



## **CALIFORNIA'S HIGH-SPEED RAIL AUTHORITY WINS DISHONOR OF THE CALIFORNIA GOLDEN FLEECE® AWARD**

The California High-Speed Rail Authority (CHSRA) has won the Independent Institute's first [California Golden Fleece® Award](#) for its lack of transparency and history of misleading the public about key details of the state's "bullet-train" project, which no longer reflect what voters approved in 2008.

The agency's "bait-and-switch" strategy justifies a statewide vote on whether or not to proceed with the train system. Californians should reject this unnecessary and expensive boondoggle.

### **Background**

In November 2008, California voters approved [Proposition 1A](#), a \$9.95 billion bond measure authorizing construction of a high-speed "bullet train" between downtown San Francisco and the greater Los Angeles area. The vote was 53 percent in favor and 47 percent opposed. The ballot measure contained key details regarding the project's cost, dedicated tracks, trip time, and financing plan. Many of these details have been changed repeatedly since 2008.

### **The Cost: A Moving Target**

Before the 2008 vote on the bond measure, the California High-Speed Rail Authority said: "The total cost to develop and construct the entire high-speed train system would be about \$45 billion." Proposition 1A also [promised](#) voters that the train system would operate without taxpayer subsidies: "The planned passenger service by the authority in the corridor or usable segment thereof will not require a local, state, or federal operating subsidy." Soon after voters approved the project, however, cost projections escalated.

In its [original 2012 Business Plan](#), the CHSRA set the price tag at a staggering [\\$98 billion](#). Public and political outcry caused rail officials to quickly backtrack. Just five months later, the [revised 2012 Business Plan](#) lowered the cost by \$30 billion by moving to a "blended" route: one that would share existing rail tracks in urban areas with other train systems, rather than building new dedicated tracks.

Based on this radical redesign, CHSRA said the entire 520-mile system would be completed in 2029 at a cost of \$68 billion, but only by [eliminating](#) high-speed service between Los Angeles and Anaheim and between San Jose and San Francisco.

Then in 2016, the CHSRA [Business Plan](#) lowered the cost by roughly \$4 billion net, to \$64 billion, through a combination of vaguely specified “design refinements,” “system optimization,” “value engineering,” and “lessons learned from bids.”

At this point, the ever-changing cost estimates defy belief. As [noted](#) by Dan Walters, *Sacramento Bee* columnist and longtime observer of state government: “Those charged with building California’s north-south bullet train system have been more or less making it up as they go along.” But regardless of whether the final cost is \$64 billion, \$68 billion, \$98 billion, or even higher, the reality should be clear: The cost far exceeds the \$45 billion approved by voters in 2008, and now with substantial track redesigns.

## Tracks and Trip Time: From Bullet Train to Choo Choo Train

Public outrage over the \$98 billion price tag prompted train officials to abandon the original plan of building dedicated tracks in urban areas. Instead, officials shifted to blended tracks in urban areas: the bullet train would share tracks with the existing Metrolink commuter network in Southern California and the Caltrain system in Northern California. But the blended approach increases trip time considerably from what was promised to voters.

Voters in 2008 were told the high-speed train would whisk travelers from San Francisco to Los Angeles in a “maximum nonstop service travel time” that “shall not exceed” 2 hours and 40 minutes. This specific trip time was often mentioned by supporters to sell the bond measure to voters. (See for example, [here](#) and [here](#).) But with the blended approach, the fastest time between these cities is now [estimated](#) by the CHSRA to be 3 hours and 8 minutes, with zero nonstop trips planned — another violation of Proposition 1A. But more realistic trip times are [expected](#) to be 3 hours and 50 minutes, or more, under real-world travel conditions.

The original 2:40 trip time assumed that trains would operate at peak speeds of 220 mph, and “sustained revenue operating speeds of at least 200 miles per hour.” But under the blended approach, high-speed trains must share tracks with commuter trains and freight trains, forcing them to slow down at the urban “book-ends.” And today’s older urban tracks can typically handle maximum speeds of only 125 mph.

In February 2016, officials announced that the first operating leg of the high-speed train system would be built for \$21 billion from downtown San Jose to an agricultural field in Shafter, north of Bakersfield, which would begin operating by 2025. The previous plan called for trains to operate first from Merced to Burbank by 2022, three years earlier. This change in the initial route might appear innocent, but by moving the first leg of construction further north, officials can delay construction on a tunnel through the Tehachapi and San Gabriel Mountains, which is likely to bust the current \$64 billion budget.

