

LOCAL / CALIFORNIA

# Funding and subsidies worry potential partners in California's bullet train project



California has begun construction on the first segment of the bullet train, but firms asked to partner on the project have expressed concerns over funding and other issues. (California High-Speed Rail Authority)



By **Ralph Vartabedian** · Contact Reporter

OCTOBER 16, 2015, 8:16 PM

**M**ajor construction, equipment and engineering firms around the world, responding to a solicitation to form a partnership with the California [high-speed rail](#) project, have raised serious concerns about the state's shortage of funding, the potential need for long-term operating subsidies and whether the project can meet the current construction schedule.

The comments were included in 36 responses sent by the international firms to the California High-Speed Rail Authority after it requested suggestions on how to complete the \$68-billion project. Despite the concerns, many of the companies expressed a willingness to participate in the project.

Construction of the first section of the planned Los Angeles to San Francisco rail line began earlier this year. But the state has only half the \$31 billion needed to complete the initial operating segment between Burbank and Merced.

The appeal for financial and technical partners drew responses from across Europe, Asia and the U.S. But none of the companies expressed a readiness to invest their own money, and some included reservations about the risks.

The state, which has been counting on private investment as part of its funding plans, disclosed receipt of the responses last week. They were released Friday after Public Records Act requests were filed by The Times and other organizations.

Subsidiaries of the Spanish company Ferrovial SA wrote that most high-speed rail systems around the world require operating subsidies and that the same will probably be true for California's bullet train.

"We believe it is highly unlikely that the [California system] will turn an operating profit within the first 10 years of operation," the company's 37-page submission said. "More likely, [the system] will require large government subsidies for years to come."

Both German rail producer [Siemens](#) and Spanish construction company Sacyr Concesiones expressed similar concerns about whether the initial 300-mile segment between the Central and San Fernando valleys could operate profitably.

Sacyr warned that "it is our opinion that the revenue from ridership may not be sufficient to cover all [operation and maintenance] cost."

As part of the taxpayer protections written in to a voter-approved plan to provide funding to build the line, public subsidies for operation of passenger service were banned. State officials have consistently projected the train will turn a profit as soon as it begins carrying riders. The issue is the subject of a lawsuit scheduled to go to trial next year.

A number of companies said the state would need to demonstrate a successful operation before they would bring private money to the table.

The state's commitment to provide up to \$500 million a year in greenhouse gas fees to the project until at least 2020 is a crucial source of revenue, several companies noted. But the state needs to clarify how reliable that funding will be in the future, they said.

Some took issue with the feasibility of the state's plan to bring the entire project under one large umbrella partnership, saying such a venture would be too big for any single company to take on.

And a consortium of Fluor and Balfour Beatty expressed concern about the project meeting its construction schedule.

Dan Richard, the rail authority chairman, said in an interview that the outpouring of interest was encouraging and that the cautiousness of the businesses wasn't surprising.

"We got a huge response," Richard said. "You wouldn't have seen all these people put ink to paper if they didn't think this was a real program. That's what I took out of this."

Richard dismissed the suggestions that public subsidies would be needed once the trains are rolling, asserting that every major high-speed rail system in the world operates without subsidies. That point has been in dispute for years, with critics asserting that most foreign systems are heavily subsidized and supporters arguing that high-speed rail networks operate in the black.

Richard said the state rail authority doesn't expect to attract a private investor until it begins to successfully operate its first segment.

Attracting a partner too early would increase the risk to a private investor and require the state to discount the value of the franchise, he said. So the state will need to build an initial portion of the system on its own, possibly with a pay-as-you-go approach using available state funds.

"I believe we are honing in on an initial operating segment," he said.

Outside groups who monitor the project said the concerns expressed by the international companies mean the state isn't likely to lure a paying partner, at least under the current plan.

"Everybody who is anybody responded to the authority, but the bad news is that everybody is telling them as kindly as possible they are nuts," said Elizabeth Alexis, co-founder of Californians Advocating Responsible Rail Development, a Bay Area watchdog group that has long criticized the state's plan.

[ralph.vartabedian@latimes.com](mailto:ralph.vartabedian@latimes.com)

Copyright © 2016, Los Angeles Times

**This article is related to:** [California High Speed Rail, Siemens](#)

