

Editorial November 15, 2011 [Link](#)

California Governor Jerry Brown must have loved "The Little Engine That Could" as a kid. Last week his state's high-speed rail authority released a new business plan that estimates its 500-mile bullet train from San Francisco to Anaheim will cost \$98 billion. The state and federal governments are broke, and private capital won't finance the project, but Mr. Brown still thinks the state can build the train.

Three years ago the rail authority sold a \$9 billion bond measure to voters on the pretext that the bullet train would cost \$33 billion and be financed mostly by private investors and Uncle Sam. They also claimed the train would draw 90 million riders per year—about 15 times what Amtrak's Acela in the Northeast draws—and wouldn't need a subsidy. Taxpayers were all aboard.

Then reality struck. A study last year by Stanford economist Alain Enthoven, former World Bank analyst William Grindley and financial consultant William Warren examined high-speed trains in Europe and Japan and concluded that the California train could cost upward of \$100 billion and would be lucky to draw 10 million riders. The authors also reported that investors were refusing to finance the project without a subsidy, which the bond measure that voters approved had prohibited.

The White House has so far offered the state \$3.2 billion in grant money—provided that it builds the train in a way that guarantees a taxpayer loss. Transportation Secretary Ray LaHood has required the state to construct the first segment in the scarcely populated Central Valley and break ground next year. The Obama Administration's logic seems to be that if it forces the state to build a train to nowhere, the state will then dig deeper into taxpayer pockets to connect it to somewhere.

The rail authority last year chose to build the first segment between Merced and Bakersfield. The state watchdog Legislative Analyst's Office called the decision a "big gamble" since ridership would be too low to operate the train without a subsidy. And if the project runs over budget—what are the chances?—the authority won't have enough money to complete the segment or electrify the tracks. The best outcome then would be for the authority to sell the tracks to a museum for an exhibit on California dreams.

At the urging of the state analyst's office, the legislature directed the authority to produce a more honest business plan before the state issues bonds. The authority now predicts that the train will draw 37 million riders by 2040—about equal to the state's current population—and turn a profit on all segments. Sounds fantastic. Literally. They make the math work by assuming per-mile ticket prices at about half of what most high-speed trains around the world charge and an operating margin that's about 50% of their revenues. Most high-speed trains run at a loss or just break even.

Rail authorities say that once the first segment turns into a gusher of revenue, private money will jump on board and finance the train's completion. When that doesn't happen, there's Plan B: public borrowing.

Hold that idea. The state treasurer's office recently released a report warning that the state can't afford to authorize much more debt without severely squeezing public services. Debt service costs California \$7 billion per year. Borrowing \$90 billion to finance the train would cost about \$10 billion a year. Forget about building new schools or revamping the state's rickety water system.

Fortunately, the rail authority needs the legislature's approval before it can start wasting taxpayer money and evicting home and business owners to pave the way for the train with no future. The legislature should just say no, but if members lack the nerve, they could at least leave the decision up to voters.

State Senator Doug LaMalfa suggests that the legislature give voters a do-over on the \$9 billion bond measure they approved in 2008 when they were high on hope. Sounds reasonable. Congressman Kevin McCarthy of Bakersfield has also proposed legislation to freeze federal funding for the project, which would make the train a nonstarter. It's time Governor Brown put away childish things.