According to a *Los Angeles Times* [special report](#):

The monumental task of building California’s [bullet train](#) will require punching 36 miles of tunnels through the geologically complex mountains north of Los Angeles.

Crews will have to cross the tectonic boundary that separates the North American and Pacific

plates, boring through a jumble of fractured rock formations and a maze of earthquake faults, some of which are not mapped.

It will be the most ambitious tunneling project in the nation's history. . . .

However, a *Times* analysis of project documents, as well as interviews with scientists, engineers, and construction experts, indicates that the deadline and budget targets will almost certainly be missed — and that the state has underestimated the challenges ahead, particularly completing the tunneling on time.

“It doesn't strike me as realistic,” said James Monsees, one of the world's top tunneling experts and an author of the federal manual on highway tunneling. “Faults are notorious for causing trouble.”

Serious questions remain about whether sufficient funding will ever materialize to complete the newly proposed first leg from San Jose to Shafter, and then to eventually extend the line north to San Francisco and south through the mountains to Los Angeles as originally promised.

## The Financing Plan: Smoke and Mirrors

Supporters of the high-speed rail project envisioned financing coming from multiple partners. Under Proposition 1A, California voters approved a [\\$9.95 billion](#) bond in 2008 to help finance construction of the rail network (interest costs will be an additional \$9.5 billion). Voters were told that if they approved the bond, the federal government and the private sector would pay for the rest.

Supporters were counting on private investors kicking in as much as [\\$36 billion](#). The federal government was also expected to contribute up to [\\$18 billion](#). Another source of funding that arose in 2014 consisted of earmarking 25 percent of the proceeds from auctioning credits to emit greenhouse gases under California's “cap-and-trade” program, which is [estimated](#) to yield the rail project about \$500 million a year. (Under the plan, the rail authority would use the annual “cap-and-trade” revenues through 2024, and then seek to borrow [\\$5.2 billion](#) against future carbon fees from 2025 to 2050.) To date, much of the promised financing has never materialized and largely amounts to wishful thinking.

Congress has [pledged](#) an initial grant of \$3.3 billion, mostly through President Obama's economic stimulus package. But the state has received only \$503 million of that money as of 2015. And Congress has balked at additional funding. “Congress is never going to allocate more money to a project that lacks the ridership numbers, speeds, private funding, and voter support once promised,” [said](#) Rep. Jeff Denham (R-Turlock), chairman of the House rail subcommittee.

The legal authorization to impose the state “cap-and-trade” fees expires in 2020, making the future availability of this money questionable. And a [lawsuit](#) seeks to block use of the cap-and-trade fees for the high-speed rail project. [According](#) to Jessica Peters, principal fiscal and policy analyst with California's nonpartisan Legislative Analyst's Office (LAO): “About half of the [San Jose to Shafter] funds would come from cap-and-trade beyond 2020,” when the fees are set to expire. A LAO review of the CHSRA's 2016 Business Plan also [questioned](#) the logic of choosing a field in Shafter as the initial southern terminus:

Even with a temporary station or platform, ending the IOS [initial operating segment] in an unpopulated agricultural area does not appear to be an effective approach. This is because this

location would not have the types of facilities and nearby businesses, such as transit connections, rental car facilities, and shops necessary to meet the needs of train passengers.

Finally, the private sector has not invested in the project, which is unlikely to ever be profitable. Summarizing, the LAO [said](#) that the CHSRA's current funding plan is "significantly short of the level needed to complete [the entire San Francisco to Los Angeles system] and does not identify how this shortfall [of \$43 billion] would be met."

Moreover, the pledge to voters in 2008 that the high-speed train would operate without taxpayer subsidies was based on ridership estimates that are quickly evaporating. In 2008, the CHSRA forecasted a base annual ridership of 65.5 million intercity riders and a high projection of 96.5 million intercity riders by 2030.

But [independent analysis](#) concluded:

The CHSRA ridership projections are considerably higher than independent figures developed for comparable California systems in Federal Railroad Administration and University of California Transportation Center at Berkeley studies. Using generous assumptions, this *Due Diligence Report* projects a 2030 base of 23.4 million intercity riders, 64 percent below the CHSRA's base of 65.5 million intercity riders, and a 2030 high of 31.1 million intercity riders, nearly 60 percent below the CHSRA's high of 96.5 million. It is likely that the HSR will fall far short of its revenue projections, leading to a need for substantial additional infusions of taxpayer subsidies.

