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New federal grant not enough to bail out California High-Speed Rail Authority

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The Federal Railroad Administration (FRA) has announced a set of intercity passenger rail grants funded by the 2021 bipartisan infrastructure law. The California High-Speed Rail Authority (HSRA) received a \$3.073 billion grant, bringing total federal support for the project since 2012 to almost \$7 billion.

But that's not enough to complete the 171-mile Initial Operating Segment connecting Bakersfield to Merced, let alone the full Phase I project intended to run from San Francisco to Anaheim. Further, high-speed rail is facing more competition for intercity rail grant funds within California and beyond.

FRA also granted \$3 billion to the private rail provider, Brightline, which hopes to build a line connecting Rancho Cucamonga in the Inland Empire to Las Vegas by 2028. Given Brightline's previous success building a new rail system in Florida and a lack of land acquisition challenges, Brightline West is more likely to be successful than HSRA.

In Florida, the company recently completed an extension of its South Florida passenger service to Orlando Airport. It is now working on adding a connection to Tampa. Brightline has been relying almost entirely on existing transportation corridors. Although that construction choice means that tracks are not straight enough to allow true high-speed service, it allowed BrightLine to finish the Orlando link in a timely manner and provide operating speeds of up to 125mph.

Brightline West will mostly run in the median of I-15. Although this route is not straight enough to accommodate the 220mph operation sought by HSRA, it still promises to top out at a respectable 186mph.

These advantages notwithstanding, the Brightline West project is hardly a win for free market thinking. Brightline was already going to benefit from Nevada's decision to let it issue "private activity bonds," which pay interest that is exempt from federal taxes. As a result, Brightline's financing costs will be lower than otherwise. Now, on top of that implicit subsidy, the company is getting a \$3 billion check from federal taxpayers covering one-quarter of its estimated construction costs.

But if the federal government is going to subsidize transportation projects, we can at least hope they will subsidize successful ones. In addition to the Brightline West grant, FRA is earmarking \$1 billion for enhanced service between Raleigh, North Carolina and Richmond, Virginia. Although this is a public sector initiative, it shares with Brightline the virtue of using existing right-of-way.

FRA is also doling out a series of \$500,000 grants to agencies developing projects elsewhere around the country. While these initial grants are tiny in the scheme of things, grantees will be given priority in future FRA funding rounds.

And this is not great news for HSRA. While the latest federal grant gives the agency more running room, it is not even enough to offset expense growth that occurred between the Authority's 2022 Business Plan and 2023 Project Update.

With state budget conditions now weakening, further subsidies from California seem unlikely in the near-to-intermediate term. Consequently, the Authority is going to need several billion dollars more from FRA, and, given the array of competitors it now faces, that money may not be forthcoming.

Further, there is considerable risk that Central Valley service will not begin between 2030 and 2033 as HSRA currently promises. As of October 31, the Authority still had not acquired all the land needed to complete its current construction packages, last Spring's floods delayed

construction, and Amtrak's continuing inability to obtain FRA safety certification for its Acela high-speed trainsets could have negative implications for HSRA's trainset acquisition process.

Under the circumstances, state leaders should figure out how to wind down the project. The 119-miles currently under construction could be connected to existing Central Valley rail lines, so that existing Amtrak San Joaquins trains can use the new track. That would at least provide a useful outcome for a project that remains in danger of complete failure.

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