase, therefore there are no additional revenues to help pay off this debt. If Amtrak were not to use this section, within a year, there is a legal obligation to repay the FRA the \$3.0B in ARRA/FY10 grants.⁴

Results for Sylmar to San Jose – The concept of connecting Sylmar to San Jose as an interim Phase One was proposed by CARRD in early 2011, eliminating expensive segments in the LA Basin and the SF Peninsula. The projected construction cost is about \$43B.⁵ The primary disadvantage is that passengers will need to use existing regional transit lines to get to downtown LA and to SF. Estimates show that about a quarter of the passengers will be lost due to stopping short of the metropolises’ downtowns. Consequently Operating Margins will decline from \$2.4B to about \$1.8B in the 75% of Operating Margin Case. If ticket revenues also decrease so that riders can purchase regional/local transit tickets, the Operating Margin may drop to \$0.9B. If the Operating Margin is zero, the annual cash shortfall will be \$2.9B, accumulating to a negative \$46B by 2035.

ANALYSIS OF BUILDING, FINANCING & OPERATING PRE-PHASE ONE		
Construction In \$Billions for Pre-Phase One (LA-SF) Projects		
	Central Valley ¹	Sylmar – San Jose ²
Costs To Build Pre-Phase One Projects	\$5.9B	\$43B
Less Federal Grants	\$3B	\$3B
Debt Required	\$2.9B	\$40B
Less Prop1A Bonds	\$2.9B	\$9B
Construction Debt (Private or Public)	\$0B	\$31B
Annual Debt Servicing Requirement	(\$0.2B)	(\$2.9B)
Impacts On Taxpayer’s Of Pre-Phase One Cash Flows (2020-2035) (Cases based on the Average Annual Operating Margin in 2009 Operating Plan)		
75% of Operating Margin Case 0%, and 75% of Plan (revenues and costs)	\$0.0B	\$1.8B
Annual Cash Shortfall	(\$0.2B)	(\$1.1B)
Cumulative Negative Cash Flow by 2035	(\$3.2B)	(\$18B)
Some Operating Margin Case 0%, and 75% of Plan (ridership, ticket prices, and costs)	\$0.0B	\$0.9B
Annual Cash Shortfall	(\$0.2B)	(\$2.0B)
Cumulative Negative Cash Flow by 2035	(\$3.2B)	(\$31B)
No Operating Margin Case 0%, and for example, 50% ridership, 70% of ticket prices 75% of operating costs in 2009 Plan	\$0.0B	\$0.0B
Annual Cash Shortfall	(\$0.2B)	(\$2.9B)
Cumulative Negative Cash Flow by 2035	(\$3.2B)	(\$46B)

Conclusions: Neither of the Pre-Phase One options is financially justified. These early efforts might be reasonable if Phase One could be shown to be financially feasible, but Notes #16 and #17 show that isn’t possible. The State would be forced to pay or guarantee (subsidize) the debt servicing for construction costs under any plausible operating scenario of building in the Central Valley or Sylmar to San Jose.

¹ CHSRA, Board Meeting Materials, Oct. 29, 2010 – Agenda Item 3; Dec. 2, 2010 – Agenda Item 3

² *The Financial Analysis of the Proposed CHSR Project*, June 2011, pgs. 17 and 18, “CARRD’s Recommendation” at www.cc-hsr.org

³ FRA List of Obligated HSR Grant Awards, as of August 8, 2011, at <http://www.fra.dot.gov/rpd/HSIPR/ProjectFunding.aspx>

⁴ CHSRA, FRA Grant/Cooperative Agreement, Dec. 22, 2010, Section 14 and 15, page 8. The legal consequences are not addressed here.

⁵ *The Financial Analysis of the Proposed CHSR Project*, June 2011, pgs. 39 to 41, Exhibit 1, “Construction Estimates” at www.cc-hsr.org