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TRANSPORTATION

Rail Plans Raise Hope and Doubts

Financing, Other Hurdles Loom

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By Audrey Dutton

WASHINGTON — Never before in the U.S. has there been such a push to develop high-speed rail, with Congress and the Obama administration providing funds and new programs that could ultimately get the trains up and running here as they are in other advanced countries.

But doubts remain about how to finance a world-class rail network, where to find a reliable revenue stream, and whether states can surmount legal and financial hurdles before time-sensitive grants disappear and the momentum fizzles.

High-speed rail proponents have pushed for years for an American version of the so-called bullet trains that rush passengers across East Asia and Europe. The U.S. trains would not be typical intercity passenger rail routes, but rather a national web of corridors connecting major cities in about a dozen regions.

Support for such a network stretches from the top federal rail agency down to individual voters in California who authorized the issuance of more than $9 billion of municipal bonds in hopes of seeing their state's rail program come to fruition.

During the past few years, a confluence of high vehicle fuel costs, increased air and road congestion, and the economic crisis sparked a sense of urgency for infrastructure projects that could create jobs.

President Obama and fast-rail advocates in Congress managed to rally support for more than $10 billion to pay for initial work on high-speed rail corridors — $8 billion in the American Recovery and Reinvestment Act enacted last February and $2.5 billion in fiscal 2010 appropriations.

It helped that the Passenger Rail Investment and Improvement Act of 2008 had been approved before Obama took office. PRIIA advanced high-speed rail in some major ways.

The law cleared the way for nearly $5 billion to be provided over five years for three new intercity and high-speed rail grant programs. It tasked states with setting up rail authorities to draw up long-range investment plans for passenger and freight rail.

PRIIA also defined high-speed rail as "at least 110 miles per hour," a much lower speed than in countries with more advanced networks.

Then last June, House Transportation and Infrastructure Committee chairman James L. Oberstar, D-Minn., released a massive plan proposing $50 billion for high-speed rail over six years.

In October, the administration unveiled an early blueprint of its national passenger-rail plan that encouraged the use of public-private partnerships by describing Southern California's Alameda Corridor, a 20-mile railroad express line, as a successful P3 "funded by various means, including substantial funding from private sources."

That kind of P3 could include user fees to repay a portion of the initial outlays by government, the administration's plan noted: "Such projects mirror the manner in which early highway projects were financed by a variety of funding and recouped much of the cost of the project through user fees in the form of tolls."

The announcement of funding from ARRA prompted record-high interest from states. Project proposals totaling $55 billion flooded the Federal Railroad Administration's offices. Ultimately, the ARRA's $8 billion was spread over 13 routes in 31 states. California, Florida, and Illinois came away with the largest grants.

All of the grants, described as seed money, have a shelf life of about two to five years. States that falter along the way risk losing their grants to other applicants.

"From the very beginning, we said these were down payments," Karen Rae, the FRA's deputy administrator, said in a recent interview.

"Eighteen months ago, there wasn't a federal program. These were projects that were limping along as state-only projects, occasionally trying to steal away some [transit funds]," Rae said. With ARRA and PRIIA, "for once there was actually a federal partner."

The momentum building behind high-speed rail in the past couple of years has encouraged rail proponents. Nevertheless, ambitious plans to link major cities and give commuters and leisure travelers a reasonable alternative to flying and driving may hit some roadblocks.

One of the largest hurdles is how to pay for a sustained investment in rail, a range of sources said in interviews.

A DROP IN THE BUCKET

The $10 billion that Congress and the administration have provided thus far is a pittance compared to the overall sum that is needed. A new fast-rail system will be expensive — about $65 million per mile, according to the National Conference of State Legislatures, or $600 billion for a complete, 17,000-mile national network, according to the U.S. High Speed Rail Association.

Funding from private investors or governments is hard to come by for even the most commonplace infrastructure, much less one that aims to fundamentally change how Americans get from place to place and whose public benefits are, according to the NCSL, "difficult to predict."

In addition, unlike highways and aviation, "passenger rail has no dedicated federal revenue source or trust fund," and many states "have limited resources for passenger rail planning and development," the NCSL said in a recent report.

Traditional infrastructure like highways and bridges are already mired in funding uncertainty as lawmakers struggle to find a viable and politically palatable revenue source, noted Al Landes, president and chief operating officer at Herzog Cos., a rail construction and operating firm based in St. Joseph, Mo.

"When you talk about an entirely new deal" for a rail network, Landes said, "when they're having trouble doing what is already currently being done, new money is problematic."

Meanwhile, states budgets were in turmoil even before the prospect of a new endeavor like high-speed rail, he added.

"I hope they build a bunch of [rail lines], and if they do, we will be looking at the procurement for construction and operation and maintenance," Landes said. "I hope it happens, but I think it's going to be a challenge."

Surveying various funding options, a passenger rail working group — created to advise the National Surface Transportation Policy and Revenue Study Commission mandated by Congress — recommended a broad range of options in 2007.

They included charging passenger fees, using a portion of highway-related gasoline tax revenue and significantly increasing the gas tax, issuing federal tax-credit bonds, or appropriating general funds such as those used to subsidize Amtrak. Many of those options are still being explored.

