

Proposition 1A: High Speed Rail Bond

Board Action:

OPPOSE

Rationale:

The funding plan to finance what is to be at least a \$42 billion high-speed rail system has not specifically outlined funding sources beyond the \$9 billion within Proposition 1A. The delay in placing this measure on the ballot has significantly reduced the purchasing power of the bond dollars, therefore relying more heavily on the private sector, federal government, and local governments. As well, federal legislation has yet to be signed that will provide the level of grant funding expected to complete the system. Lack of an updated business plan will not allow voters to review either updated cost estimates, feasibility studies or the CHSRA's model for acquiring private investments to ensure completion of the system.

Furthermore, modifications to the original language of AB 3034 make it more difficult for the San Diego region to acquire bond funding. The CHSRA will determine whether allocating funds to San Diego will or will not have a detrimental effect on completing the first phase of the system, Los Angeles-San Francisco. If this ensues, a heavy burden will be placed on local taxpayers to help complete the project.

Finally, the estimation of the HSR system generating operating surpluses rely upon questionable and likely inflated ridership and revenue projections. If these estimates fall short, the Authority may become dependent upon government subsidies and increased fares to ensure operation of the system, as is the case with other transit systems. Devoting public funds into a project without a proper prospectus or no guarantee against the use of future taxpayer funds as subsidies represents an unwise investment for taxpayers.

Background:

In the early 1990s, California's population was estimated to rise to more than 45 million by 2020, which prompted many in the state to find a new way of providing modes of transportation between major regions. The California High Speed Rail Authority (CHSRA) was created to design a high-speed train system for California. Assembled in 1997, the CHSRA has spent \$58 million planning and marketing the High-Speed Rail (HSR) network. In 2000, CHSRA produced a business plan for the system that outlined a 700-mile rail network totaling \$37 billion and connecting the Bay Area to Southern California.

Senate bill 1856, which enacted the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, was introduced in September 2002. It was originally to appear on the November 2004 General Election ballot. However Senator McClintock pushed through a law to cancel the bond measure. The Legislature kept the bond alive by pushing for legislation to postpone a vote to November 2006, and the Governor signed the bill, placing the measure on the 2006 ballot. On June 26, 2006 a bill to postpone the measure until the November 2008 election was approved and signed by the Governor.

Finally, the Governor signed AB 3034, thereby amending SB 1856 and placing a new measure, Proposition 1A, on the November ballot.

SB 1856¹:

Introduced in 2002, the Safe Reliable High-Speed Passenger Train Bond Act for the 21st Century would issue \$9.95 billion of General Obligation Bonds. Nine billion of that would be used in conjunction with available federal funds for the planning and construction of a high-speed train system pursuant to the Authority's Final Business Plan of June 2000. Nine hundred and fifty million of the bond proceeds would be allocated to capital projects on other passenger rail lines to provide connectivity to the HSR system and for capacity enhancements and safety improvements to those lines.

The bond funds are meant to encourage the federal government and the private sector to make large contributions toward construction of the HSR system. Bond proceeds are only to make up half of the total construction costs of each rail segment. The other half is anticipated to come from matching funds provided by the federal government or private sector. After the initial investment from the state, operating revenues from the initial segments and the matching funds will be used to pay for expansion of the system.

The Authority may request a loan from the Pool Money Investment Account to cover for unsold bonds. The Director of Finance may also authorize withdrawals from the General Fund an amount of unsold bonds that was not covered by the borrowed money from the Investment Account. Money derived from interest on the bonds sold will be transferred to the General Fund.

Proposition 1A:

The proposed 800-mile system has an estimated cost of between \$42-\$45 billion. The measure requires the CHSRA to seek other private and public funds to make up the funding shortfall and states that bond monies cannot be used to pay for more than 50 percent of the total cost of each corridor. Matching funds from other sources will be required to satisfy the difference.

