Fiscal Cliff Analysis & Strategic Financial Plan

JPB Special Meeting
April 6, 2023

AGENDA

- Purpose and Key Take-Away
- Where are we today?
- Strategic Financial Plan
- Capital Investment
- Key Take-Aways and Recommendations

Today's Purpose and Key Take-Away

- **The objective of today's meeting is to:**
  - **Outline the magnitude of the currently projected operating and capital deficits**.
  - **Identify key levers Caltrain can pull** to increase revenue or decrease costs.
  - **Get Board input on Strategic Financial Plan**.
- **The key take-away of today's meeting is:**
  - Caltrain can effectively manage its costs and use its financial resources to **delay the fiscal cliff by two years but still needs significant additional funding to support both operations and its capital investments moving forward.**

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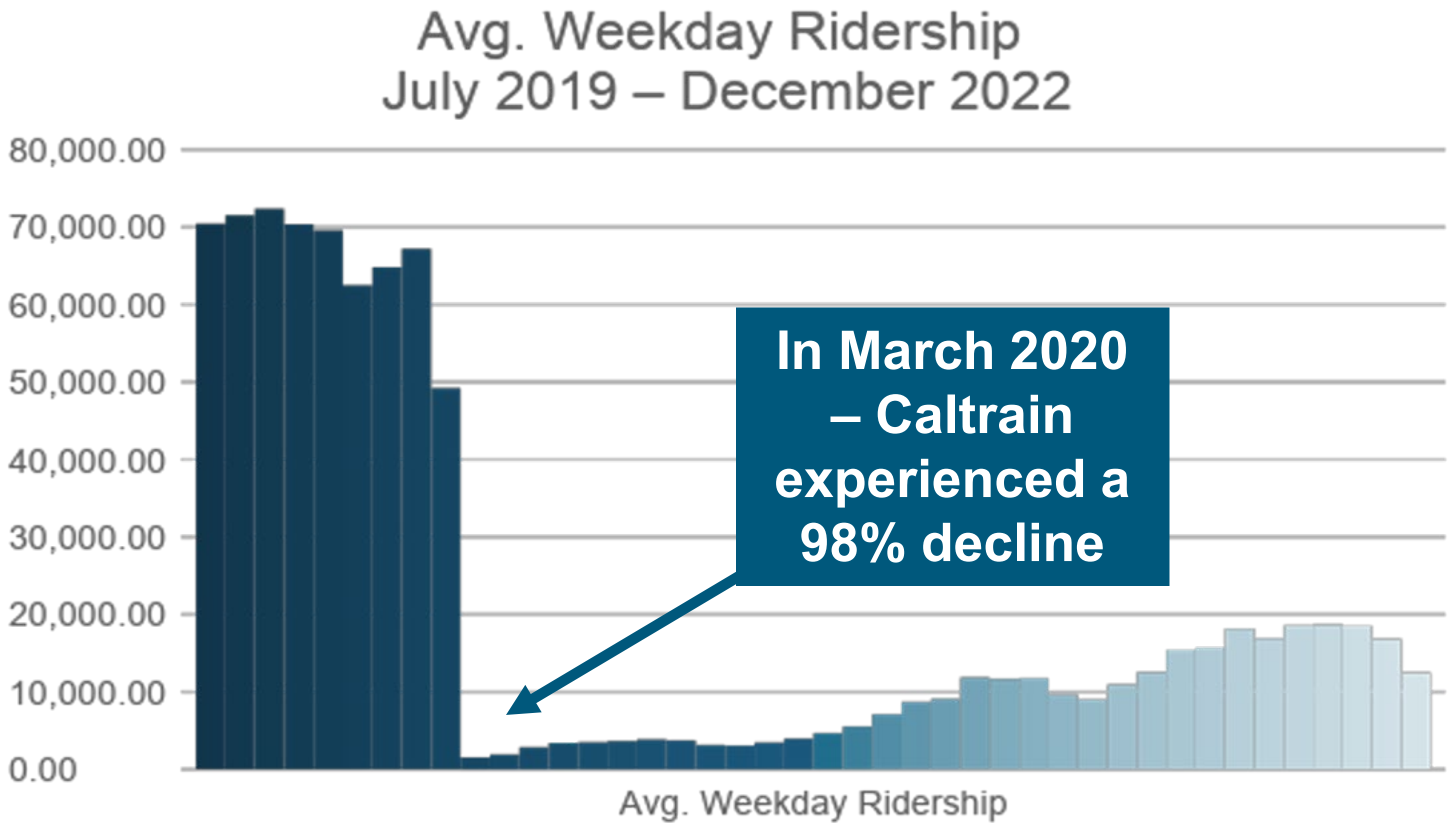
Where are we today?

- Ridership and Revenue Impact
- Recent Headlines
- Ridership Recovery
- Traffic Trends
- Bay Area Recovery
- Recent Ridership Trends
- Key Ridership Take-Aways

Caltrain Ridership & Revenue Impact



Since 2019, reduction in ridership has resulted in a loss of over $60 million in annual farebox revenues

- **2019: ~75% of annual operating budget**
- **2024: ~26% of annual operating budget**

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Recent Headlines

"San Francisco Transit Agencies face Worst Case Scenario for Revenues, Service Cuts" – Smart Cities Dive 3/7/23.

"San Francisco's Empty Train Cars Spell Trouble for Public Transit" – Bloomberg 10/10/22.

"Bay Area Transit Agencies are Teetering over a Fiscal Cliff" – San Francisco Standard 12/22/22.

"The Bay Area was California's Transit Mecca. Now LA has more Train and Bus Riders" – Mercury News 8/28/22.

"SF and LA Transit have Disparate Ridership Recoveries" – San Francisco Chronicle 3/18/23.

