ON OPERATING COSTS OUT OF SYNC WITH THE FRA AND REALITY
Brief Note #15 – July 14th 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: CHSRA's estimated operating costs don't reflect real world experience

Background: The CHSRA 2009 Business Plan's one-way single fare of $105 equates to $0.24 per mile for the roughly 430 land miles between Los Angeles and San Francisco.[1] That Plan also estimates operating costs at about 45% of the CHSRA's projected revenues from 2020 to 2035; making their average passenger mile operating cost about $0.11.[2] Some observations on the CHSRA's 2009 expense and revenue claims:

When calculating costs, the CHSRA used 3% as the "*same average rate of inflation"* for their operating costs, such as labor, electrical power, health care, fuel and security costs. [3] Many of these variable costs grow faster than 3%, understating realistic future costs.

CHSRA assumed some entity other than the train's operator pays the property, casualty and liability insurance, putting those burdens on the State and its taxpayers.[4]

To accept the CHSRA's operating cost projections would be in spite of a prior Federal Railroad Administration's observation: *"The operating cost per seat mile from the FRA study for the California corridor (2006$) is approximately 40 % higher than the CHSRA's projections*."[5]

Europe and Japan's high-speed rail systems price their tickets at about $0.43 per passenger mile.[6] They do so only by virtue of receiving capital subsidies, operating subsidies or both from their governments.[7] Therefore, those systems' operating costs must be at least $0.44 per passenger mile.

At the CHSRA's 2009 Plan's ticket price (one-way LA-SF at $105), a high-speed rail ticket costing $0.24 per passenger mile is less than half the allowable $0.51 per mile the Internal Revenue Service's allows for deducting business auto mileage.[8] That makes the CHSRA's cost per passenger mile at $0.11 about one-fifth of the authorized per mile costs of operating an automobile, an unreasonably low comparative rate of operating costs that raises more questions about the CHSRA's estimates.

How can California's train, where *"the users of the system will pay for the system"* produce a positive cash flow when its projected passenger per mile costs are about a fifth of those of operating an automobile; or a quarter of the estimated costs to operate Europe and Japan's subsidized high-speed rail systems?[9] Wouldn't private investors or operators already have entered the US market if the CHSRA's $0.11 per passenger mile operating costs were valid?

Conclusions: More realistic cost projections in CHSRA's next Plan will likely raise the operating cost per passenger mile. To keep a positive operating margin and to avoid an operating subsidy, these cost increases will lead to upward pressures on the estimated price per mile.[10] However, previous work by these authors has shown that CHSRA's 2009 pricing plans also were not competitive with the airline and automobile segments, which will create downward price pressures, by as much as 25%.[11] It's unclear how these conflicting price requirements and financial sustainability versus fare competitiveness, can be resolved.

---

[1] California High-Speed Rail Authority "Report to the Legislature; December 2009; pg. 65 and Table B, pg.70. For computations on this as well as six high-speed rail systems, see Brief Note #14 at www.cc-hsr.org
[2] Ibid. Page 82, Table J for Revenues and Operating Costs, plus page 83, Table K for Capital Replacement Costs. Forty five percent of $0.24per passenger mile is $0.11 per passenger mile.
[3] See Brief Note #3, found at http://www.cc-hsr.org/
[4] These and other observations on the poor quality of CHSRA's operating cost calculations are found both in Appendix C to 'The Financial Risks Of California's Proposed HSR Project' and Notes #3 and # 12 by the same authors. See: http://www.cc-hsr.org/
[5] Cox, Wendell; Vranich, Joseph and; Moore, Adrian: The California High-Speed Rail Proposal: A Due Diligence Report: Reason Foundation; Policy Study 370; September 2008; pg. 49.
[6] Brief Note #14, On Evidence Based High-Speed Rail Fares, and Brief Note #10, On Financial Shell Games, at www.cc-hsr.org
[7] See 'The Financial Risks Of California's Proposed High-Speed Rail Project', pg. 59, at: http://www.cc-hsr.org/
[8] See: 2009 IRS guidelines. See: http://www.savingtoinvest.com/2009/12/2010-vs-2009-standard-mileage-rate-tax.html
[9] Op. Cit The Official Voter Information Guide pg. 2. Section 2704.08(J) of AB3034 prohibits an operating subsidy.
[10] For details, see Brief Notes #3 and #12 and App. C of The Financial Risks of California's HSR Project; found at www.cc-hsr.org
[11] For details, see Brief Notes #8, #9, & #13, and App. A of The Financial Risks of California's HSR Project; at http://www.cc-hsr.org/