Passage of AB 3034 alters a variety of points of the original measure, SB 1856. Changes include revisions to the approved routes and additional taxpayer protections, including limiting the amount specifically allocated to environmental review, planning and administrative expenses. The new measure states the San Francisco-Los Angeles rail segment will be Phase I of the project, but will allow the \$9 billion in bond monies to be available for funding all routes along the entire system, so long as the funding does not have "an adverse impact on the construction of Phase I". The other corridors that are eligible for funding include:

¹ Senate Bill 1856 (Costa).

- Sacramento to Stockton to Fresno
- San Francisco Transbay Terminal to San Jose to Fresno
- Oakland to San Jose
- Fresno to Bakersfield to Palmdale to Los Angeles Union Station
- Los Angeles Union Station to Riverside to San Diego
- Los Angeles Union Station to Anaheim to Irvine
- Merced to Stockton to Oakland and San Francisco via the Altamont Corridor

When allocating funding to corridors, the CHSRA must give priority to those that are expected to require the least amount of bond funds as a percentage of total cost of construction. Other criteria that may be used in establishing criteria include factors such as ridership, revenues, and the ability to connect other transit modes to the HSR network.

Route Times/Fares:

Proposition 1A states the electric trains that will be used for the HSR system must travel no less than 200 mph, with nonstop service travel times for each corridor to not exceed the those times listed in Table 1. Table 1 also outlines the estimated fares for those routes within the HSR system. It is important to note these fares are in 2005 dollars.

Table 1		
Route Times & Fares		
Route	Travel Time (Hours:Minutes)	Fare (2005 dollars)
San Francisco to San Diego	3:56	\$68
Los Angeles to San Diego	1:18	\$20
San Diego to Sacramento	3:35	\$66
San Francisco to Los Angeles	2:38	\$56
Bakersfield to Los Angeles	:54	\$28
Riverside to Palm Dale	:59	\$26
Sacramento to Anaheim	2:36	\$56
Fresno to San Jose	1:03	\$28
San Jose to Sacramento	1:24	\$36
San Jose to Merced	:45	\$26
Ontario to San Francisco	3:02	\$59
Bakersfield to Modesto	1:02	\$33

Ridership & Revenue

The high-speed rail has been proposed as a cost-effective alternative to expanding airports and highways, which are approaching capacity.² While California’s population is projected to reach 50 million in the next 20 years, the CHSRA believes land constraints will prohibit building more airports and highways, and a high-speed rail will mitigate the 10% annual rise in congestion on California highways. High-speed rails in many other countries, like Japan’s Shinkansen, have run efficiently and safely for years.

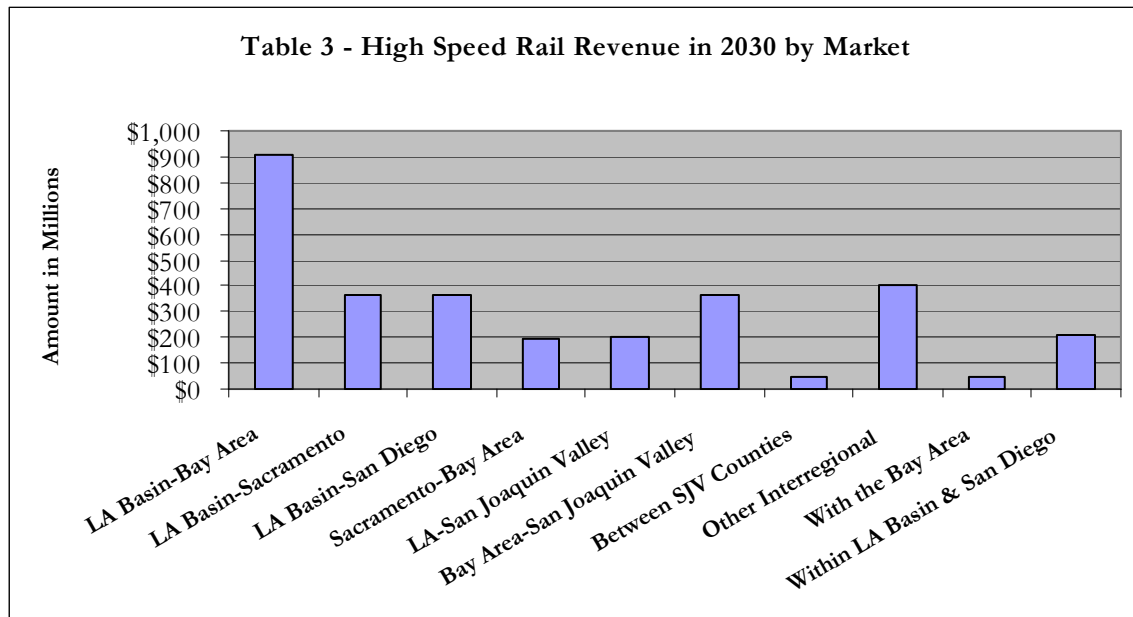
By 2030, CHSRA estimates total annual boardings to reach approximately 95 million. Given that population estimates for California are expected to reach 50 million, each and every person within the state will have to ride the system at least twice each year to meet that projection. Table 2 below outlines the projected 2030 ridership figures by region and for the entire HSR system.

