The political economy of high speed rail in Florida: a case study

L’économie politique du train à grande vitesse en Floride : une étude de cas

Jim Cohen
Abstract: In the 1980’s and 1990’s, two French-American consortia attempted to develop very high speed rail (150+ mph) between Miami, Orlando, and Tampa, Florida. Their first attempt failed because public officials, who were committed to neo-liberal policies, opposed use of traditional, publicly subsidized, project finance mechanisms. Thus, sponsors turned to generating private capital from real estate development and tax exempt debt. A recession in property valuations, and refusal of Federal authorities to grant tax exemptions, undermined this plan. The 1990’s consortium shifted to a public-private partnership approach, which almost succeeded. However, Jeb Bush, a neo-liberal, elected Governor in 1999, killed the project by refusing to allocate public funding. Finally, in 2017, an American corporation launched moderate speed (79-125 mph) train service, which is financed with property development methods similar to the 1980’s. This raises important questions about whether the earlier high cost, very high speed projects would have been more likely to succeed if based on less expensive moderate speed infrastructure.
Résumé : Dans les années 1980 et 1990, deux consortiums franco-américains ont tenté de développer des trains à très grande vitesse (+ de 150 miles/h) entre Miami, Orlando et Tampa, en Floride. Leur première tentative a échoué parce que les fonctionnaires engagés dans des politiques néolibérales se sont opposés à l’utilisation de mécanismes traditionnels de financement de projets subventionnés par l’État. Ainsi, les promoteurs se sont tournés vers la constitution de capitaux privés à partir de promotion immobilière et de dette exonérée d’impôt. La récession des valeurs foncières et le refus des autorités fédérales d’accorder des exonérations fiscales ont sapé ce plan. Le consortium des années 1990 s’est tourné vers un partenariat public-privé, qui a presque réussi. Cependant, Jeb Bush, néo-libéral, élu gouverneur en 1999, a tué le projet en refusant d’alloquer des fonds publics. Enfin, en 2017, une société américaine lance un service ferroviaire à vitesse modérée (79-125 miles/h), financé par des méthodes de promotion immobilière similaires à celles des années 1980. Cela soulève d’importantes questions quant à savoir si les projets à très haut coût et à très haut débit, plus anciens, auraient eu plus de chances de réussir s’ils avaient été fondés sur des infrastructures à vitesse modérée moins coûteuses.

Keywords: high speed rail, railways, project finance, political economy, Florida, neo-liberalism, infrastructure.

Mots-clés : train à grande vitesse, chemins de fer, financement de projets, économie politique, Floride, néolibéralisme, infrastructure.
Introduction

The launch of Japan’s futuristic Bullet Train in 1964, which operated at very high speed\(^1\) and was immediately successful financially, caused a great deal of worldwide publicity and energized rail advocates, including in the United States (U.S.). As a result, between the mid-1960’s and mid-1970’s, various groupings of American rail professionals, public officials, manufacturers, and others began exploring plans to emulate Japan’s accomplishment. For example, the Pennsylvania Railroad and the Federal government jointly attempted to implement very high speed Metroliners on the Northeast Corridor, between Boston and Washington D.C., and interest developed for very high speed corridors in the Mid-West region, Texas, California, and elsewhere. Promoters in Florida were particularly pro-active, initiating a 1970’s study of a Daytona to St. Petersburg line, then settling on the more promising corridor linking Miami, Orlando, and Tampa. Between 1981 and 2011, Florida rail sponsors made four different attempts to build a line on this corridor. But, all four initiatives failed. Finally, in 2017, a new passenger line opened. However, it is not very high speed, and will not run on dedicated track \(^2\). Why were the earlier attempts at very high speed unsuccessful? Why, after successful implementation of very high speed rail in Japan and other countries, was Florida only able to develop a moderate speed line?

\(^1\) Trains that run at speeds of 150 miles per hour and faster are defined as “very high speed” by the International Union of Railways. Top speeds of 200 miles per hour are not unusual for some very high speed trains. Japan’s Bullet Train operated initially at 140 mph, below very high speed. But, within a few months, when Japan National Railways was sure of its safety and operational fitness, it began running at top speeds above 150 mph.