"Bay Area Transit Operators Facing Huge Fiscal Cliff Budget Shortfall as Potential Fiscal Cliff Looms "– CBS News 2/10/23.

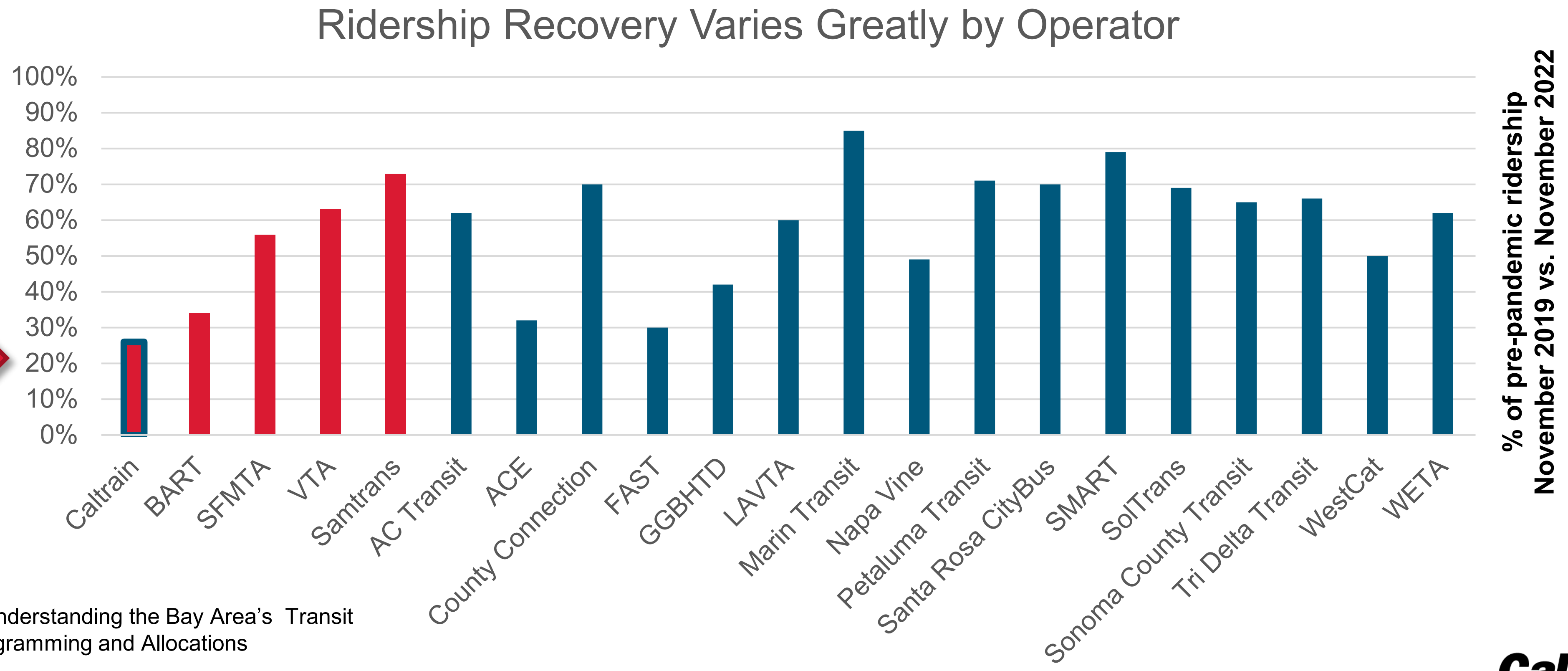
"Downtown San Francisco has North America's Weakest Pandemic Recovery" – San Francisco Chronicle 1/18/23.

"US Public Transit Faces Multi-Year Recovery"– Fitch Ratings 8/10/22.

"Doomsday Scenario for Sinking Public Transit" – Mercury News 11/30/22.

Ridership Recovery by Operator

- **Ridership recovery by operator generally reflects the type of service, destinations served, and the demographics of riders of each agency but has averaged 58% for these agencies.**
  - On a national level, Commuter Rail has also been slower to recover vs. bus, light and heavy rail.



