

ON COST OVERRUNS WHILE BUILDING MEGAPROJECTS

Brief Note #3 – June 6th 2011

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

Finding: Megaprojects overrun their original capital cost estimates.

Background: A 2003 study of more than 200 large-scale transport projects showed the average cost overrun to be 45%. Some examples:

The Channel tunnel was 80% over original estimates and bankrupted the private companies that were to be its operators¹

Germany's Inter-City Express (ICE) between Cologne and Frankfurt construction costs were 85% higher while the cost to build the Nuremberg-Munich link of ICE were 42% higher.²

Boston's Big Dig, managed by the same Parsons Brinckerhoff presently employed by the CHSRA, cost more than three times its original estimate

A DOT study concluded the median of total cost overruns for ten rail projects was 61%, ranging from -10% to +106%.³

The yet-unfinished Oakland Bay Bridge is now more than five times its original estimate

Recent findings from the Authority's own alternative analysis data suggests a steep rise in estimated costs – from \$33Billion in 2008 to \$43Billion in 2009 to a presently estimated \$66Billion price tag for the LA-SF Phase One, a one-year increase of about 60%.⁴ The May 2011 LAO report came to a similar conclusion.⁵

Conclusions: Two years after Prop1A and two years before construction in the relatively-easy-to-build-in Central Valley, construction costs are already twice the 2008 estimate and more than half again as large as 2009. The construction costs of the project are only likely to escalate further; ultimately raising ticket prices in order to service the State's debt exposure in what was claimed to be a system paid for by its users.⁶

The State needs to be indemnified from faulty cost estimates and should demand a financially guaranteed, fixed price construction contract before proceeding further.

¹ Op.cit Flyvbjerg, Bent; Bruzelius, Nils and Rothengatter, Werner: Megaprojects And Risk, An Anatomy of Ambition; Cambridge University Press, 2003; pg. 12

² Ibid pg. 40-41

³ Pickrell, Don: *Urban Rail Transit Projects: Forecast Versus Actual Ridership and Costs* (Washington, DC: US Department of Transportation, Urban Mass Transportation Administration, 1990).

⁴ See Californians Advocating Responsible Rail Design (CARRD) – Capital Cost Estimate; February 2011 at <http://www.calhsr.com/uncategorized/what-will-high-speed-rail-cost/> and Big Trouble For California's High-Speed Train at <http://www.cc-hsr.org/>

⁵ High-Speed Rail Is at a Critical Juncture, Mac Taylor, Legislative Analyst, May 10, 2011; pg. 12

⁶ The Official Voter Information Guide of the Tuesday, November 4, 2008 California General Election: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebutt1a.htm>