\(^2\) All Aboard Florida (AAF), a subsidiary of Florida East Coast Railways, which is owned by Fortress Investment Group, is currently in the process of implementing moderately high speed (100-150 mph) train service on the southeastern coast of Florida. AAF trains began limited service in 2017, operating at between 79 and 125 miles per hour on upgraded freight rights of way between Miami and West Palm Beach. Work continues at present to extend the line to Ft. Lauderdale, Cocoa, and, possibly, Orlando.
The Florida case is important because it is illustrative of broader trends in American high speed rail history, in three ways. First, the most significant factors influencing high speed rail finance in the U.S. were evident in Florida between 1981 and 2000, the period emphasized in this paper. Second, events in Florida in the 1980’s influenced the way promoters approached subsequent initiatives throughout the U.S., in the 1990’s and beyond. Third, Florida is the only state where a new, privately operated, passenger rail line is actually in commercial service. Because this line operates at moderate, not very high speed, on existing track, it provides comparative information that helps explain why earlier plans for very high speed trains, on dedicated track, did not come to fruition. In short, Florida’s history contains many of the elements needed to understand why very high speed rail has not yet been implemented anywhere in the U.S.

The rise of neo-liberalism and its effects

Most research attributes the failure of high speed initiatives in Florida to a combination of political and financial factors, including the inability of sponsors to overcome opposition by local landowners, whose property might be confiscated to make room for a new rail line; opposition by State Governors and legislatures, who did not want to alienate opponents of rail, including powerful interest groups in the highway and airline industry; and inability to attract sufficient capital investment from private investors. While these explanations are partly correct, they miss the underlying cause of political opposition and of lack of private investment. This was the rise of neo-liberalism in the United States, a political philosophy that opposed activist government policies, especially public spending for large infrastructure projects, and proposed, instead, that private corporations determine economic choices though their actions in the economic marketplace. Neo-liberalism provided elected officials in Florida and at the Federal level with a rationale for policies limiting public participation in capital markets, which made it harder to set up public-private partnerships and to attract private investment.
Neo-liberalism developed in reaction to a long period of steadily increased public spending and government intervention in the economy, which began after the end of World War 2, and which helped to stimulate 30 years of economic growth. However, in the mid-1970’s the American economy entered an extended period of recession combined with high inflation, termed “stagflation” which increased Federal budget deficits and unemployment. In reaction to this, neo-liberalism grew in popularity, especially during the presidency of Ronald Reagan (1981-1988), who was a major proponent. The Reagan Administration advocated free market economics and reliance on the corporate sector to determine economic choices and outcomes. This meant a reduced role for government through cuts in spending and elimination of the public subsidies and loans for new infrastructure projects.

Before the era of neo-liberalism, infrastructure finance relied largely on loans to generate project capital; on ridership fares and public subsidies to provide operating revenues; and on a combination of fare revenue and public spending to pay debt service on construction loans. After neo-liberalism took hold in the 1980’s, sponsors of high speed rail in Florida looked to raise capital from private sources, especially from the State’s booming real estate market. They were optimistic about a privatized approach partly because capital markets were flush with cash in the early 1980’s; partly because of recent, successful private financing for toll highways, parking garages, and other transport facilities; and perhaps most importantly because of the financing scheme being developed for the Channel Tunnel project between Britain and France. This was one of the largest and most expensive rail infrastructure projects in history and, in the early 1980’s, Margaret Thatcher, the neo-liberal British Prime Minister, pushed forcefully for it to be funded mainly by private investment. If Thatcher’s approach could succeed, so presumably could a considerably less costly high speed line in Florida. One French investment banker, who worked on Channel Tunnel financing and subsequently worked in Florida, stated that “our American (investment banking) partners were

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3 Private communication: interviews with senior staff member of an econometrics consulting firm that worked on high speed rail projects in Florida, Texas, and California during the 1980’s and 1990’s (January 18; January 28, 2017).
truly impressed by the (Channel Tunnel) achievement, all the more so because it (initially) had met a lot of skepticism with(in) the U.S. financial community.” 4 In short, rail promoters in Florida were encouraged by worldwide events, including Japan’s launch of its hugely popular and financially successful Bullet Train, and by plans to finance the Channel Tunnel largely with private resources. In the 1980’s, neo-liberalism was not necessarily viewed as an impediment to rail project finance.

