

ON THE CHSRA'S ESTIMATED OPERATING REVENUES

Brief Note #13 – June 27th 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: Realistic operating margins depend on realistic operating revenues.

Background: The litmus test of the CHSRA's ability to attract \$38-54Billion of private capital will be the perceived reasonableness of both aspects of their projected operating margin (or operating surplus) – the ability to gather estimated revenues and pay operating expenses to create a long-term stream of positive operating margins and therefore a Return On Investment (ROI) for investors. This Note addresses the reasonableness of CHSRA's assumptions about its revenues.

Several authors with backgrounds in operating businesses pointed out problems with revenue assumptions in the Authority's 2009 Business Plan.¹ Among those are:

With a full cost-recovery, round trip cost of a SF-LA auto trip at about \$412, and gasoline-only trip at about \$200, the Authority's \$840 round trip for a family of four doesn't seem financially attractive. Nor would more realistic train round trip tickets for four at \$1520.² If over half of all their 39,000,000 riders in 2030 are to come from displacing auto trips, the Authority has a passenger volume and therefore revenue problem.³

The Authority set their baseline airline ticket prices higher than they should be. That overstatement inflates all the train's revenues since train ticket prices were set at 83% of airline ticket prices.⁴ Decreasing the baseline airfare would decrease train revenues since cannibalizing air or auto passenger traffic is the market segments the CHSRA envisions.

OECD recognizes that: "*Low-cost carriers might respond to the emergence of a high-speed rail alternative . . . A similar improvement on the rail side would be very costly given the cost of trains, and this would reduce rail's market share and profitability.*"⁵ CHSRA did not incorporate inevitable airfare competition into their ticket-pricing model.

By 2009, CHSRA needed higher average revenues per passenger because ridership estimates dropped by more than 60% – i.e. from about 100 Million to 39 Million in the tenth operating year. The Plan says "*Between 2000 and 2030 population is forecast to grow by 42% to 48 million, and employment will grow by about 51%. This growth will increase total interregional travel by 65% to 911 million trips a year, with auto keeping its lion's share, but with a nearly five fold increase in conventional rail trips.*"⁶ Several revenue-based questions arise.⁷ How does employment increase twenty percent faster than population and why would interregional travel increase half again as fast as population growth? Where are considerations of new technologies now replacing corporate travel?

Conclusions: The 2009 Plan's revenue assumptions bear little resemblance to the quality of an investment-grade document the private sector will demand for due diligence work and further postpones, if not negates, the possibility of raising \$38-\$54Billion.

¹ See: CHSRA 2009 Report to the Legislature and the Addendum of April 8, 2010.

² See: Appendix A to *The Financial Risks of California's Proposed High-Speed Rail Project*; October 2010.

³ In its 2008 Business Plan, the Authority states that the 550 million auto trips between the regions in 2000 was 96% of the total trips. See: Figure 7, page 6. In its 2009 Business Plan, year 2000 auto trips represent 95% of the total. See: page 68.

⁴ Op Cit, CHSRA 2009 Report

⁵ OECD and International Transport Forum: JOINT TRANSPORT RESEARCH CENTRE Round Table, 2-3 October 2008, Paris; Discussion Paper No. 2009-7; *Competitive Interaction between Airports, Airlines and High-Speed Rail*: May 2009, pg. 14

⁶ Op Cit, CHSRA 2009 Report, page 68.

⁷ These are posed in Appendix C to *The Financial Risks of California's Proposed High-Speed Rail Project*; October 2010, prepared by Alan Bushell.