Caltrain has the slowest recovery of all of these Bay Area Operators

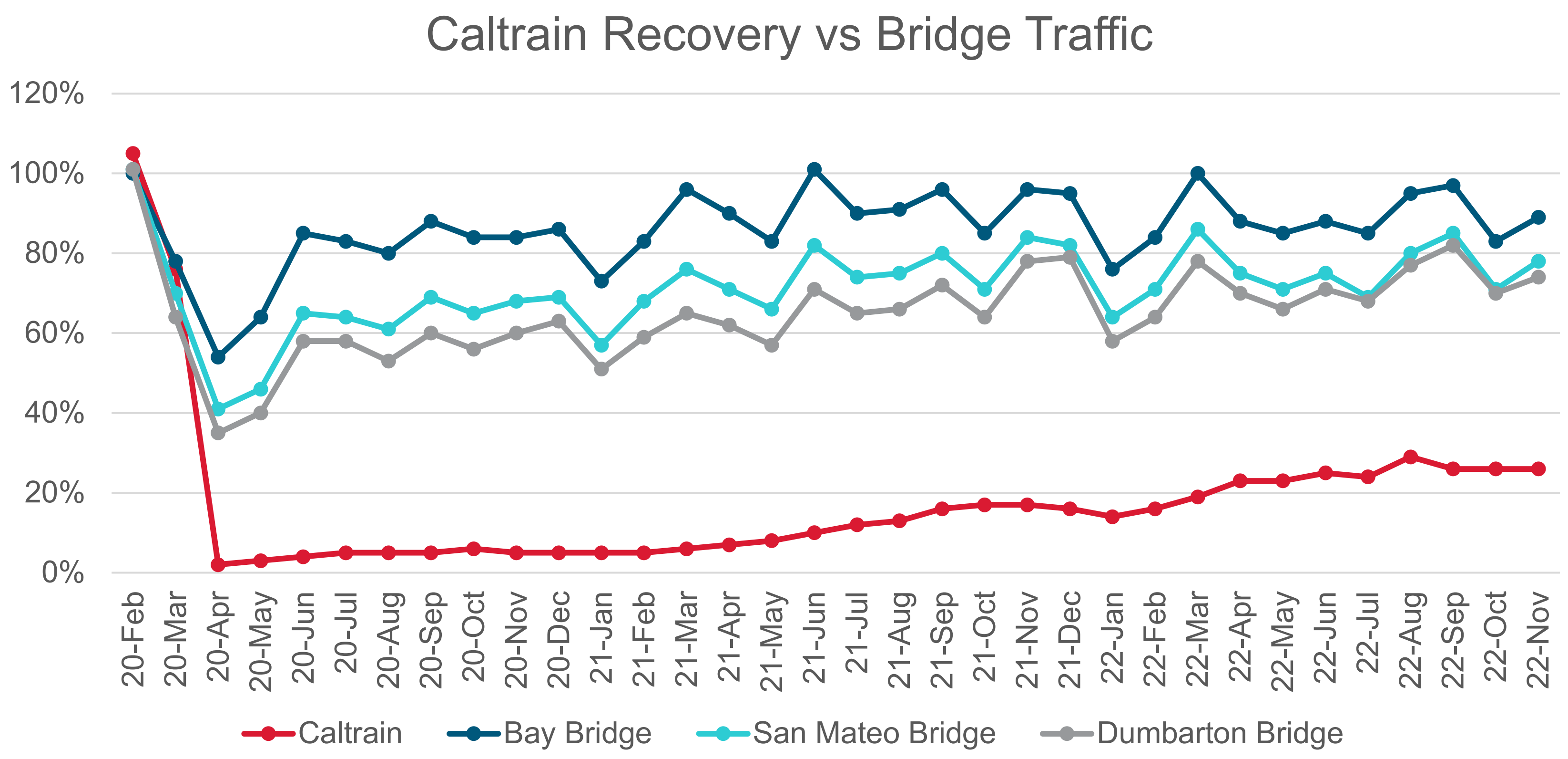
Source: Saving Transit Service: Understanding the Bay Area's Transit Operating Fiscal Crisis – MTC Programming and Allocations Committee 2/8/23

Note: Data for Vacaville CityCoach and Union City Transit is not available.

Source: National Transit Database, November 2022 with Caltrain, Muni and BART from Bay Area Council Economic Institute.