**Major actors in rail development process**

Four groups were the main promoters and sponsors of initiatives to implement very high speed rail in Florida:

– first, rail professionals and the agencies where they worked – such as Alan Boyd, the first President of the National Passenger Railway Corporation (Amtrak), and Gilbert Carmichael, head of the Federal Railroad Administration – were strong proponents of high speed passenger rail. In 1971, the passenger divisions of previously private U.S. railroad corporations, such as the Pennsylvania Railroad, had been nationalized into Amtrak. Amtrak leadership supported very high speed trains, but the company itself had insufficient resources to consider sponsoring projects in the 1970’s and 1980’s;

– second, construction and engineering firms that specialized in major infrastructure projects, such Fluor-Daniel and Skanska, which expected high speed rail construction could provide major opportunities for generating company profits;

– third, real estate and land development firms, such as Tishman Speyer Properties, envisaged property development near high speed rail lines as lucrative retail, commercial, and residential building opportunities;

– fourth, American investment banks, such as First Boston and Bear Stearns, envisioned opportunities to earn large fees advising project sponsors. Also, foreign banks, such as the National Bank of Paris (BNP), supported the efforts of their nation’s train operators and manufacturers to penetrate the American market;

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4 Personal communication: French investment banker, who worked on Channel Tunnel financing plans for the Banque Nationale de Paris (9 January, 2016).
– fifth, the rail industry, including foreign rail manufacturers, such as GEC Alstom, ASEA, Brown, Boveri (ABB), and Siemens; as well as their North American partners or subsidiaries, such as the Bombardier; and operating companies, such as the French National Railway Company (SNCF) and the Japanese National Railway Company – all wanted to export their rail technology and expertise to the American rail market. The French wanted to sell their Train à Grande Vitesse (TGV) technology; Japan wanted to export their Bullet Train; and Sweden had tilting technology that allowed trains to operate at high speed through sharper than normal curvatures, which could be applied in Florida.

These American and foreign groups were rarely outspoken proponents or opponents of neo-liberal propositions. Instead, they were mainly focused on selling their products and expertise in the U.S. because it was a very large, relatively untapped market. Since Amtrak did not have sufficient resources to sponsor projects on its own, numerous intercity corridors throughout the country were available for development by promoters. Miami-Orlando-Tampa was one of the most promising of those corridors.

High speed ground transportation act of 1984

Rail promoters in Florida showed some of the earliest interest in constructing a very high speed line. In the mid-1970’s, the Florida legislature supported the Florida Corridor Transit Study, which found that very high speed rail was feasible between Daytona Beach and St. Petersburg, two cities on the east coast of the state. Not long thereafter, the Miami Chamber of Commerce, which represented the powerful business community of that city, sponsored a study of the feasibility of high speed rail, out of which came a 1981 report proposing a new, very high speed rail line between Miami, Orlando and Tampa. These three east coast and mid-state cities had high concentrations of population and were destinations for millions of tourist visitors every year, thus providing a large pool of passengers to

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5 Senate Committee on Transportation, “Examination of the need for a statewide organization to plan and develop passenger and freight rail transportation” (Tallahassee, Florida: Florida State Legislature, 2005).
support a very high speed line. The Chamber’s report also suggested that the new line could be financed entirely from private resources, such as via property development along the route (Billitteri, 1982) 6.

After publication of this report, Florida’s Governor, Bob Graham, decided to look further into the feasibility of very high speed rail. In 1982 he travelled to Japan, rode the Bullet Train, and spoke to government and rail industry officials (Gomez-Ibanez and Meyer, 1993). Upon returning to the U.S. he created a High Speed Rail Committee, which reported, in 1984, that a new, very high speed line made sense for Florida and could be privately financed (Ibid., p. 244).

