

## Who will pay for California's high-speed rail system?

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Bay Area News Group

Posted: 08/15/2010 12:00:00 AM PDT

For the next minute, imagine yourself at a car dealership. You're strapped for cash but find a sleek new ride and ask the salesman for a deal.

He quotes you a number that's four times what you have in the bank. And, he warns, even that price isn't fixed -- there's no guarantee you won't pay more in the end.

What do you do?

For California, the lure of its new ride -- a bullet train system capable of whisking passengers between the Bay Area and Los Angeles -- has proved so enticing that the state jumped at the deal, even though it has only a quarter of the money needed.

That's leading some critics to ask whether the state's largest project ever could also prove to be its most financially disastrous.

California is less than two years from the planned start of construction on the nation's first high-speed rail line, which would open in 2020. The trains will zip along the Caltrain corridor from San Francisco to San Jose and then on to Anaheim, a three-hour journey end to end.

It has the potential to create jobs while offering a

cheaper, greener and faster form of travel. It could also be another nail in the state's financial coffin.

The California High-Speed Rail Authority, created to carry out the project, told voters in 2008 that the rail line would cost \$33.6 billion. The price has since jumped 27 percent, to \$42.6 billion.

That much cash could pay to build a new Bay Bridge, extend BART to San Jose

and Livermore, and repair California's water system -- with enough left over to erase the state's budget deficit.

And historical data shows the undertaking will almost certainly get more expensive.

### How much will it cost?

The Rail Authority's estimate has risen mostly because when the measure went on the ballot, it didn't account for inflation, which is expected to total 19 percent over five years of construction.

Even with that amount

factored in, if the Rail Authority meets its new projected target, California's 520-mile system would actually be cheap compared with the per-mile cost of high-speed rail in other parts of the world.

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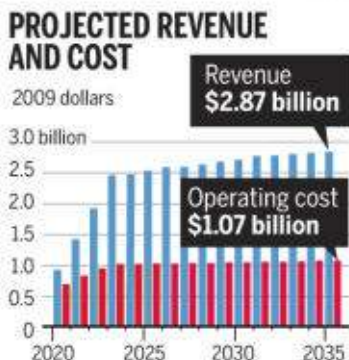
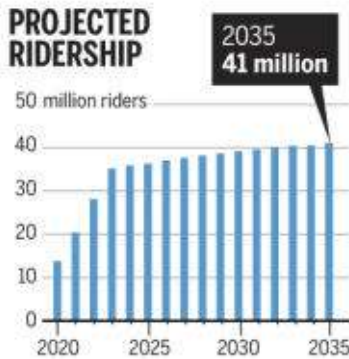
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Proposed San Francisco-to-L.A. ticket prices have nearly doubled to \$105; more increases could hurt ridership.



Note: Projections assume that train fare will be 83% of the cost of airfare.

In fact, it would be one of the cheapest such lines in history.

A Bay Area News Group analysis of high-speed systems around the globe suggests that the project

could cost less than the current estimate, as little as \$38 billion. But it is most likely to cost more -- up to \$73 billion, even if built on time.

That analysis is based on the per-mile capital costs of high-speed rail systems built in Europe and Asia in the past decade, as outlined in a World Bank report released last month. The report said costs varied widely depending on terrain, the complexity of engineering work required, how many rail cars were needed and the extent to which routes passed through urban areas.

The newspapers' estimate also factors in the Rail Authority's expected inflation and the estimated \$3.4 billion in noncapital expenses -- like public outreach and salaries for authority staffers -- included in the official price tag.

Jeff Barker, deputy director of the Rail Authority, called the estimate "a crude rendering of the possible costs."

Referring to the project's official \$42.6 billion price, he said, "a lot more went into it than just taking the per-mile cost and multiplying it out."

But World Bank officials said the per-mile price of a California system would likely fall within the cost range of their report. And one vocal opponent of the project says the upper-range numbers don't surprise him.

"The state of California does not do anything cheaper than the rest of the world," said Adrian Moore, vice president of the libertarian Reason Foundation. "There is no way it will be close to \$45 billion."

Costs along some parts of the rail line zoomed up

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earlier this year, including one five-mile stretch on the Peninsula where estimates soared \$135 million. The reason? Engineers had estimated the cost of building two tracks there when they actually needed four.

But Rail Authority board member Rod Diridon noted construction costs during the recession have been consistently low as firms get desperate for jobs.

"We're going to deliver the project as it's promised," Diridon said. "And that's just the way it has to be."

Diridon says delay would be "deadly." The state estimates that every extra year would boost the total price tag by roughly \$1.5 billion.

### 'Optimism bias'

A read through the history books shows it would be extremely rare for a project of this magnitude to meet initial cost projections.

A research team led by Oxford University professor Bent Flyvbjerg has studied the estimates and final price tags of 258 megaprojects across 20 countries, including bridges, rail systems, tunnels and freeways.

