

## ON CHSRA'S ASSUMED RAIL TICKET PRICES VERSUS AIRLINE FARES Brief Note #9 – June 30<sup>th</sup> 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: High-speed rail ticket prices may exclude most California families**

**Background:** Before the 2008 election the California High-Speed Rail Authority (CHSRA) said their one-way ticket between Los Angeles and San Francisco, based on their pricing model assuming 50% of the average airfare between the metropolises would be about \$50.<sup>i</sup> In 2009 CHSRA assumption was 83% of their own computed average airfare.<sup>ii</sup>

What is behind this CHSRA claim of a \$105 one-way, high-speed rail ticket compared to their projected one-way airline ticket average of \$126? William Warren analyzed web-based airfares for competitors between two pairs of the metropolises' airports over the five weeks prior to an assumed trip, and concluded CHSRA's base ticket prices should be 20-25% lower than the prices shown in the CHSRA's 2009 Business Plan.<sup>iii</sup> The at-the-counter average airline ticket price for LAX-SFO was \$132, but competition makes the price drop quickly to \$79 if purchased four weeks in advance. The weighted average of LAX-SFO airfares is \$99. Eighty three percent of that is \$82; 22% below the \$105 price in CHSRA's 2009 Plan.<sup>iv</sup>

Airlines have more pricing flexibility and 'sticking power' than does a single route railroad. If the airlines predict they'll lose market share, they'll cut prices between cities on the train's routes. While Southwest, United, American, Virgin and others can compensate by maintaining prices or raising prices in other segments, all of the train's ticket prices will have to drop to stay competitive, and along with that drop, revenues will drop.

Based on CHSRA's 2009 Business Plan, a middle class family of four would pay \$840 for a high-speed LA-SF round trip. It's fairly safe to assume they will be looking for the cheapest transport to Disneyland or San Francisco's cable cars. By searching a month in advance, each could get \$79 tickets to both air destinations, or \$632 round trip; saving 25% or more.

**Conclusions:** The CHSRA needs to understand that seven highly competitive airlines will not let the train take away passengers. After decades of yield management analysis and pricing; they know how to cross-subsidize routes. They will move aggressively to show budget-conscious families and business passengers how to use their services at prices lower than the capital-intensive railroad could muster. The CHSRA's present ticket price probably excludes the middle class: a more realistic train ticket price definitely excludes does.<sup>v</sup>

---

<sup>i</sup> See: In the document 2008 California High-Speed Train BUSINESS PLAN November 2008; California High-Speed Rail Authority; California High-Speed Train Business Plan; November 2008; pg. 20. For the 2009 reference see: Report to the Legislature; California High-Speed Rail Authority; December 2009; page 65. For the 2008 ticket price see the official ballot description "about \$50 a person." See: <http://www.voterguide.sos.ca.gov/past/2008/general/argu-rebut/argu-rebutt1a.htm>.

<sup>ii</sup> This may be because CHSRA shifted to a higher price, lower ridership volume strategy.

<sup>iii</sup> See: Appendix A to *The Financial Risks Of California's Proposed High-Speed Rail Project*; October 2010; especially Tables called 'Average Airfares' and 'Air Market'. Found at <http://www.cc-hsr.org/>. Unless otherwise noted, neither the CHSRA, nor the Warren-based prices include taxes and fees. Warren used Southwest Airlines' fares for primary modeling price sensitivities, but also found other airlines' (United, Virgin America, AA) fares followed suit.

<sup>iv</sup> By comparison, where there are few competitors, such as for San Jose to Anaheim (SJC-SNA) the weighted average of these tickets is \$118, not LAX-SFO's price of \$99. Clearly with less competition airline prices are higher.

<sup>v</sup> Section 2704.08(J) of AB3034 says the train cannot receive an operating subsidy from the Federal or State governments; therefore must at least break even financially. A more realistic ticket price, at least \$190 one-way SF-LA, must prove its financial sustainability.