Graham was a member of the Democratic Party and that Party also controlled the state legislature. Although Democrats generally favored activist government policies, Southern Democrats had a long history of opposing interference by authorities in the affairs of individual citizens, including a particular aversion to increased taxation to fund projects such as high speed rail (Rae, 1994). This overlapped with neo-liberal principles. Therefore, when Graham introduced, and the state Legislature passed a High Speed Rail Act in 1984, its provisions were consistent with a neo-liberal approach. The Act envisioned that significant funding for a new rail line would come from the private sector through further development of Florida’s booming real estate market, as well as from tax exempt bonds purchased by private investors. The Act set up a High Speed Rail Transportation Commission, with independent powers, which could issue the tax exempt bonds; though because of its prohibition on “pledging the full faith, credit, or taxing power of the State, toward retirement of... bonds” 7, the State could not guarantee or pay debt service on those bonds.

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6 This article describes the Chamber of Commerce report. I was unable to locate an original copy of the report.

7 Chapter 84-207, Laws of Florida, 1984: section 10. Texas, similarly, explicitly prohibited the expenditure of State funds to help finance construction or operations of an approved high speed rail line. Also, in California, the Passenger Rail Financing Commission Act, established the California Passenger Rail Financing Commission, which could issue up to $1.25 billion in construction bonds, but those bonds were “not deemed to constitute a debt or liability of the State... or a pledge of the faith and credit of the State...payable solely (from revenues of the project).” (1982 Statutes, Chapter 1553).
With regard to real estate, the Commission could require co-location of rail lines on State highway rights of way; use powers of eminent domain to purchase private land for rights of way; and require Florida’s local authorities to cooperate on financing arrangements, such as imposition of tax and fee assessments on property development, which would provide revenue for the project. In short, consistent with neo-liberal principles, the 1984 Act approved construction of a new high speed rail line, as long as funding came from private sources.

**Financing from real estate development**

Capturing value from property development was certainly not a new idea in American rail history. Railroads in the 19th and early 20th century often earned profits by renting, leasing and selling land near their tracks. Florida was well situated to make use of land development to support very high speed rail because, as a result of rapid population growth and burgeoning tourism, property values had increased significantly since 1950. An early 1980’s study prepared for Governor Graham reported that, while “the excess of annual passenger revenues over annual operating costs falls well short of the remaining annualized capital funding requirement (to construct a very high speed rail line),...(t)he development potentials associated with high speed rail stations…provide (the) funding opportunities necessary to assure financial viability.” (Associates, Barton-Aschman, 1984a). In other words, while revenue from ridership on the new line would not cover both operating expenses and interest on construction debt, revenue from developing the land, particularly adjacent to new rail stations, could generate funds to make up for that deficit.

Florida’s 1984 High Speed Rail Act institutionalized the real estate financing strategy by “encourag(ing)...agreements with (the) franchisee to develop financing arrangements such as benefit assessment districts, tax increment financing, station cost sharing...and development impact fees” 8. It also proposed that increments in projected future tax receipts that accompanied real estate projects be used to pay the debt service on bonds that were

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8 Florida High Speed Rail Act, 1984: section 20, subsection 6.
issued to finance line construction (called tax increment financing). The Florida High Speed Rail Commission, which was chaired by a real estate executive, Malcolm Kirschenbaum – founder of Wolfe, Kirshenbaum, and Peeples, P.A., property developers – could mandate that local governments implement impact fees and tax assessments (Nelson, 1987). And the two consortia preparing to bid for the rail development franchise, Florida TGV (FTGV) and The Florida High Speed Rail Corporation (FHSRC), recruited real estate companies to serve on their boards of directors. Florida TGV, for example, recruited Tishman Speyer Properties, a major Florida real estate development firm. When FTGV and FHSRC issued initial project financing plans, they included heavy reliance on revenues from real estate. FTGV projected $600 million in real estate revenue in its initial plan. FHSRC included an even higher figure, $3.8 billion in real estate revenue, or $125-$130 million per year, over 30 years (Bottcher, 1993). This was a significant proportion of the $6-$7 billion estimated total cost of the new line.