What they found was astonishing: Nine out of every 10 projects finished over budget, and the average urban rail system ended up costing 45 percent more than projected.

Flyvbjerg says projects in California haven't bucked the trend. Taxpayer-funded initiatives such as the Bay Bridge rebuild, BART's extension to San Francisco International Airport and the Los Angeles Metro rail system all failed to meet estimates.

The researchers noticed two problems over and over again: "optimism bias," the tendency to focus on an idea's potential while downplaying pitfalls; and "strategic misrepresentation," which means officials lowballing costs to make a project look more attractive.

Could this be happening to California?

The Rail Authority stands by its numbers, saying they were generated by some of the world's top firms.

Yet critics have questioned why the authority failed to account for inflation -- which caused cost estimates to jump by about \$7 billion -- until after voters approved the project.

Diridon said the board did so because it's tough to predict inflation rates and because federal officials only recently asked for the data.

### How will we pay for it?

Trying to contain the cost of a project so large is hard enough. The rail authority has a double challenge: It doesn't have close to enough money to pay for the system even as priced today.

The authority has \$9 billion in state bond money and a \$2.25 billion federal stimulus grant committed. It says the remaining three-fourths of the construction costs will come from government and private investors.

The state is banking on at least \$15 billion more from Washington, D.C., by 2016 and has applied for up to \$1 billion from this year's federal budget.

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Even if it gets the full amount this year, the authority would need at least \$2.3 billion each subsequent year from Uncle Sam, a plan the state's nonpartisan legislative analyst recently characterized as "highly uncertain."

The U.S. government's entire high-speed rail budget this year was \$2.3 billion, and that was its biggest such layout ever; the feds have tentatively sliced next year's amount to \$1.4 billion. California has the largest and most advanced project in the nation but must compete for the grants with 13 high-speed rail corridors across 31 states.

Rail officials argue that the competition actually increases the odds Congress will keep money flowing across the country.

"We're not going it alone in D.C.," said Barker of the Rail Authority. "It's something we're confident the federal government wants to do."

The authority plans to ask local cities, transportation agencies and developers to foot another \$4 billion to \$5 billion. The final \$10 billion to \$12 billion would come from foreign countries, companies and other investors. Specific plans for those two pots of funding have yet to be established.

San Jose Mayor Chuck Reed, for one, thinks the Rail Authority is dreaming. "I don't think there is any hope local governments can come up with that kind of money," he said. "I'm looking at my city's own finances and resources, and we don't have money to spare."

Skeptics also question whether private sponsors will line up to support the project.

"Without a set of numbers that are real, private investment won't be forthcoming," said state Sen. Joe Simitian, D-Palo Alto, one of the legislators overseeing the project through the Transportation and Housing Committee.

Still another financial challenge for the authority is operating the line once it's built. That, too, already looks harder than initial indications.

The high-speed rail line's revenues depend on two factors: how many people ride it, and how much they pay.

The state predicts the line will carry 41 million passengers annually by 2035. UC Berkeley experts hired to validate those ridership numbers recently reported them to be unreliable.

And in the dozens of urban rail projects studied by Flyvbjerg's team, the average train system produced half the number of riders that planners expected.

Meanwhile, the authority has nearly doubled the estimated price of traveling from San Francisco to Los Angeles to \$105, as measured in today's dollars. The original number was based on the notion that a bullet train ticket would be half the price of a comparable air ticket; the authority changed that to 83 percent in hopes of generating more profit.

But the Rail Authority concedes pricier tickets will cost them millions of riders.

## Lessons from abroad

The California project would be unprecedented in the United States. The nation's speediest train is an Amtrak express in the Northeast that's capable of

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150 mph but averages just 84 mph, slightly faster than the top speed of a commuter line such as Caltrain.

But abroad, there are at least 50 lines carrying high-speed trains -- those that travel in excess of 150 mph.

The World Bank report said China, which soon will have more than half the world's high-speed rail lines, has been successful because of cheap labor.

Results in countries whose costs are comparable to the United States have been mixed. The report says that while most lines cover their operational costs, they've had to restructure debt or seek additional government funds to finish construction.

"Most high-speed rail systems do not pay for their capital investment," said Genevieve Giuliano, director of the METRANS Transportation Center at the University of Southern California.

When Italy first planned to run high-speed trains between Rome and Florence in 1977, officials estimated 60 percent of the \$3 billion project would come from the private sector. But costs more than doubled and no private investor participated, leaving Italy to issue bonds to shoulder the entire burden.

After tracks were extended to Milan in 1991, though, private companies enticed by ridership figures joined in and helped raise more than half the cash needed for extensions to other cities.

Meanwhile, France saw high-speed rail ridership soar from 12.5 million in 1980 to nearly 23 million in 1992; it's now a moneymaker.

But in Japan, where government funded the entire system, there were problems when some cities demanded more stations be built. The result was a \$200 billion debt in 1987. To spare taxpayers that crushing burden, the government had to sell part of the system to private groups.

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