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High-Speed Rail: Stealth Budget Plans to Keep the Program Alive

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They stab it with their steely knives,
But they just can't kill the beast.

—The Eagles, "Hotel California," 1977

With Congress eliminating spending for the President's faltering high-speed rail (HSR) program and making cuts in Amtrak's soaring subsidies, the Obama Administration appears to be shifting its reliance on funding for its ambitious passenger rail programs to a little-known federal loan program lodged in the U.S. Department of Transportation (DOT): the Railroad Rehabilitation and Improvement Financing Act (RRIF).

This provision allows up $35 billion in federal loans and loan guarantees for rail projects at the discretion of the President. Because nearly all passenger rail systems in the world lose money, these loans are unlikely to be paid back, and taxpayers will be on the hook for multi-billion-dollar losses.

Background. President Obama used the 2009 stimulus to create and fund an HSR program. An initial $8 billion was provided by the stimulus, and an additional $1 billion per year was to be provided through annual appropriations bills for the five following years. On top of this, the President's highway reauthorization plan of February 2011 proposed adding an additional $50 billion to the rail program between 2012 and 2018.

Notwithstanding the President's frequent references to the effort as an "HSR system," in fact only two of the dozens of projects approved—Florida and California—were genuine HSR. Most projects involved modest improvements and extensions to the existing slow-speed Amtrak service.

Following a giddy few months of favorable reviews by the media and rail advocates, most Americans came to realize that the President's program would require extraordinarily large expenditures in return for modest and mediocre transportation benefits. In response, Congress has de-funded parts of the program, and the governors and/or legislatures in several states have refused more than $3 billion in federal HSR grants that DOT had awarded them. At the same time, the most ambitious HSR program in DOT's portfolio—the California HSR proposal—confronts serious financial problems that may prevent it from being built.[1]

Obama's Zombie Rail Program. In a normal world, these state rejections and congressional terminations would be the death of a costly program. Yet Washington is not a normal world, and poorly conceived legislation—in this case the RRIF, which was created in 1998 and authorized to lend up to $3.5 billion but amended in 2005 by SAFETEA-LU to raise the cap to $35 billion—has resuscitated the dying program. Under the RRIF, the President has authority to lend or guarantee loans up to a total of $35 billion for rail projects.

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To date, the largest RRIF loan was the 2011 approval of a $563 million loan to Amtrak to buy 70 locomotives.[2] In that year Amtrak also received $1,565 million in appropriations, and other funds from TIGER grants, sending its annual subsidy for that year to over $2 billion, compared to $1.3 billion in fiscal year (FY) 2008.

Amtrak and its supporters will argue that the RRIF contribution is a loan, not a subsidy, but Amtrak loses huge sums of money every year and, on its own, has no capacity to repay any loan of any size. With ticket sales ($1,973,908,000) covering only 53 percent of costs ($3,721,780,000) in FY 2010,[3] the loan's debt service payments will be covered by taxpayers. As a result, the RRIF loan is a clever, stealth request for a perpetual "appropriation" that forces Congress to appropriate additional taxpayer dollars each year to service the loans provided by the President.

The reality, however, is even worse than this. In the past, when confronted with serious threats of funding cuts or route terminations, Amtrak has argued that it is cheaper to keep it alive—however horrible and costly the service—than to shut it down and pay off the loans, six year's severance to workers, purchase-leasebacks, mortgages, retiree health care, and pension obligations. In the case of the RRIF loan, Amtrak will likely argue that any reduction in its annual federal subsidy will jeopardize its ability to service this debt, thereby forcing government to incur a $563 million loss.

Getting Worse by Several Magnitudes of Fiscal Irresponsibility. DOT is now in the process of deepening its commitment to irresponsible rail projects by contemplating an RRIF loan of $6 billion to an HSR boondoggle called the DesertXpress. Supported by Senate Majority Leader Harry Reid (D–NV), DesertXpress will serve the vital national interest of speeding gamblers from Victorville, California (on the desert 85 miles east of Los Angeles), to Las Vegas and back again after they have transferred some portion of their annual incomes to the city's casinos. To put this project—whose financial prospects are worse than Amtrak's—into perspective, its failure could require a federal loss of a magnitude equal to two years of federal funding for the National Park Service.

In a normal world, this project would not pass the laugh test with DOT staff assigned to review this request. But again, this is not a normal world, and President Obama's DOT has recently issued a federally funded request for proposals seeking qualified entities to evaluate the proposal on behalf of DOT. Since only a tiny fraction of passenger rail lines in the world (high-speed or low-speed) cover their operating and capital costs,[4] it seems likely that Senator Reid's DesertXpress for Las Vegas gamblers will not fare much better, so there is a high probability that the RRIF debt incurred will ultimately be dumped on the taxpayers.

Counting the DesertXpress proposal, if approved, and all of the existing loans already on the books, the RRIF would still have more than $27 billion to lend for future HSR and Amtrak projects. This must not happen.

Gaining Control over DOT. Given the Administration's commitment to costly passenger rail projects, the remaining $27 billion in loan and guarantee authority under the RRIF poses a significant risk to the integrity of the federal budget. Many of these large passenger rail and HSR loans are unlikely to ever be paid off, and future appropriations will be required to cover the losses.

1. Ronald D. Utt, "Time to End Obama's Costly High-Speed Rail Program," Heritage Foundation *Backgrounder* No. 2520, February 11, 2011, at *http://www.heritage.org/Research/Reports/2011/02/Time-to-End-Obamas-Costly-High-Speed-Rail-Program*.
2. Press release, "U.S. Transportation Secretary Ray LaHood Awards $336.2 Million for Next Generation Trains in California and Midwest," U.S. Department of Transportation, August 3, 2011, at *http://www.fra.dot.gov/roa/press_releases/fp_FRA%2016-11.shtml* (August 31, 2011).
3. See the Amtrak 2010 annual report, p. 39, at *http://www.amtrak.com/servlet/ContentServer?c=Page&pagename=am%2FLayout&p=1237608345018&cid=1241245669222* (August 31, 2011).
4. Utt, "Time to End Obama's Costly High-Speed Rail Program."

Under the circumstances, Congress should use the upcoming extension of SAFETEA-LU, whose last extension expires on September 30, to reduce the RRIF cap from $35 billion to its original $3.5 billion or, better yet, eliminate the program altogether.

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