Another potential obstacle is that state-level experience with rail is patchy. About half of states currently fund passenger rail alongside private companies and the federal and state governments, according to the NCSL.

"In 2008, 15 states supported Amtrak service within their borders," the group's report said. "States also fund regional, multi-state coalitions that promote and provide interstate passenger rail service, such as the Midwest Regional Rail Initiative, the Pacific Northwest Corridor and the Southeast High-Speed Rail Corridor."

States have used bonds, general fund appropriations, lease revenue, and vehicle-fee or gasoline-tax funded transportation accounts to pay for their intercity passenger rail investments. Virginia dedicates rental car tax revenue to rail improvements.

Considering how states are struggling to pull themselves from the quicksand of tax revenue losses and budget deficits, money for high-speed rail is not easy to come by.

The ARRA grants do not require any state match, but the $2.5 billion that will soon be distributed from fiscal 2010 appropriations require states to pitch in.

It is unclear whether states have that money readily available, or if they'll resort to the public-finance equivalent of rummaging through their pockets and drawers for spare change.

California voters, in a 2008 ballot initiative, authorized the issuance of $9 billion of bonds to pay for a high-speed line running north and south and linking the state's most populous areas. In order to build that mega-project, which is estimated to cost more than $40 billion, the state needs a large amount of federal assistance.

The plan "right now calls for $17 billion [to] $19 billion of federal dollars," Jeffrey M. Barker, deputy director for the California High-Speed Rail Authority, said recently. "Frankly, if that doesn't materialize, we wouldn't have a project," or the project will take longer and cost more to build than it would now. "There's a lot of work to be done, a lot of lobbying to be done," he said.

PRIVATE VS. PUBLIC FUNDING

"Will the private sector actually finance the building of [high-speed rail]? That leads to a complicated discussion," said Art Guzzetti, chief policy adviser for American Public Transportation Association. "If the private sector could finance these things in a profitable way, why haven't they done that? The answer is, you can't. ... In the end, it's going to be the public that pays."

Private companies will invest and share the financial risk of high-speed rail only insofar as they can get a reasonable return, Guzzetti explained.

The record-high amount of money the federal government is throwing into its rail vision is enough that "big-time people know this is serious, so we have them engaged, but we have to keep the ball rolling," he said.

To that end, Washington and state governments need to find viable revenue streams to support public funding for rail construction, Guzzetti said.

When the U.S. was building the Interstate highway system in the 1950s, the initiative was in a similar place: it had an enormous price tag and there wasn't enough public money to finish it.

"It wasn't on time and it wasn't on budget," Guzzetti said. But lawmakers in Washington managed to find a solution in the gasoline tax, which provided a rolling stock of money.

Lawmakers now need to find a similar plan for rail, he said.

"I think that it will happen. I think that it's ripe and it's right," Guzzetti said. "But I will concede we don't have the long-term funding source."

As far as sources of private capital, at least seven countries are interested in California high-speed rail, according to David Crane, special adviser to Gov. Arnold Schwarzenegger.

"Chinese [investors] are interested in virtually everything, whether providing and financing equipment" or services and construction, he said. "They haven't indicated that there's a limit or that they're only interested in one part [and] they've definitely indicated willingness to put up some of the capital."

"Virtually every country that has high-speed rail activities is interested" in partnering on the project, Crane said, pointing out that California has signed memorandums of understanding with seven countries that could lead to financing.

In Florida, the state hopes for private-sector investment and more federal grants to come through, instead of having to issue bonds.

"We need more federal grants to help us with it," said Nazih Haddad, who is heading the rail enterprise for the Florida Department of Transportation. "Clearly we're going to go with another round of funding from them."

Florida's $1.25 billion from ARRA will help the state do preliminary work and "get a big package ready to go so they can get a firm, fixed-price contract," said the FRA's Rae.

"They also need to look at a financing plan [and] out of that plan, I would fully expect that they would come back and seek some additional funding from the federal government," she said, adding that non-federal funds could come from a private partner, a tax district, or some other source.

Some states such as Florida could find a "super turnkey kind of option" for private consortiums to handle the projects, according to Peter Gertler, senior vice president and chair of high-speed rail services for HNTB, a transportation consulting firm that has been working with states on the initiative.

The state would handle design and construction, then the private sector would take over operation and maintenance, w
most transportation P3s.

“For California and Florida, it’s a foregone conclusion that the private sector will be part of those programs,” Gertler sa
sector feel sufficient confidence in these programs to be willing to make that investment?”

States that want to nail down their federal grants and anchor companies to their projects will spend the next several mo
advance the engineering, and develop solid cost estimates, for the system,” he said.

In addition to finding matching funds for annual appropriations from this year and last year, states that want to receive
deadlines set by ARRA.

Grants for rail corridor programs — the superstars of the high-speed rail universe — must be finalized by the Federal Rail
funds must be spent by Sept. 30, 2017, according to the law.

The FRA will decide on grants for individual rail projects under ARRA by Sept. 30 of this year, and funds must be spent w

“If somebody really starts to slip badly, as much as we would want to work hand-in-hand with them ... we may need to reallocate the funding before the 2012 deadline,” the FRA’s Rae said. “We just want to make sure this money goes to good projects.”