

Mitchell Schnurman: Texas bullet train plan banks on Japan

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The Japanese government is offering to cover half the costs of a high-speed rail line from Washington to Baltimore. If Texas could get the same \$5 billion subsidy, the Dallas-to-Houston bullet train might become a reality quickly.

But such help isn't in the plan, even as public meetings in Dallas and Houston are stoking interest in the project.

"We don't want grants from anyone," said Richard Lawless, CEO of the Texas Central High-Speed Railway. "And no operating subsidies either."

Too many strings are attached. For a new bullet train to work financially, it has to be driven by the market, not politics. At least that's Lawless' theory.

Sounds cavalier, given that most high-speed rail projects lose money and the Texas line is expected to cost over \$10 billion. But the company has a financial backstop, Japan's export bank.

The Japan Bank for International Cooperation participated in "an exhaustive study" of the Dallas-Houston line, Lawless said, and is willing to back the project. It's expected to provide up to half the debt financing for the Texas line, with "extremely attractive" interest rates, he said.

The loan could be \$3.5 billion or higher, depending on the final costs and debt-to-equity structure.

With that help, "we don't think we'll have any trouble attracting additional debt," Lawless said in an interview last week.

The bank also has the authority to throw in an equity investment in high-speed rail, a provision that was adopted in 2012, he said.

While some investors have shown interest, the Japanese backing may make the difference. The export bank's mission is to promote competitiveness, and China and Europe are pushing their own rail systems. As more states and countries consider bullet trains, the Dallas-Houston line could become a valuable demonstration project for the Japanese.

“They ought to do the Texas line fast and show what it can do,” said Andy Kunz, CEO of the US High Speed Rail Association, a rail advocate in Washington.

Last month, officials from Japan and the U.S. were promoting an alternative system based on magnetic levitation. It’s much more expensive (and 100 mph faster), and an investor group is pushing a plan for the Northeast corridor. To help win support, the Japanese government offered to pay \$5 billion of the \$10 billion costs for a line between Washington and Baltimore.

Airline competition

Kunz said all that money should go to Texas instead. The much longer Dallas-Houston line could be up and running sooner, proving that high-speed rail works here.

“Japan would do it right and could be a hero,” Kunz said.

Many remain skeptical about the payoff. High-speed rail has been touted for years in the United States, and an early 1990s proposal in Texas never got built.

Last summer, a private rail plan in Florida raised \$400 million. But the offer required an interest rate of 12 percent a year, which shows how investors viewed the risk.

One reason is that it’s much cheaper for airlines to add flights. In Dallas and Houston, for instance, two strong airports have major carriers with loyal customers.

“If Japan wants to throw money at us, that’s OK with me, but I don’t think it will work,” said Randal O’Toole, a senior fellow at the Cato Institute.

He believes many are overestimating what the Japanese will spend to promote rail exports.

The Texas project’s technology partner is the Central Japan Railway Co., which operates 232 high-speed trains a day between Tokyo and Osaka. It will provide intellectual property and the operating system.

U.S. project

The Texas group is not counting on Central Japan Railway to be a major investor, at least early on.

“We want this to be a U.S. project,” Lawless said. “But we’re not discounting an equity investment” when the final funding occurs.

Some federal loans also are available to promote public-private partnerships in infrastructure. And the company may pursue them.

It won't be raising the big bucks for a few years, so it has time to court investors and explore debt options. The bullet train proposal is going through environmental reviews, including public meetings in Dallas and Houston in the last two weeks.

Most of the attention was on the proposed routes and potential stations in the two cities. By late spring, it will release a preliminary financial plan that includes projections on ridership, revenue and costs.

The goal is to "de-risk" the project, Lawless said, by finishing the environmental impact statement and safety reviews, and getting bids on construction contracts. He believes that will draw investors, including pension funds and others that invest in infrastructure.

Some already called on the company, signed nondisclosure agreements and reviewed the data and analysis. They're interested, he said, and at the moment, there's a lot of money looking for investments.

"We've got 2 1/2 years to get it right," Lawless said.