

# Bond Case Briefs

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## Trump Can't Stop California Bullet Train Paid With Bond Sale.

- **State offers \$1.25 billion in taxable debt for construction**
- **Court could prevent state from using proceeds for rail line**

California isn't letting litigation or Donald Trump stand in the way of one of the most expensive and controversial projects in the U.S.

The state on Thursday sold \$1.25 billion in taxable bonds to finance a \$64 billion high-speed rail system, the first debt issue for construction since voters approved it nearly a decade ago. The offering marks a show of faith from officials that the project will proceed despite a lawsuit from a county and farmer opposed to it and roadblocks from the Trump administration, which has delayed a grant that would have benefited the bullet train running from San Francisco to the Los Angeles area.

The general-obligation debt, backed by California's full faith and credit, isn't dependent on the success of the project, the first publicly financed U.S. high-speed rail line. Lack of federal support would push more of the burden on Californians to finance the project, which Democratic Governor Jerry Brown says will transform the traffic-choked state by increasing access to affordable housing and boosting local economies.

"California can well afford it, and it will make our state a much better place," he said in February in a recorded news conference to which his press office referred in response to questions. "I know we're going up against a very red tide here of opposition. This thing is a long-term project, and one way or another we're going to get it."

It's a good time for California to borrow, with its bond ratings their highest since the turn of the century and after it turned a spate of deficits into surpluses. The state's 10-year tax-exempt securities yield about 2.3 percent, or 0.24 percentage point more than benchmark debt, less than half the premium it paid three years ago, data compiled by Bloomberg show. Yields on the newly issued fixed-rate taxable bonds ranged from 1.25 percent for securities due in 2018 to 2.37 percent for those due in 2022, according to the state treasurer's office.

After years of delay, due partly to legal challenges, construction is underway on 119 miles of track in the Central Valley. By 2029, if work goes as planned, passengers will be able to travel at speeds of more than 200 miles an hour between San Francisco and Anaheim, south of Los Angeles, according to the California High-Speed Rail Authority.

Voters in 2008 approved almost \$10 billion of general obligations for the project, and of that, about \$1 billion has been sold to finance costs such as design and environmental reviews, according to the state treasurer's office. So far, work has cost about \$3 billion, with about \$2.35 billion coming from the federal government.

On April 26, opponents of the project will ask a Sacramento County Superior Court to block the state from using proceeds from the bond sale for it. A victory for the opponents could lead federal officials

to demand that the state pay back money it has so far received, according to bond documents circulated to investors.

Another risk: future federal grants may not roll in. The high-speed rail authority's most recent business plan in May 2016 said it plans to seek additional funds from Washington, without specifying the amounts.

Already, a \$647 million federal grant slated for the electrification of another commuter rail line, which is also needed for the high-speed system, was suspended by Trump's administration after California's House Republicans asked for it to be withheld.

One of them was U.S. Representative Jeff Denham, from the Central Valley, who said he doubts the project will get additional federal dollars until there's a full explanation of all funding sources and costs.

"If you're going to continue to obligate state dollars that you do not have, then you're in jeopardy of at some point the federal government calling for those notes to be due, which could then put public safety dollars at risk, other transportation dollars at risk or education dollars at risk," said Denham, who sits on the transportation and infrastructure committee.

Under the measure approved by voters, California's department of finance must review the funding plan for each segment of the rail before permitting the use of bond funds. It did so in March, saying that for the \$7.8 billion Central Valley portion, the risks "are more limited because the bulk of funding is nearly in hand, and much work has already been completed."

A study previously commissioned by the U.S Treasury Department under then-President Barack Obama listed the project as among 40 with major economic significance that were at risk of not coming to fruition. Under an assumption that the costs totaled \$59 billion, it pegged the net economic benefits at at least \$130 billion.

"There are a lot of federal questions," said Howard Cure, head of municipal research in New York at Evercore Wealth Management. "When you don't have the Republican contingent from your state pushing for it, it is potentially a big problem."

## **Bloomberg Markets**

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