

GETTING CALIFORNIA BACK ON TRACK

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Governor Newsom in his first State of the State address announced a reduction in the scope of the California intercity high-speed rail construction project to align expenditures with expected resources. He left in place the vision for a project that eventually will link San Francisco to Los Angeles and ultimately be extended to Sacramento and San Diego. The High-Speed Rail Authority had been proceeding with construction of a project for which investment costs will eventually exceed expected funding by between 35 and 77 billion dollars. The Governor also called for the program to have more oversight and greater transparency in the future. He did not specify how we might progress from the truncated project to fulfilling the longer-term statewide vision nor explain how to achieve greater transparency and accountability. Those are important unresolved challenges.

The Governor and the High-Speed Rail Authority inherited several serious dilemmas that will be difficult or impossible to resolve. Here are only four of many challenges facing them—and all Californians.

1) The state cannot deliver the travel times voters approved. Voters approved Proposition 1A in 2008, providing bond funding of \$9.95 billion. In order to gain the votes needed for passage of the measure, voters were promised that trains would be capable of traveling between San Francisco and Los Angeles in less than two hours and forty minutes. Meeting that requirement makes designing and engineering the project costlier than it might be if designers were free to consider alternative routes and design changes that lowered costs substantially in exchange for longer travel time. It is not clear how the governor or legislature intend to change this requirement.

2) The reduced system cannot be self-supporting. Voters were promised that when trains started to operate, the high-speed rail system would cover operating costs from revenues earned by the system including fares, concessions, rents, and advertising. Operating costs were not precisely defined though their definition is critically important. For example, some systems define interest payments on capital costs to be an operating cost and others do not. The state has every incentive to interpret the term as favorably as possible but, however operating costs are defined, fast trains between Merced and Bakersfield almost certainly will not generate enough money to meet this requirement. It is unclear where the authority lies to change it.

3) Federal and private sector financing are doubtful. A decade ago, California claimed it would cover a third of the capital cost of the project and that the federal government and the private sector would each bear a third. It has become clear that the private sector will invest only if the state covers its financial risks of losing money should revenue fall short of forecasts or until a profitable market has been established. Truncating the system guarantees that revenues will surely fall short of ridership that was forecast earlier. A federal grant of \$3.3 billion was obtained in 2009, and additional federal grants and loans are possible but will fall far short of one-third of the project cost. The current administration is not likely to make more federal funds

available to California. The burden of raising the needed capital clearly falls on California taxpayers.

4) Oversight and transparency will be difficult to achieve. The High-Speed Rail Authority began construction before acquiring all the land needed for right-of-way in the construction zones. It did so to demonstrate to the electorate that it could deliver the project and to establish “facts on the ground,” making it more difficult to terminate the project as costs rose and citizens became more skeptical. The State Auditor found the Authority had overreached and acted in some cases irresponsibly, which of course led to the call for more oversight and transparency. But term-limited state legislators are unenthusiastic about staking their careers on high-risk high-speed rail which will start service after they have left office but needs attention today while they face immediate competing priorities. Their natural tendency to postpone and avoid hard decisions is reinforced by term limits that discourage risk taking. The project is underway and is likely to continue at a pace that dissatisfies its ardent supporters and angers its outspoken critics.

We may disagree vigorously as to whether California should abandon or pursue a future High-Speed Rail system. We likely can agree, however, that past decisions leave us in a current situation that few if any of us would consider acceptable. Though a case can be made for ending the program, it does not seem likely that the legislature, the Governor, or the voters will decide to do that.

Here are some suggestions as to how it might be restructured in response to its troubled history and uncertain future.

1) Integrate statewide passenger rail planning. Planning, financing, and operating high-speed intercity passenger rail in California should be integrated into a single program along with other passenger rail transportation in California. Our current rail passenger offerings are less robust than are those in most developed countries, many developing countries, and in the Northeast Corridor of the United States. But, taken together, the Capitol Corridor, Caltrain, Metrolink, Altamont Corridor Express, Amtrak Service in the LOSSAN Corridor and longer distance Amtrak trains provide a base on which to build and there is a statewide passenger rail plan that could be upgraded. The high-speed rail program is funding important improvements including the electrification of Caltrain, upgrading of Union Station in Los Angeles so trains can move through the station efficiently, and removal of dangerous grade crossings along what someday will be high-speed train route. The high-speed rail program could be reimagined as a component of a more comprehensive statewide rail plan of incremental improvements that could build toward high-speed service in the long term while providing more obvious though modest intercity travel options much earlier. Doing so could rebuild the dwindling political constituency for high-speed rail.

2) Stabilize long term funding. The principal source of funding for the High-Speed Rail Authority is 25% of California’s CO₂ cap and trade program. This revenue stream has been volatile and unpredictable, which makes it impossible for the Authority to borrow against its future income. The state could strengthen and stabilize its financial commitment to intercity rail funding by increasing the share of cap and trade revenue it devotes to a more integrated and incremental passenger rail improvement program. This should provide the capacity to plan over

longer time periods and undertake larger capital investments by borrowing against future revenue. It could be accomplished by devoting to the rail program a larger proportion of cap and trade revenue for a longer time period, or by committing a fixed annual total of cap and trade dollar revenue rather than a percentage. Another approach would be adding a new revenue source to state funding for intercity rail improvements, like a resource extraction tax as proposed by candidate Delaine Eastin in the most recent gubernatorial primary.

3) Plan Rail and Land Use in Concert. As California considers its predicted growth in population and economic activity, intercity rail planning should be more consciously integrated with the state's land use planning to maximize return on its investments and to preserve the state's resources. As in many other countries all over the world, the upgrading of rail passenger service should consciously be coupled with the complementary denser mixed use development of land near stations and the preservation of prime agricultural land to simultaneously prevent sprawl near the rail corridors and to provide economic activity at station sites that will benefit the cities served while growing the rail passenger market.

The Governor has started an important discussion but leaves unclear how that discussion will be carried forward. It could be taken up by the High-Speed Rail Authority, a select legislative committee, or a study commission of Californians empaneled to examine and report on the options. It is important to capitalize on the momentum toward change that has been building. Fundamental programmatic change is needed because the status quo cannot be sustained.