Positive financial projections, however, were not sufficient to assure the project’s success, since political consensus was also required. Both local authorities and State agencies had to review and approve any proposed property development projects, and the State legislature had to approve final financial plans. The Department of Community Affairs (DCA) was the key agency with authority to approve matters related to real estate development along a new rail corridor. Yet, DCA was wary of development incentives in the 1984 Act that might undermine their growth management policies. During the decades after World War 2, when Florida was developing rapidly, DCA was able to implement regulations controlling growth. High speed rail sponsors could not tap into real estate resources without convincing DCA and local authorities that their plans would neither contravene growth management policies, nor harm State and local interests (Associates, Barton-Aschman, 1984b). This was a significant hurdle to overcome.
Debt financing

In addition to revenue from real estate development, rail promoters needed to generate additional capital from loans, traditionally one of the most important components of infrastructure finance. One type of loan, termed a private activity, industrial development bond, was particularly important because, when interest income from these bonds was granted exemption from Federal, State, and local taxes, it lowered the bond interest rate, and thereby lowered project costs; and if interest income was tax exempt, it was more attractive to both individual and institutional investors. The 1984 Act empowered the Florida High Speed Rail Commission to issue private activity bonds that would be State and local tax exempt, but the Federal government, through legislation, still had to provide the exemption from Federal taxes.

State and local governments used tax exempt bonds as early as the 19th century to stimulate economic development. While most of this debt was used for public purpose projects, such as building schools, some also financed private projects which served a public purpose, such as hospitals (Johnson and Rubin, 1998). Private activity debt issuances grew slowly in the early 20th century, then more rapidly after the end of World War 2, rising from just over $1 billion in 1946, to $57.7 billion in 1985 (Auten et Chung, 1986). To impede this growth – because it reduced Federal revenue by the amount of the tax exemption (called a “tax expenditure”) – Congress enacted the Revenue and Expenditure Control Act of 1968, which excluded certain types of private activity from qualifying for tax exemption. High speed rail was one of those private activities. Sponsors of high speed rail in Florida wanted the Federal government to eliminate that exclusion because, with access to the tax exempt debt market, they estimated “the difference in interest (payments), over a 30 year period (would amount) to over $1 billion on their (project’s) proposed $3.5 billion financial plan” (Blanchette, 1989).

However, in the 1980’s, the neo-liberal Reagan Administration considered tax exemptions for private activity bonds an inappropriate intervention of public authorities in private capital markets. Congress agreed. In an early 1980’s report, the Congressional Joint Committee on Taxation argued that tax exempt industrial development bonds represent “an inefficient allocation of capital”, and cost the Federal government significant amounts of lost tax revenue (Maguire, 2006). As a result, when Congress passed the Deficit Reduction Act of 1984 10, which set limits on the amount or volume of federally tax exempt debt that States were allowed to issue for “qualified” private activities, it left the original 1968 exclusion for high speed rail in place. That exclusion remained when Congress lifted exclusions for some private activities in 1986, but not for high speed rail (Maguire, 2006, Table 2, p. 10). Only in 1988, after much lobbying by supporters, was high speed rail finally named as a qualified private activity 11.

But the 1988 legislation and associated Internal Revenue Service regulations included important restrictions. While 75% of high speed rail project debt could qualify for tax exemption, 25% of the proceeds from bond issuances were subject to the volume cap. In addition, the 75% exclusion from the limit applied only to high speed rail lines that were publicly owned. If the line was private – as would be the case in Florida for a period of decades before the property was turned over to the State – the owner(s) could not claim depreciation deductions or investment tax credits on the property (Maguire, 2006, p. 10, note b). This attenuated the financial advantages of tax exemption, since depreciation deductions were an important benefit for private investors. In short, the 1988 regulations provided financial incentives to potential investors, but it also set restrictive conditions, which attenuated those incentives.

10 Public Law 98-369.
11 Internal Revenue Code, Section 142.
Why the 1980’s project failed

In early 1988, the Florida High Speed Rail Commission began public hearings on financing plans proposed by Florida TGV (FTGV) and Florida High Speed Rail Corporation (FHSRC). These hearings were designed to help the Commission select one of these consortia as franchisee. At this point in time, the Federal government had not yet added high speed rail debt to the list of qualified, tax exempt, private activities. As the hearings commenced, FTGV made a startling announcement: “our (s)tudies show that the State of Florida will have to consider public support to get the infrastructure underway. Real estate revenues can reduce the level of public support, but…cannot supplant it.” In essence, Florida TGV challenged the fundamental financial assumption of the 1984 High Speed Rail Act, that a rail line could be built and operated solely with private financing. Their request for public support led to many months of negotiations, but in the end the High Speed Rail Commission rejected their new financial plan. As a result, Florida TGV withdrew its application (Bottcher, 1993, p. 558).