Monthly Pandemic Volumes Since 2019

- **South Bay has been slower to recover.**



Volumes as of Nov. 2022

Bay Bridge = 89%

San Mateo = 75%

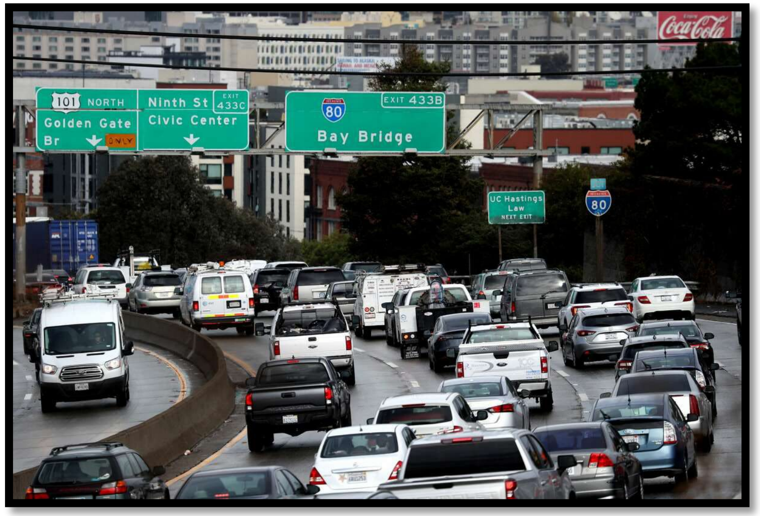
Dumbarton = 74%

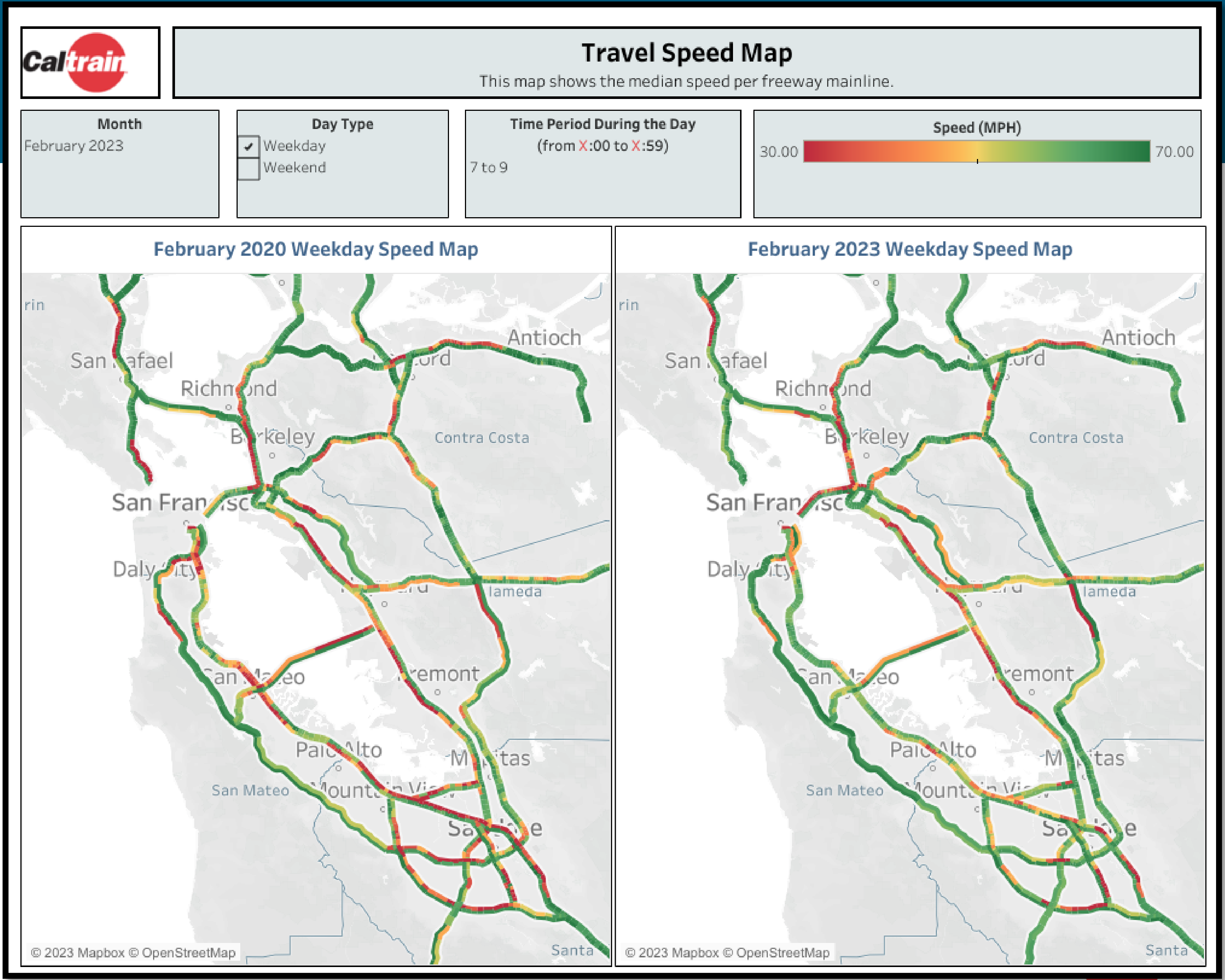
Caltrain = 26%

Source: SFMTA, Bay Area Toll Authority, BART, Analysis: Bay Area Council Economic Institute

Traffic Trends

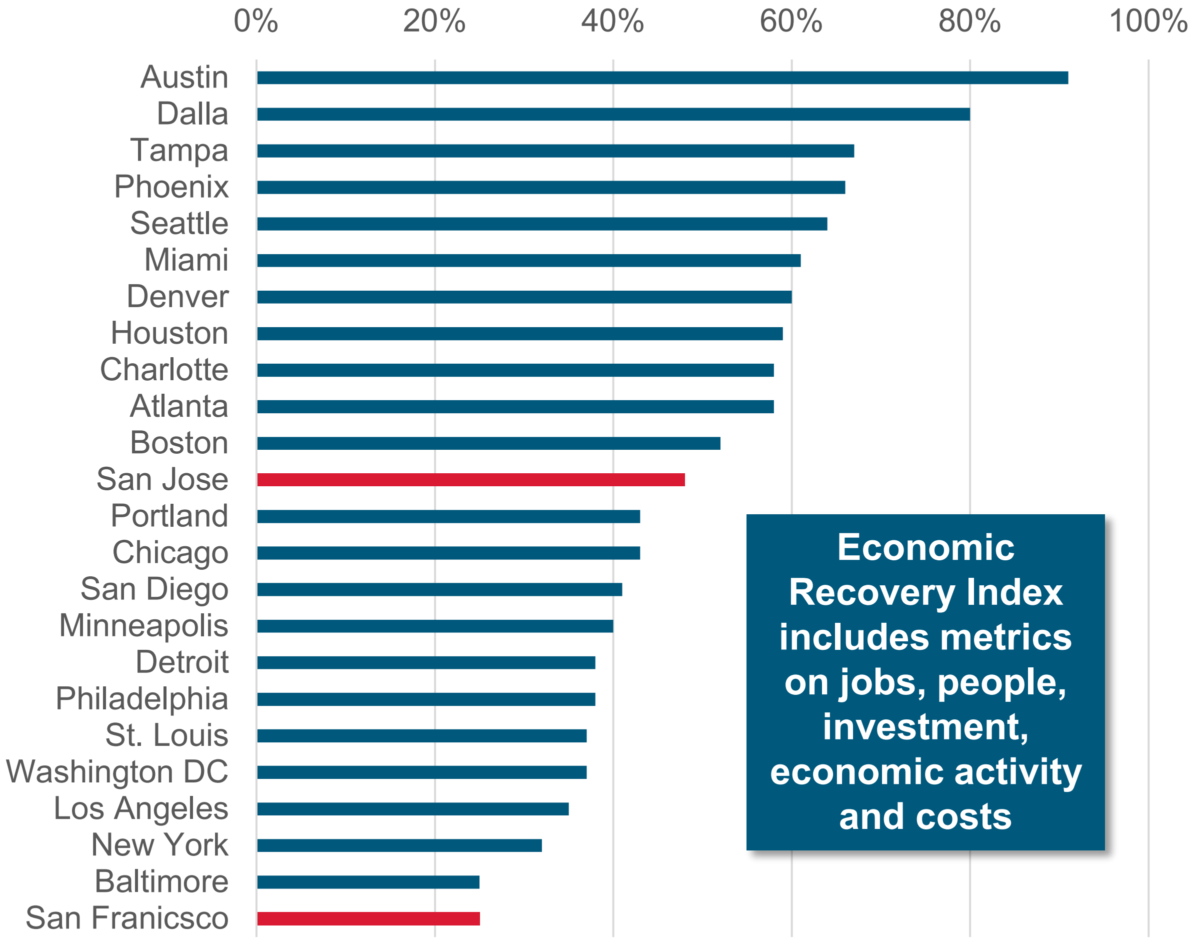
- **Bay Area traffic trends indicate that the travel speed on the Highway 101 corridor has materially improved since 2019.**