The blended 2012 redesign will [increase](#) trip times substantially, making air travel, driving, Skype, or phone calls more attractive relative to a slower train ride:

[A]ssuming the optimistic travel time projection of 3:50, the 2035 interregional ridership would be approximately two-thirds (67 percent) below CHSRA projected levels [of 21 million] at 6.9 million annually. Assuming realistic automobile costs and more-plausible outside-the-corridor ridership, the 2035 interregional ridership would be 77 percent below the CHSRA forecast, at 4.8 million annually. Even if the number of automobile drivers switching to rail equals the European experience, ridership would still fall nearly 65 percent short of the CHSRA projection.

Thus, the CHSRA's downgraded ridership estimate of 21 million people is still likely to be wildly exaggerated. The promise to operate the high-speed trains without subsidies, therefore, is fantasy using realistic ridership numbers: calculations by Joseph Vranich and Wendell Cox [concluded](#) that day-to-day operating losses will generate annual deficits totaling between \$124 million and \$373 million at the operating-cost midpoint projected by CHSRA for 2035. Subsidies would be needed to backfill these deep deficits.

The money secured to date is far less than needed to complete the project. With no clear path to obtaining the funds needed for completion, many Californians now decry "the train to nowhere." And realistic ridership projections show that annual subsidies will likely be needed to keep the trains rolling, if the project is built at all.

## **The Pathologies of Government: A Lesson in Perverse Political Incentives**

California's high-speed rail project highlights that governments do a poor job of assessing the costs and benefits of capital-investment projects since politicians do not personally bear the costs and benefits of the projects or of

their calculation errors. In fact, politicians have an incentive to exaggerate the benefits and hide true costs, as was done with the bullet train, to build support for these projects. In contrast, private investors and private operators generally have an incentive to develop accurate projections of capital projects because, if they are wrong, they will typically bear the costs, and, if they are right, they can reap any profits from the wise stewardship of resources.

Train officials and supporters have repeatedly told the public that the train will cover operating costs, will not require any operating subsidies, [and](#) “generate sufficient cash flow to attract private capital” for future construction — even the first leg from San Jose to Shafter will feature “non-subsidized operations,” according to CHSRA officials. If the project is as good of an investment as supporters claim, then taxpayer/government involvement to bankroll the construction and operation is unnecessary. Private investors and private operators can, and should, provide this transportation service.

But the evidence indicates that the high-speed rail project will not be self-sustaining. As it will waste scarce resources, the bullet train qualifies as a boondoggle and should not be undertaken.

## The Recommendation

The serious discrepancies between the original plan for the high-speed rail project and current promises warrant a statewide ballot referendum on whether to proceed with the project and, if so, how. There is growing opposition to the project now that more information is known about the true cost, slower routes, and financing uncertainties.

In February 2015, Gavin Newsom (D), California Lieutenant Governor and former mayor of San Francisco, [said](#):

We’re not even close to the timeline (for the project), we’re not close to the total cost estimates, and the private-sector money and the federal dollars are questionable. . . . I am not the only Democrat that feels this way. I am one of the few that just said it publicly. Most are now saying it privately.

Following Newsom’s candid remarks, Assemblywoman Patty Lopez (D-San Fernando) [said](#) that she now opposes the project, and that five other legislative Democrats are also considering a switch to opposing it. Lopez supports a re-vote on the issue.

A January 2016 [poll](#) found that 53 percent of Californians support killing the high-speed rail project and using the unspent money on water projects; only 31 percent do not. Dan Walters of the *Sacramento Bee* [echoes](#) this sentiment: “We should put at least as much effort into protecting our vital water supply as we are wasting on a bullet train that we neither want nor need.”

---

Written by [Lawrence J. McQuillan, PhD](#), Senior Fellow and Director of the Center on Entrepreneurial Innovation at the Independent Institute and [Hayeon Carol Park, MA](#).

*Each quarter, Independent Institute highlights a California state or local government spending program, tax, or regulation that fleeces taxpayers, consumers, or businesses. The California Golden Fleece® Awards shine a spotlight on waste, fraud, and abuse in California government to provide valuable information to the public, enabling them to provide needed oversight and demand meaningful change.*

*Fleece award winners are announced quarterly on Independent.org and posted on Independent’s Twitter, Facebook, LinkedIn, and Instagram. We encourage people—both inside and outside of government—to send us Fleece candidates. To learn more and to submit your candidates, go to [www.independent.org/cagoldenfleece](http://www.independent.org/cagoldenfleece).*