At about this time in the process, the Commission had begun its own reassessment of using real estate value capture to finance the project. They sponsored a study that found a large backlog of already approved, but not yet constructed, development projects “which…potentially (offer) competition to projects built as ancillary facilities to high speed rail” (Smith, 1990, p. 43). In addition, the study found that 500-700 special tax assessment districts already existed, some along the proposed Miami, Orlando, Tampa rail corridor (Ibid., p. 57), suggesting that an additional “high speed rail special district with ad valorem taxing authority may find resistance in this environment” (Ibid., p. 75). In short, the Commission found that opportunities to capture revenue from property development were significantly more limited than had been anticipated in the early to mid-1980’s (Ibid., p. 53). This, in turn, caused the remaining franchise applicant, Florida High Speed Rail Corporation (FHSRC), to adjust its financial plans, reducing revenues from real estate by over 50% (Bottcher, 1993, p. 558-559).

The real estate financing strategy suffered an even more serious setback in 1989 when the national economy entered a recession, ending the phenomenal growth of the three previous decades in Florida’s real estate market. The recession definitively precluded the possibility of using appreciation in property values to finance very high speed rail. Thus, in a revised financial plan submitted in 1990, FHSRC turned to the public sector for support, as had Florida TGV two years earlier. They asked for a 2.5 cent increase in Florida’s motor fuel tax. Proposing to increase taxes was, however, “not warmly received, and FHSR Corporation was unable to gain the political support necessary to further the idea” (Bottcher, 1993, p. 559). Soon thereafter, FHSRC withdrew their franchise application.

In sum, the 1980’s initiative to implement very high speed rail in Florida failed for three reasons: first, sponsors based their financial plans on flawed neo-liberal assumptions that the private sector would support their project without public backing. While the capital markets were flush with cash in the early 1980’s, private investors were unwilling to assume risk for a rail project unless the State of Florida, or federal authorities, either guaranteed their loans, and/or to directly contributed public funding. But the 1984 High Speed Rail Act forbade the use of public guarantees, or budget appropriations to pay debt service, and this significantly tempered the enthusiasm of investors. Second, project sponsors wanted exemption from Federal, State, and local taxes on the interest earned from bonds issued to fund rail line construction. However, federal legislation in 1984 and 1986, under the neoliberal Reagan Administration, excluded high speed rail from the list of qualified private activities, and when exemption was finally granted in 1988, it came with significant restrictions. These, too, tempered investor interest. Third, real estate financing, which seemed so promising in the early 1980’s, turned out to be based on two false assumptions: that large amounts of property were available for development, in return for which impact fees could be assessed and used to finance the new high speed line; and that property values would continue to appreciate for

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13 Private communication: interviews with senior staff member of an econometrics consulting firm that worked on high speed rail projects in Florida, Texas and California during the 1980’s and 1990’s (January 18; January 28, 2017).
the foreseeable future. In reality, studies showed that much of the land along the proposed Miami-Orlando-Tampa rail corridor was already owned and approved for development, and hundreds of tax assessment districts had already been established by local authorities, who did not respond positively to the idea of adding further assessments. Also, the State Department of Community Affairs (DCA), which had led the way in developing a growth management plan for Florida in the 1970’s and early 1980’s, was opposed to a large amount of new development associated with very high speed rail. These fundamental facts called into question the real estate financing strategy.

Once they realized their assumptions were flawed, both franchise applicants – first Florida TGV, then Florida High Speed Rail Corporation – asked the State to provide public financing in the form of increased taxes. But, new taxes were politically unpopular for both Florida’s citizens and public officials. As a result, when he assumed office in January of 1991, Lawton Chiles, the newly elected Governor, proclaimed “this dog won’t hunt” 14, a Southern vernacular phrase meaning the proposal for implementing very high speed rail in Florida was not viable. The first attempt at very high speed rail in Florida had failed.