Table 2	
Annual Ridership for Base Alternative	
Bay Area	22,375,000
Sacramento/Stockton	8,758,000
San Joaquin Valley	7,740,000
Southern California	55,017,000
Total Annual Boardings (Inter and Intraregional)	93,890,000
Intraregional Boardings	23,045,000
% Boardings Intraregional	25%

By this date, the HSR system is expected to generate approximately \$3.1 billion annually. Table 3 below details the projected annual revenues by region.

² “Improving Transportation and Reducing Traffic”. California High Speed Rail Authority website.

Table 3 - High Speed Rail Revenue in 2030 by Market



Under the CHSRA's 2000 Business Plan, the cost of the HSR system totaled \$25 billion. Using the Business Plan's cost estimates and revenue projections, total revenue surpluses for the first ten years of operation was projected at \$3.3 billion.³ This figure is dependent upon the projected ridership figures noted above. If the system does not produce the expected revenues, it can be expected the Authority will rely upon government subsidies and increased fares to satisfy operating expenses, as is the case for other transit services. However, an increase in fares may result in a decrease in ridership, leading to an overall decrease in revenues.

Table 4

Summary of Operating Income (in thousands)

	FYE17	FYE18	FYE19	FYE20	FYE21	FYE22
Total Operating Revenues*	\$ 721,968	\$ 821,371	\$ 880,311	\$ 894,270	\$ 909,065	\$ 924,698
Operating Expenses	\$ 550,984	\$ 550,984	\$ 550,984	\$ 550,984	\$ 550,984	\$ 654,533
Net Operating Income	\$ 170,984	\$ 270,387	\$ 329,327	\$ 343,286	\$ 358,081	\$ 270,165
	FYE23	FYE24	FYE25	FYE26	Total	
Total Operating Revenues*	\$ 940,357	\$ 956,044	\$ 971,760	\$ 987,506	\$ 9,007,349	
Operating Expenses	\$ 578,533	\$ 578,533	\$ 578,533	\$ 578,533	\$ 5,723,584	
Net Operating Income	\$ 361,824	\$ 377,511	\$ 393,227	\$ 408,973	\$ 3,283,766	

*Includes freight & concession revenue

³ California High-Speed Rail Financing Plan. November 2, 1999.

Updated Business Plan

In June of 2000, the CHSRA completed a business plan that outlined potential fares, ridership and revenue projections, and a detailed funding plan. Passage of AB 3034 required the authority to submit a revised business plan no later than September 1, 2008. The measure requires the business plan to update ridership and revenue estimates, operating and capital cost estimates, identify potential funding sources to complete the project, and outline the proposed chronology for the construction of corridors. According to the CHSRA though, the updated plan will not be released until 45 days after a budget is signed. It is conceivable the plan will not be released until after the November 4 election, with no details available to voters prior to Election Day.