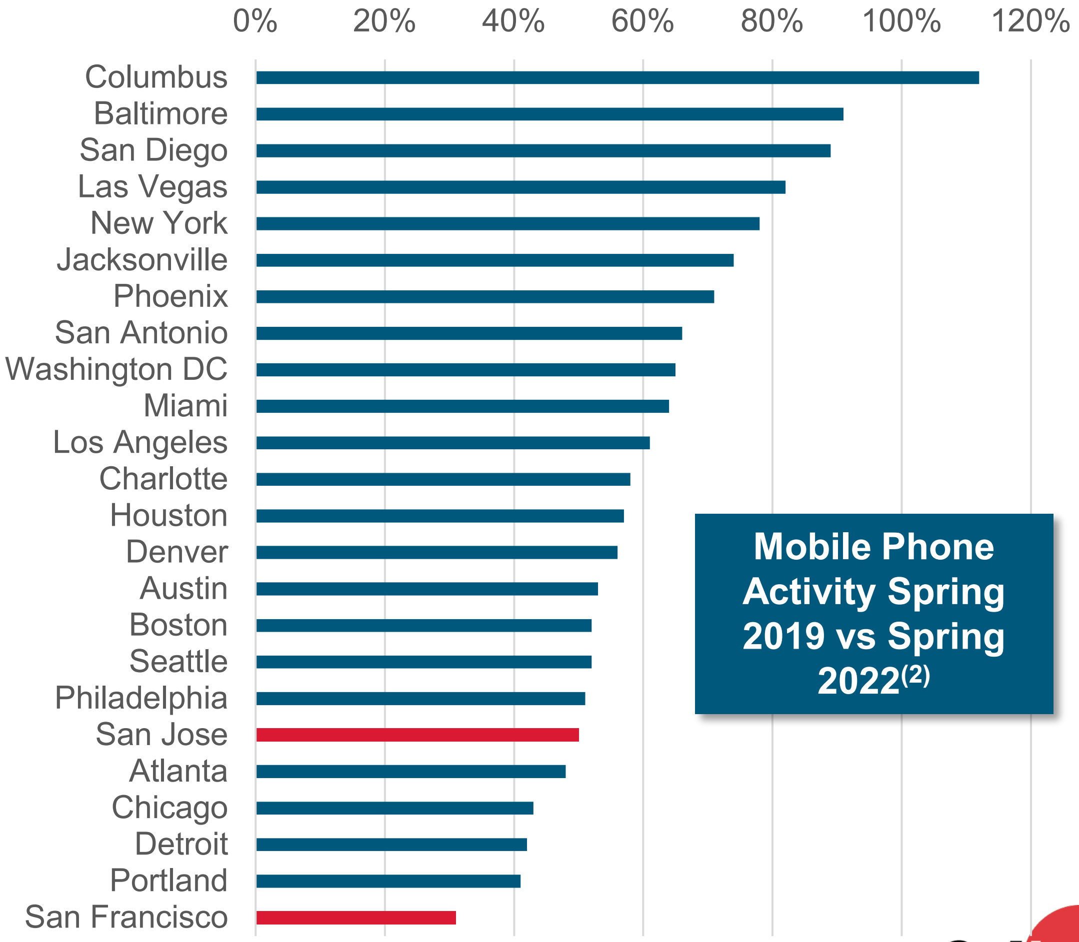




Bay Area Recovery – Percent of 2019

- **SF Downtown's economic recovery is lagging the rest of the US[(1)].**





(1) Bay Area Council Economic Institute January 2022.

(2) UC Berkeley/U of Toronto – Downtown Recovery Study; CA Dept. of Finance

Caltrain's Recent Ridership Trends

- **Caltrain currently operates 48 peak trains (4 per hour per direction) and 56 off-peak trains (weekdays). TASI conductors performed a 9-day passenger count in late January.**
  - Current weekday ridership is 26% of 2019 levels, but 61% of riders still indicate work as primary purpose(1)
  - Weekend ridership has regrown to 56% of 2019 but will likely lag with weekend closures

FY AVG. RIDERSHIP	FY2019(2)	FY2020	FY2021	FY2022	FY2023(3)	2023 SAMPLE(4)
Weekday	63,598	50,377	4,104	12,065	17,027	16,492
Weekend(5)	12,917	9,805	2,643	6,764	8,356	7,251
Weekday % of FY2019		79%	6%	19%	27%	26%
Weekend % of FY2019		76%	20%	52%	65%	56%

(1) 2022 Triennial Customer Survey. (2) Weekday 2019 Annual Passenger Count. (3) Through December 2022. (4) TASI Conductor count January 21 to 29, 2023. (5) FY19 weekend avg. February through July 2019.

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Caltrain's Peak vs. Non-Peak Ridership

- **While a small sample, the biggest impact has been on Peak ridership.**
  - Weekday peak ridership has dropped from 85% to 60% of total weekday ridership.
  - Of the 40% Non-Peak, 3% Pre-peak (4 to 6am), 28% Midday (9am to 4pm), 8% Evening (7pm to midnight).