Second initiative: 1990’s

Chiles’ rejection was not based on neo-liberal ideology. On the contrary, he supported a very high speed rail line between Miami and Tampa. Thus, he worked with the State Legislature on a public-private partnership (P-3) approach to project implementation that eliminated problems in the 1984 Act. In 1992, the legislature passed amendments to the 1984 Act that committed annual budget appropriations for rail line implementation with funding contingent on private sponsors also making significant contributions of equity capital; authorized State issuance of tax exempt bonds, if and when the Federal government approved such bonds; and assigned responsibility for overseeing project implementation directly to a

14 “Five billion dollar plan for bullet train will not fly”, Miami Herald November 9 1990. 4b.
State agency, the Department of Transportation, not to a semi-independent commission, as had been the case previously. With these changes, Florida moved from a privatized approach to a framework that included significant public participation in funding and implementing a new very high speed line.

Florida’s move away from neo-liberalism under Chiles was matched by similar changes at the federal level. Most importantly, in 1998, Congress enacted the Transportation Infrastructure Financing and Improvement Act (TIFIA), which provided direct Federal loans as well as credit guarantees for infrastructure projects, and allowed Federal loans to be subordinate to senior private debt. This created an opportunity for State, Federal, and private funds to be combined in support of constructing a new rail line – a significant break from Reagan’s neo-liberal policies of market-based choice. This shift was partly influenced by the failure of the Channel Tunnel’s private finance scheme. In the early 1990’s, a massive bailout by British and French authorities was required to prevent Channel Tunnel bankruptcy. The value of stock for equity investors diminished to almost nothing, and banks took losses on their loans. As a result, large institutional investors lost confidence in fully privatized project finance. For example, when the Banque Nationale de Paris (BNP) was part of the TGV Consortium in the 1980’s, it supported fully private financing for that project. But, in the 1990’s, as part of the Florida Overland Express (FOX) consortium, BNP supported public-private partnership (P-3) financing as a more viable approach.

However, neo-liberalism was not entirely dead. The 1990 Credit Reform Act, which was still in force, required that the estimated cost of TIFIA loans and guarantees, called “subsidy costs”, be appropriated by Congress. And Federal “budget scoring” rules meant that for any TIFIA credits, an equal amount of Federal spending must be cut/eliminated in order to prevent any increase in the Federal deficit. This restricted the provision of credit for infrastructure projects.

Personal communication from former BNP official, January 9, 2016. For more on the Channel Tunnel, see other papers in this volume, as well as those prepared for Twenty years under the Channel and beyond?: a research and events programme to celebrate the 20th anniversary of the Channel Tunnel railway (www.ahicf.com).
In 1996, the Florida Department of Transportation selected Florida Overland Express (FOX) as franchisee to design, build and operate a very high speed line between Miami, Orlando, and Tampa, at a cost of $6.1 billion, using French very high speed, TGV technology. The main FOX members were Fluor Daniel (an engineering and construction firm, as lead partner), Odebrecht Contractors (Brazilian infrastructure construction contractors), Bombardier (a multinational railcar manufacturing company), and GEC Alstom (manufacturers of the French TGV electric power cars). Given the changed environment at the State and federal levels, FOX was able to develop a robust financial plan that drew from diverse sources, including, first, project capital from tax exempt State bonds secured by the $70 million per year in State legislative appropriations; second, tax exempt project bonds backed by passenger fare revenue; third, a $439 million equity contribution from FOX; and fourth, rolling stock purchases based on leveraged leases, which meant that FOX would not have to pay the full cost of its railcars upfront. In addition, FOX counted on federal funding from TIFIA, and during the period when the TIFIA legislation was being considered in Congress, FOX partners lobbied, and were rewarded with a Conference Committee report, in 1998, that specifically named their project as a qualified recipient of TIFIA funds. FOX then included $2 billion in potential TIFIA funding in their financial plan.