Independent Peer Review Group

An eight-member peer review group will be tasked with evaluating the CHSRA's planning in regards to funding, engineering and feasibility. The group will then be required to issue an analysis outlining the accuracy of the assumptions used, as well as an analysis of the viability of the financing plan. Members of the group are to include individuals with expertise in the construction or operation of high-speed trains and other modes of transit, finance, and environmental planning. The analysis is to be issued no later than 60 days after receiving the plans.

Intercity & Commuter Lines

The remaining \$950 million in bond monies will be dedicated to capital improvements to rail systems that provide direct connectivity to the HSR system. Twenty percent of this amount (\$190 million) will be transferred to the Department of Transportation to be used for state-supported intercity rail lines. The remaining amount (\$760 million) will be allocated to public agencies and joint powers authorities based on a percentage of track miles, vehicle miles, and passenger trips. All allocations are based upon matching fund requirements and must supplement local, state or federal monies received.

Fiscal Impact and Funding:

State Impact

A proposed issuance of \$9.95 billion in general obligation bonds at 5 percent interest, to be paid over a 30 year life, will amount to approximately \$19.4 billion in total debt. The average repayment for principal and interest would equal approximately \$647 million per year.⁴

As of June 1, 2008, the state had approximately \$53 billion of infrastructure-related General Fund bond debt outstanding. In 2007-08, General Fund debt payments for these bonds totaled \$4.4 billion. There are four statewide General Obligation bond measures on the November ballot, totaling \$16.8 billion. If voters approve these measures, they would require total debt-service payments over the life of the bonds of about twice their authorized

⁴ Proposition 1A LAO Analysis.

amount. The LAO estimates that once these bonds are sold, the estimated annual budgetary cost would total \$1 billion.⁵

Funding of System

While the measure makes up only a portion of the estimated \$45 billion cost, it is anticipated the remaining funds will come from the local and federal levels, as well as the private sector. The CHSRA is projected to receive between 25-33 percent of the funds (\$10-\$12 billion) from the federal government through existing program funding, as well as through the creation of new grant allocation programs designed specifically for high-speed trains.⁶ Currently S. 294 (Passenger Rail Investment and Improvement Act of 2008) has passed both the Senate and House, and is waiting to be heard in Conference Committee. S. 294 would allocate \$350 million for each year between 2009 and 2013.⁷ Grants will be allocated to applicants based upon the ability of the project to accomplish the following:

- Generate national economic benefits, including creating jobs, expanding business opportunities, and impacting the gross domestic product
- Increase mobility of United States citizens and reduce congestion, including impacts in the State, region, and Nation
- Otherwise enhance the national transportation system.

Finally, the CHSRA estimates receiving \$4.5-\$7 billion through public-private partnerships. Since an updated business plan has yet to be released, it is unclear the CHSRA has secured contracts or has acquired a dedicated amount of funding from the private sector.

Once completed, the HSR system is believed to generate over \$1 million in annual revenues, with no requirement of operating subsidies. According to the CHSRA, the rail will also create nearly 160,000 construction jobs and 450,000 permanent jobs⁸

San Diego-Los Angeles Corridor:

Route

Within the HSR system, San Diego would be connected from Los Angeles via the Inland Empire. Service along the Inland Corridor would parallel Interstate 215 and Interstate 15 and extend south to downtown San Diego. Service on the coastal corridor would extend no further south than Irvine, as a result of environmental constraints along the coast and in coastal communities between South Orange County and San Diego. There are three proposed stations that will be located within San Diego County: Escondido, University City, and Downtown San Diego. There is possibility of adding stops at the U.S.-Mexico border and at Lindbergh Field.

⁵ “An Overview of State Bond Debt”. LAO.

⁶ “Financing High-Speed Trains with Public-Private Partnerships”. California High Speed Rail Authority website.

⁷ Thomas. S. 294. *The Passenger Rail Investment and Improvement Act of 2008*.

⁸ “Creating Jobs and Boosting Our Economy”. California High Speed Rail Authority website.

Proponents have stated the trains would not run on the same tracks as freight trains, and that the line would be built in existing rights of way wherever possible.⁹ There is the possibility of acquiring land when possible, but these activities may increase the project costs and lead to delays. SANDAG officials have also stated the possibility of constructing elevated tracks over segments of the I-15 freeway.

