

ON CASH FROM OPERATIONS PAYING FOR HIGH-SPEED RAIL'S CONSTRUCTION

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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*. At www.cc-hsr.org

Finding: The Legislature confirmed this in the run-up to AB3034 and Prop1A.

In 2008 California's Legislature knew the approximate costs and had the required two-thirds votes to have simply passed a law allocating all the funds needed for the high-speed train's capital development.¹ AB3034 proved that.

Supposedly the world's eighth largest economy could build a system like those already in similar or smaller economies such as France, Italy, South Korea or Spain.² But instead of the Legislature saying "we're going to build this and here's the funds to do it" they said; "let Californians decide whether to put \$9Billion of seed capital into this project."

Rail proponents 'signed off' on the seed capital commitment; hence claims of "no new taxes" and the "users will pay for the system."³ Prop1A was not a 'free money' grant to the CHSRA and strongly implied that the State's advance of seed money would be repaid from the train's revenues by the bonds authorized to help build the system.

As early as 2000 the Authority had assumed some other entity would service the construction debt.⁴ But AB3034, Prop1A and the Authority's subsequent business plans made it clear that \$9Billion was the maximum State obligation to build the project.⁵

*"Revenues of the authority, generated by operations of the high-speed train system above and beyond operating and maintenance costs and financing obligations, including, but not limited to, **support of revenue bonds**, as determined by the authority, **shall be used for construction, expansion, improvement, replacement, and rehabilitation of the high-speed train system.**"⁶ (emphasis added)*

CHSRA's 2009 Plan reiterated these AB3034 arguments and added that unpaid capital costs become part of operating expenses, as in sustainable businesses' practices.

*"The ridership of a high-speed train system, the revenue it brings in, and its operations costs are all interconnected. Balancing the three elements determines **the viability of the system as a business enterprise.**" (emphasis added)⁷*

No matter who operates the train, any operating margin (revenues less expenses) called an Operating Surplus in CHSRA's 2009 Operating Plan, must be used to pay off previously incurred or future construction debt.

Conclusion: New law would be required to use the resources of General Fund, and therefore the taxpayers, to pay off any more than \$9Bilion of construction debt for the high-speed train.

¹ By 2000 the system's capital costs were known to be \$37Billion. See: UC Berkeley, Institute of Governmental Studies cites \$37Billion, at: http://igs.berkeley.edu/library/research/quickhelp/policy/infrastructure/high_speed_rail.html The CHSRA's 2006 study showed that the 'entire system' of 800 miles to six terminal points would cost \$45Billion, so Phase One (LA to San Francisco) would be about \$20Billion. To source the PDF file citing the \$45Billion in the Certified Ballot Description, see <http://www.voterguide.sos.ca.gov/past/2008/general/pdf-guide/suppl-complete-guide.pdf> See page 5, top left paragraph.

Shortly after Prop1A, the CHSRA estimated Phase One at \$33Billion, and if the Entire System was estimated at \$45M for Prop 1A, the addition of Sacramento, Oakland, San Diego and Riverside must have been estimated to be \$122B.

² For the comparative sizes of economies, see: http://en.wikipedia.org/wiki/Economy_of_California

³ See: Official Voter Information Guide. See: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebut1a.htm>

⁴ The Authority's Year 2000 technical paper put the construction costs at \$34Billion. See: PDF of Business Technical Plan Studies at: http://www.cahighspeedrail.ca.gov/CHSRTemplate_STDwoBannerwsearch.aspx?pageid=9114

⁵ See: California High-Speed Train, Business Plan, November 2008; pg. 20. For that \$33Billion construction cost, the State was to provide 27% of Phase One. In the 2009 Business Plan, the \$9Billion shrinks to 21% of the \$43Billion Phase One capital costs.

⁶ See: AB3034, High-Speed Passenger Train Financing Program Section 2704.04. (a) (5)

⁷ See: California High-Speed Rail Authority; Report to the Legislature, December 2009; page 3.