

## ON PRIVATE CAPITAL FOR CALIFORNIA'S HIGH-SPEED TRAIN Brief Note #7 – 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: Private capital will not participate without guarantees.**

**Background:** Because there was no profit to be made, by the close of the 1970s, private sector rail operators had abandoned passenger services for profitable freight services. Amtrak, a supposedly public-private corporation, was founded to fill the passenger rail gap.<sup>1</sup>

Amtrak's history has proven the wisdom of the former private passenger carriers; including its unsuccessful 1997-2003 attempt to subsidize passengers with a freight rail business. Amtrak has consumed over \$40Billion in federal operating and capital subsidies since it was created in 1971 – over \$1Billion/year.<sup>2</sup> Private 'at-risk' capital is not interested in investing in passenger rail because there is no profit in it to keep their businesses a 'going concern'.

In May 2011, the ranking Democrat on the Congressional Transportation Committee said;

*"Private companies did not want to run passenger rail service back then and I am not convinced they want to do it now... two years ago, DOT issued a request for proposals for private companies to develop high-speed rail . . . Not one single proposal was submitted by the private sector for developing high-speed rail on the Northeast Corridor."<sup>3</sup>*

And the Republican-controlled House Budget Committee followed up with:

*"High-speed rail and other new intercity projects should be pursued only if they can be established as self-supporting commercial services."*

Nor is private capital interested in 'at risk' investment in California's high-speed rail project. Investors want a subsidy, even if called a revenue guarantee. The Authority's Board has known this since June 2008. Five months before Prop 1A their own consultants, the Infrastructure Management Group, told the Board that all the operators and equipment manufacturers, and nine out of ten builders, responding to their Requests for Expressions of Interest (RFEI) were reluctant to invest unless a large portion of the capital costs were from State and Federal sources: The report says: <sup>4</sup>

*"Nearly all RFEI respondents noted that they would be unlikely to commit the resources necessary to participate in a procurement of this magnitude until after strong financial backing for the Project was provided by the public sector."*

**Conclusions:** The project's capital development and operations costs are completely dependent on federal or state funding. No 'at risk' private money has come or is likely to come to the project without a subsidy or its surrogate, a revenue guarantee – forbidden by Section 2704.08 (J) of AB3034.

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<sup>1</sup> Amtrak's (AMTX) was created by the Rail Passenger Service Act of 1970, and is the National Railroad Passenger Corporation. The US Government owns all of the preferred stock.

<sup>2</sup> A 2004 DOT survey found passenger rail the most subsidized transportation mode. Amtrak subsidies per 1,000 passenger miles were \$210; automobiles were \$1.79. See: US DOT Bureau of Transportation Statistics, "Federal Subsidies to Passenger Transportation," December 2004, p. 25

<sup>3</sup> Congressman Nick Rahall (D-WV) speaking at a May 2011 Congressional Transportation Committee hearing on the NE corridor. See: <http://dc.streetsblog.org/2011/05/27/gop-proposal-to-privatize-amtrak-meets-resistance/>

<sup>4</sup> See: Report of Responses to the Request for Expressions of Interest For Private Participation in the Development of A High-Speed Train System in California by the Infrastructure Management Group (IMG) to the California High-Speed Rail Authority Board Financing Workshop, dated October 2008; page 2 of 17. The presentation was given in June 2008 "A presentation summarizing the results of the RFEI was made before the Authority Board of Directors on June 11, 2008 " The printed report issued in October 2008.