A Financial Boondoggle

In 1999 the CHSRA estimated that the entire system would be built for $30.3 billion. By 2005 the estimate had climbed to $40.5 billion and by 2008 costs had risen to $45.4 billion for *only part of the system*—the whole system would cost approximately $50.2 billion (all 2006$). Realistically based on how cost estimates have risen during the life of the project so far, total capital costs by the end of the project are likely to escalate to as much as $81.4 billion.

The funding program for Phase I is a hodgepodge of highly speculative elements, relying principally on the proposed $9 billion state general obligation bond (on the November 2008 general election ballot) and assumed $9 billion in grants from the federal government (a figure considered highly optimistic since there is no existing federal program to provide such funding) plus private investment of up to $7.5 billion. This leaves just Phase I at best $7.6 billion short and perhaps as much as $33.1 billion short. It is thus possible that not even Phase I of the HSR project is financially viable without massive funding from as-yet-unidentified government sources.

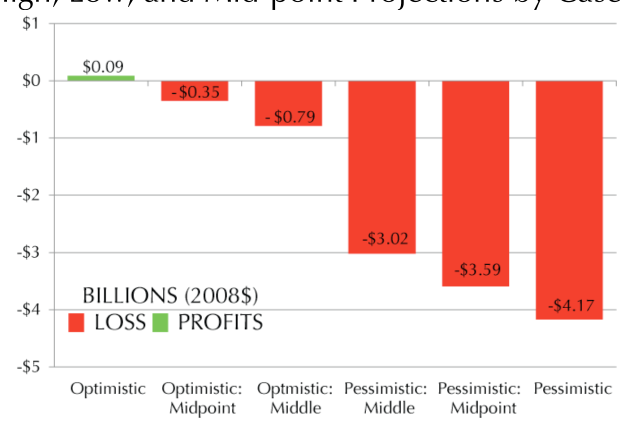
Operating costs are a major concern. CHSRA predicts operating costs from 40-to-70% below similar systems in other countries. Realistic operating costs will be 30-to-50% higher than CHSRA predicts, and much, if not all, of those higher costs will require taxpayer subsidies.

Based upon analysis of similar systems and the California market, we find that CHSRA's ridership, revenue and cost projections are overly optimistic. The principal consequence of these findings is that the California high speed rail (HSR) system is unlikely to generate sufficient commercial revenues to cover its operating and capital costs.

The CHSRA has provided no convincing detailed financial assumptions and has issued contradictory statements predicting "profits" without any public justification. The CHSRA's claims of profitability could not conceivably be credible under even the most optimistic assumptions, unless some or all capital and debt costs are ignored. Our analysis indicates that the San Francisco–Los Angeles line (Phase I) alone by 2030 would suffer annual financial losses of up to nearly $4.2 billion, with a small profit possible under only the most optimistic and improbable conditions (see Figure below).

HSR Phase 1 Financial Results: 2030

High, Low, and Mid-point Projections by Case



Such results could lead to default on private bonded indebtedness and losses for any equity investors, unless California taxpayers were to bailout private investors. There also appears to be an inevitable need for substantial additional funding from California taxpayers beyond the currently anticipated $9 billion. Given the above, it would not be unrealistic to characterize the California HSR proposal as a boondoggle.