RIDERSHIP	FY2019[1]	FY2019 (%)	FY2023[2]	FY2023 (%)	CHANGE FROM FY19	CHANGE FROM FY19 (%)
AM PEAK	34,552	55%	5,463	33%	(29,089)	62%
PM PEAK	19,247	30%	4,509	27%	(14,738)	31%
NON-PEAK	9,799	15%	6,520	40%	(3,279)	7%
TOTAL	63,598		16,492		47,106	
TOTAL PEAK	53,799	85%	9,973	60%	(43,826)	93%
TOTAL NON-PEAK	9,799	15%	6,520	40%	(3,279)	7%

(1) Weekday 2019 Annual Passenger Count. (2) TASI Conductor count January 21 to 29, 2023.

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Caltrain’s Ridership Demographics

- **According to data collected from Triennial Customer Surveys conducted in Fall 2019 and Fall 2022, Caltrain’s ridership demographics have changed substantially since 2019.**
  - At 80%, Caltrain maintains some of the highest customer satisfaction.

Percent of Ridership	2019	2022
Ride 4x per Week	68%	38%
Income <$50,000	10%	17%
Income <$100,000	29%	39%
Have access to car (choice rider)	51%	39%
Students	6%	12%

In 2022, recipients of donated Go Passes completed over 20,000 rides on Caltrain

Key Ridership Take-Aways

- **There has been a significant change in ridership.**
  - Slowest recovery of ridership of any Bay Area operator.
    - Peak travel has declined by 93% of pre-pandemic levels.
    - Need to acknowledge new work and travel patterns.
  - San Francisco Downtown currently has a 27% commercial vacancy rate(1) and has been particularly slow to recover when compared to both national and regional trends.
- **Sustainable ridership and funding strategy must be a major priority.**
  - Ridership Growth Task Force is prioritizing strategies for growing ridership, including new payment strategies, improved service, marketing and promotions, and partnerships.
  - Need a new funding model, recognizing these changes in the local environment and work patterns.
  - Need to pursue all funding opportunities and be an active participant in finding a solution with transit partners.

(1) San Francisco Standard January 9. 2023

Board Member Comments and Questions?

Strategic Financial Plan

- Approach and Methodology
- Historic Operating Revenues
- Farebox
- Fares
- Measure RR Sales Tax
- Service Levels
- Rail Operator
- Wages & Professional Services
- Fuel & Electricity
- Projected Operating Deficit
- Financial Reserves
- TIRCP Funds
- Taking a Balanced Approach
- Operational Levers
- Operational Take-Aways

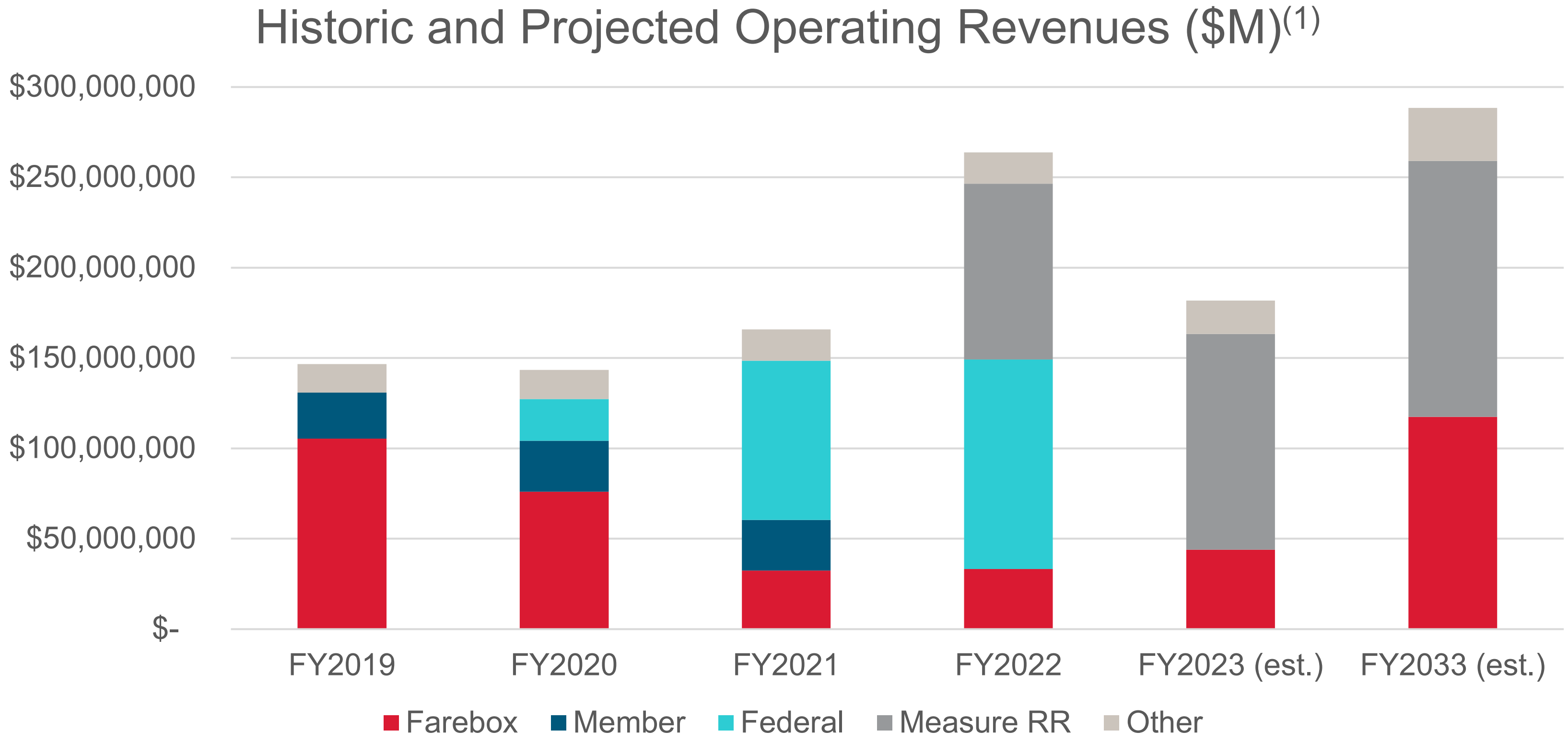
Approach and Methodology

- **Strategic Financial Plan evaluates the underlying assumptions and trends of Caltrain's operating and capital forecast.**
- The objective is to frame and assess:
  - Projected Operating Deficit over the short (2YR), intermediate (6YR) and longer-term (10YR).
  - Capital investment and grants strategy.
  - How changes in the underlying assumptions affect the agency's forecast and financial capacity.