Cost

According to the CHSRA 2000 Business Plan, the cost to complete the San Diego-Los Angeles is estimated between \$7-\$8 billion. There is no guarantee bond funds from Proposition 1A will be allocated to cover the costs of construction for this segment. With the cost of the San Francisco-Los Angeles route estimated at \$32 billion, it is possible all of the bond monies within Proposition 1A can be used to complete this segment, since that \$9 billion is less than the 50 percent cap outlined in the measure. Therefore other funding sources will need to be identified in order for the San Diego segment to be completed.

Currently the San Diego Association of Governments (SANDAG) has dedicated \$100 million from the Regional Transportation Plan (RTP) to HSR. If the measure were to pass, SANDAG has stated the next RTP update may outline a greater share of funding for the San Diego HSR corridor. SANDAG's current FY'09 budget has dedicated funding for the completion of a feasibility study to determine the alignment and number and location of stations along the route. This funding coincides with funding from the state to complete the study.

It is also unclear if these estimates include inflationary costs. The CHSRA has estimated the completion of Phase I to take eight years, with the San Diego-Los Angeles route (Phase II) to take another five years to complete. We are unable to accurately predict inflationary factors for construction materials, but there is no mention of what inflation factor was used in developing these cost estimates.

Ridership

The updated Ridership and Revenue Forecasting Study completed by the CHSRA in 2007 estimates the Los Angeles-San Diego route will attract approximately 18 million annual passengers and 367,000 daily trips by the year 2030. This route is also expected to generate approximately \$500 million in annual revenues by 2030. The travel times and associated fares for the three San Diego connecting routes are provided in Table 5 below.

⁹ "\$10 billion for high-speed rail sought". Steve Schmidt. *San Diego Union-Tribune*. September 9, 2008.

Table 5		
Route Times & Fares		
Route	Travel Time Hours:Minutes	Fare 2005 dollars
San Francisco to San Diego	3:56	\$68
Los Angeles to San Diego	1:18	\$20
San Diego to Sacramento	3:35	\$66

By the year 2030, SANDAG estimates the population within the region to reach approximately 4 million people.¹⁰ The CHSRA has also provided estimates in regards to annual boardings by station. Table 6 outlines the estimated boardings for the three proposed stations within the San Diego region. The estimated 12 million boardings from these three stations far exceed the expected population totals produced by SANDAG. The San Diego route forecasts have not detailed the percentage of Interregional versus Intraregional travel, but Intraregional travel for the entire HSR system is expected to reach only 25%. It can be assumed the CHSRA is anticipating a large number of these boardings to be commuter passengers traveling outside the county as opposed to individuals traveling between the northern and southern portions of the county.

Table 6	
2030 Annual Boardings by Station	
Station	Number of Boardings
Escondido	3,382,800
University City	2,279,800
San Diego	6,649,500
Total	12,312,100

Other Concerns:

Senate Transportation Committee Findings

In June 2008, the Senate Committee on Transportation & Housing issued a report that outlined 15 findings in its review of the CHSRA. These findings included many questions that have yet to be answered by the CHSRA, including:

- The requirement within AB 3034 to provide an updated Business Plan
- Clarity in detailing the strategy to fund the project
- Response to potential risks during construction, including right-of-way costs and grade separations

¹⁰ SANDAG 2030 Regional Growth Forecast Update. July 2008. No.2.

Other committee concerns have been addressed through amendments to the legislation, including the addition of the Independent Peer Review Group.

Comparison to Other Systems

The CHSRA has frequently compared the proposed system to those that are running in Europe, Japan and the Northeast Corridor high-speed rail service. Adam Summers of the Reason Foundation has stated the Acela service that travels from Washington, D.C. to New York to Boston carries less than 3 million passengers a year, yet the CHSRA estimates carrying 95 million passengers by 2030. Summers continues by stating other high-speed rail systems in other countries have the benefit of operating in denser urban areas and business districts that are closer together, allowing transit usage to reach as high as 60 percent.