Private banks and financial advisors supported this plan in various ways, such as writing initial bond ratings advisory memos to their clients that spoke in positive language about the prospects of the Florida project. By the late 1990’s, sponsors had high hopes that the FOX project would be implemented. But some important neo-liberal politicians, such as John Kasich, Chairman of the House of Representatives Budget Committee, were not so positively disposed. Kasich asked the Government Accountability

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17 Leveraging meant that FOX could borrow from investors to pay the upfront capital cost of rolling stock, then repay interest and principal from project revenues. Investors would also be granted depreciation allowances on the value of the railcars.


19 Personal communication, senior staff member of U.S. transportation consulting firm that worked in Florida during 1990’s.
Office (GAO) to examine the viability of very high speed rail financing. In January of 1999, GAO issued a report which specifically called into question many of the FOX financial plan propositions, not least that the Federal government would commit most of $2 billion in available TIFIA funds to that single project (Government Accountability Office, 1999). It was unlikely, the report stated, that TIFIA would commit that much money to a single project. More likely, it would spread its funding across multiple projects. This provided Jeb Bush, a neo-liberal who won the Gubernatorial election in November, 1998, with the political “cover” or justification, for one of his earliest official actions. In January, 1999, he refused to approve the first $70 million appropriation for FOX, stating that he opposed project implementation partly because committing the State’s full faith and credit to backing project bonds could be very expensive in the event of a default, and also because he said State funds could be better used for other, non-high-speed transport priorities (Silva, 1999). Bush’s actions undermined the P-3 arrangements for the project, pulling the rug from under his own Department of Transportation, the lead State agency for overseeing implementation. Most importantly, since State appropriations were required to guarantee bond interest payments, attract private investors, and protect them from market risk, the FOX consortium concluded that their project could not be successfully financed. Therefore, FOX withdrew its franchise application. The second attempt at high speed rail in Florida had failed.

Afterword

After the failure of the 1990’s initiative, promoters tried two more times, between 2000 and 2011, to implement very high speed rail on the Miami-Orlando-Tampa corridor, or parts thereof. These projects also failed. That notwithstanding, All Aboard Florida (AAF), a subsidiary of the Fortress Investment Group, has upgraded the freight right of way it owns between Miami and Orlando, and began operating passenger trains in 2017. These trains are not very high speed and will run at between 79 and 125 miles per hour. Because they will operate on existing, albeit upgraded track, the AAF passenger line was less expensive to build than grade separated, very high speed infrastructure. In other ways, however, Fortress’ financial
plan is not unlike those proposed in the 1980’s and 1990’s. Fortress relies on a combination of revenues from real estate, which it owns along the route, and federally approved, tax exempt, private activity debt. The company recently began building large, mixed use commercial, retail, and residential developments at station sites in Miami, Ft. Lauderdale, and West Palm Beach. Fortress predicts that easy rail access to these sites will make their station developments highly profitable, thereby offsetting losses from passenger fare revenues that do not cover the line’s operating costs.

If the Fortress project is financially successful, it indicates, on the one hand, that the 1980’s real estate-based financing strategy for financing a very high speed line was not completely misguided. On the other hand, it raises questions about whether the 1980’s and 1990’s Florida projects would have been more likely to succeed if they had opted for moderate speed trains, where infrastructure construction costs are much lower. Considerable historical evidence suggests that construction of dedicated, grade separated, intercity, very high speed rail lines has been so expensive that they are not profitable based on passenger revenues. When costs of servicing construction debt are included in the profit calculation, only Paris to Lyon, in France, and Tokyo to Osaka, in Japan, have generated profits. This raises questions about new grade separated, very high speed lines being planned in Texas and California. Would these new lines be more likely to succeed if they were built for moderate speed, at lower cost? Or is very high speed required in order to be competitive with highway and air transport modes? And very high speed brings indirect benefits, including improvements in productivity and access to employment along a new corridor, as well as environmental and sustainability benefits. Do these benefits outweigh the high initial capital costs? Answering these questions goes beyond the scope of this paper, but this is done by other authors in this volume and elsewhere in the high speed literature (see, for example, DeRus, 2008; Loukaitou-Sideris, 2013; Levinson, 2010, 2012).
References