- In a perfect world, the Strategic Financial Plan would be the culmination of several different efforts, including the Budget (underway) and the Capital Improvement Plan (underway).
- **Strategic Financial Plan is intended to be organic, changing and evolving over time, as circumstances change, and foreseen and unforeseen events unfold.**
  - Beginning of an iterative process to be reviewed and/or updated at least annually.

Historic Operating Revenues

- **The receipt of Federal and Measure RR funds have been critical in Caltrain's ability to operate.**
  - With expected receipts of $119M in FY23, Measure RR has more than eclipsed the combined loss of farebox revenues since 2019 ($60M) and member contributions ($26M).
  - However, the decline in ridership combined with the projected increase in operating expenses means that Measure RR will not be sufficient to cover operations moving forward.



(1) Other includes parking, rental income, operating grants and projected LCFS revenues. Measure RR forecasted to grow at 2% annually.

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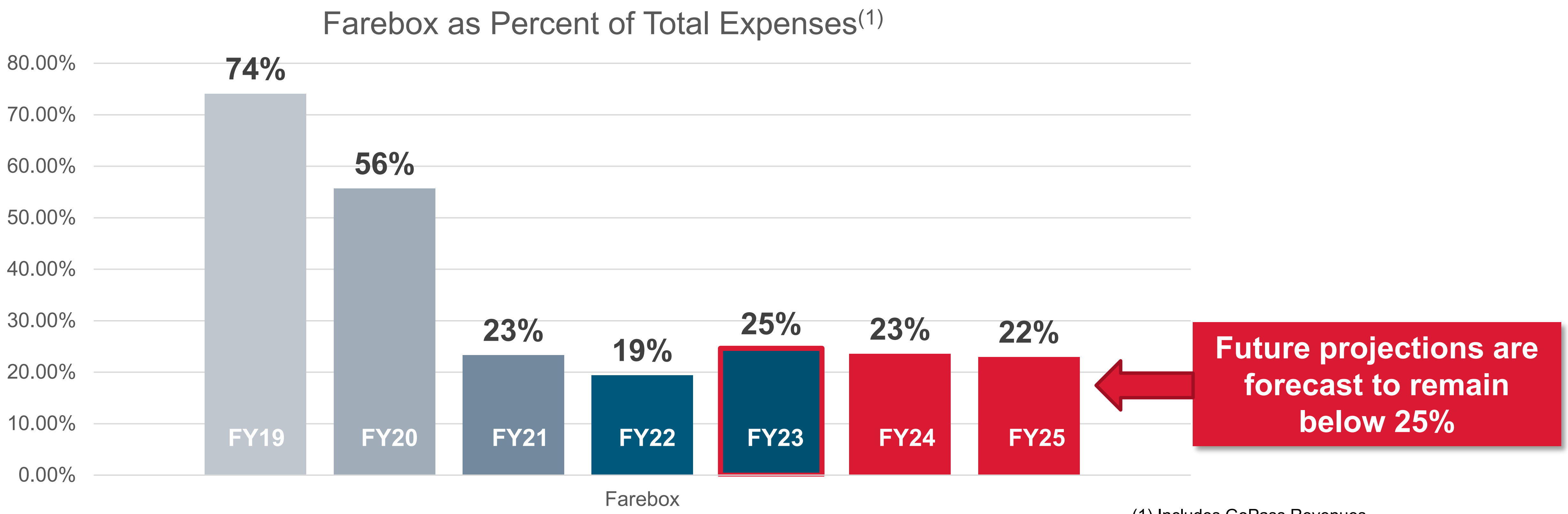
Farebox as Percent of Total Expenses

- **Annual Farebox Recovery has declined from over 70% to under 25% of total expenses.**



