

## ON HIGH-SPEED RAIL'S NEED FOR OPERATING SUBSIDIES

### Brief Note #6 – June 6th 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: Section 2704. 08(J) of AB3034 says California's high-speed rail system cannot have an operating subsidy.**

**Background:** All high-speed rail systems in the world require subsidies. At least six independent studies, experts and union officials agree:

A 2004 study documented Acela's losses at \$51Million; but 'covered' by an overall annual subsidy of nearly \$1Billion for Amtrak.<sup>1</sup>

In April 2008, Amtrak's Inspector General said; "*European Passenger Train Operations operate at a financial loss and consequently require significant Public Subsidies.*"<sup>2</sup>

In May of 2009 Iñaki Barrón de Angoití, Director of High-Speed Rail at the International Union of Railways (IUR), said, "*Only two routes in the world – between Tokyo and Osaka, and between Paris and Lyon – have broken even.*"<sup>3</sup>

In December 2009 the US Congressional Research Service (CRS) said of high-speed rail: "*Typically, governments have paid the construction costs, and in many cases have subsidized the operating costs as well.*"<sup>4</sup>

In July 2010 a World Bank report cautioned that governments planning high-speed rail systems: ". . . *should also contemplate the near-certainty of copious and continuing budget support for the debt.*"<sup>5</sup>

In May 2011 the AFL-CIO's Transportation Trades Department, said; "*There is no high-speed passenger rail system in the world that operates without significant government assistance,*" . . . *Private sector companies simply cannot make a profit without federal support.*"<sup>6</sup>

**Conclusions:** These statements are powerful indicators of high-speed rail's need for subsidies while discrediting proponents' claims to voters in 2008 that "THE USERS OF THE SYSTEM PAY FOR THE SYSTEM".<sup>7</sup> Such subsidies would violate AB3034, even if called a revenue guarantee.<sup>8</sup>

The proposed project cannot financially function without a forbidden operating subsidy. Even at a \$43Billion to build, servicing construction debt creates negative cash flows; while a \$66Billion construction bill would require \$5-\$7Billion of annual debt servicing.<sup>9</sup> No plausible scenario for the train's operating margins suggest there will be the cash flow to service debt that substantial.

<sup>1</sup> Amtrak Reform Council; *An Action Plan for the Restructuring and Rationalization of the National Intercity Rail Passenger System; Report to Congress*; February 2002; page 96

<sup>2</sup> See: Amtrak, Office of the Inspector General: EVALUATION REPORT E-08-02 Public Funding Levels of European Passenger Railroads: April 22, 2008

<sup>3</sup> Spain's High-Speed Rail Offers Guideposts For U.S." *NY Times*, May 29, 2009

<sup>4</sup> Op.cit: Peterman, Frittelli, and Mallett, W.; CRS; pg.1.

<sup>5</sup> Paul Amos, Dick Bullock, and Jitendra Sondhi "High-Speed Rail: The Fast Track to Economic Development?": World Bank Report No 55856; July 2010: Summary; pg.6 - See<[http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/07/26/000334955\\_20100726032714/Rendered/PDF/558560WP0Bo\\_x341SR1v08121jul101final.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/07/26/000334955_20100726032714/Rendered/PDF/558560WP0Bo_x341SR1v08121jul101final.pdf)

<sup>6</sup> Statement of Edward Wytkind, president of the AFL-CIO's Transportation Trades Department concerning the proposal to privatize ACELA in the NE Corridor. See: <http://dc.streetsblog.org/2011/05/27/gop-proposal-to-privatize-amtrak-meets-resistance/>

<sup>7</sup> The Official Voter Information Guide of the Tuesday, November 4, 2008 California General Election: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebutt1a.htm>

<sup>8</sup> The Authority never responded to a February 2010 demand to clarify the distinction between a subsidy and a revenue guarantee and reiterated by State Senator Joe Simitian in a Senate Transportation Committee hearing of 5 May 2011.

<sup>9</sup> See: Big Trouble For California's \$66Billion Train; at <http://www.cc-hsr.org/>