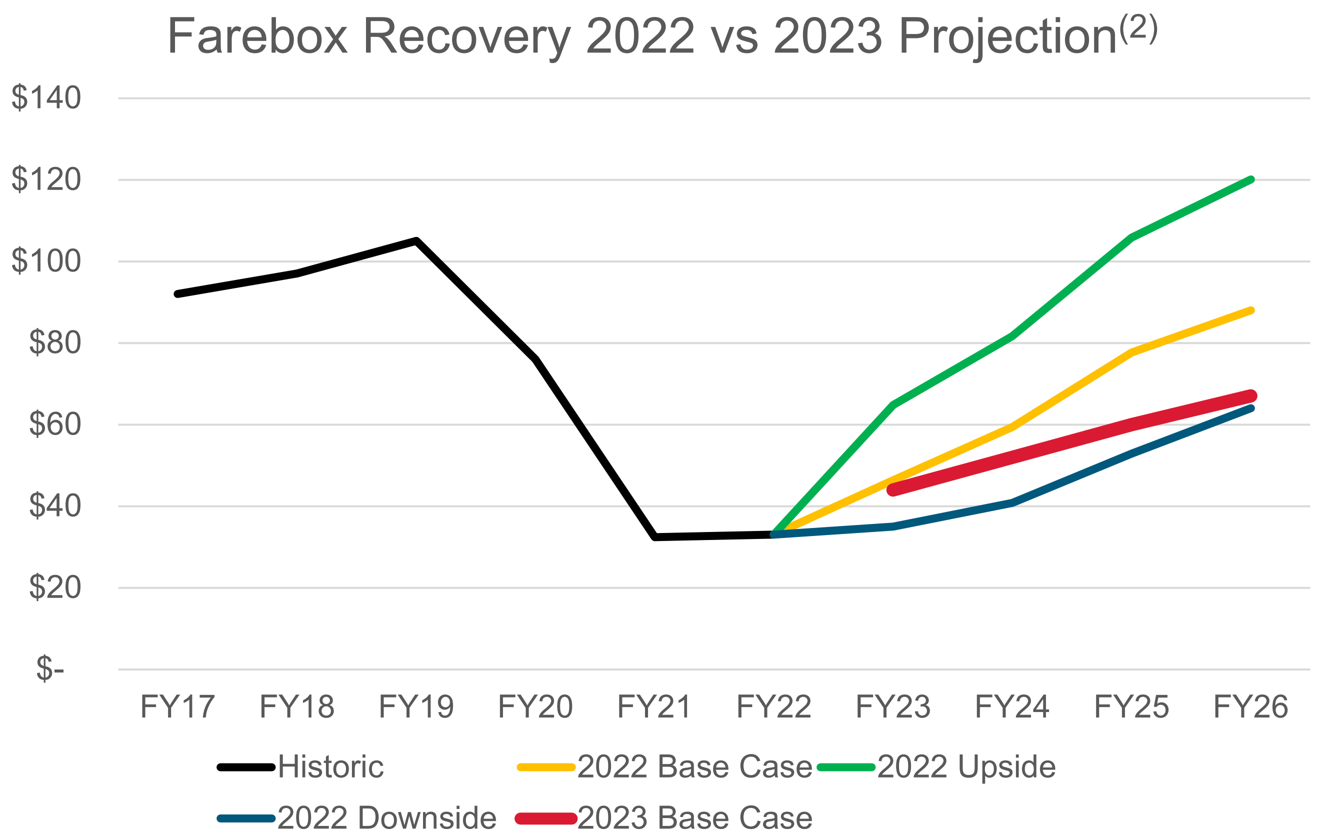
(1) Includes GoPass Revenues.

Evolution of Ridership Revenue Forecasts

- **Previous analysis assumed a Base, Upside and Downside case for Farebox Revenues through FY2026[1]**
- **Current Base Case Projection is mirroring the Downside Scenario from one-year ago.**

Scenario[1]	Projected Farebox Revenues in FY26
2022 Base Case	$88M
2022 Upside Case	$120M
2022 Downside Case	$64M
2023 Base Case	**$67M**

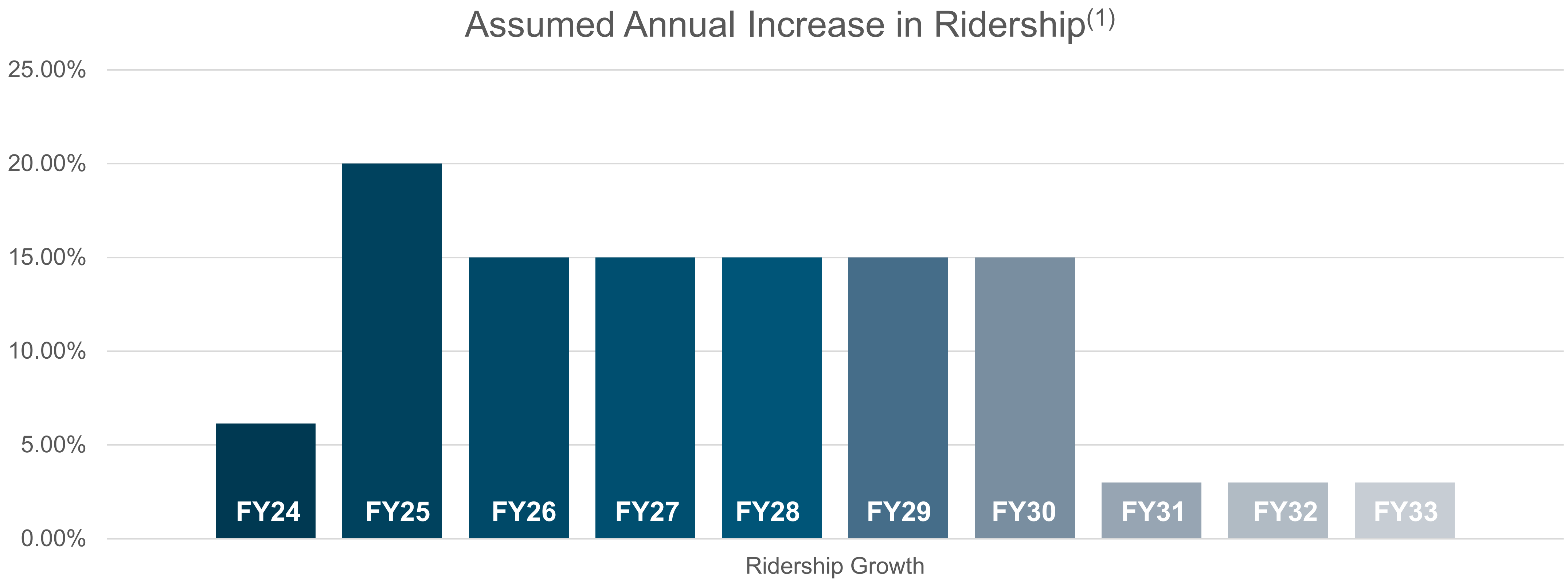
(1) Caltrain Board Workshop March 21, 2022.



(2) Includes GoPass Revenues.

Future Ridership Growth

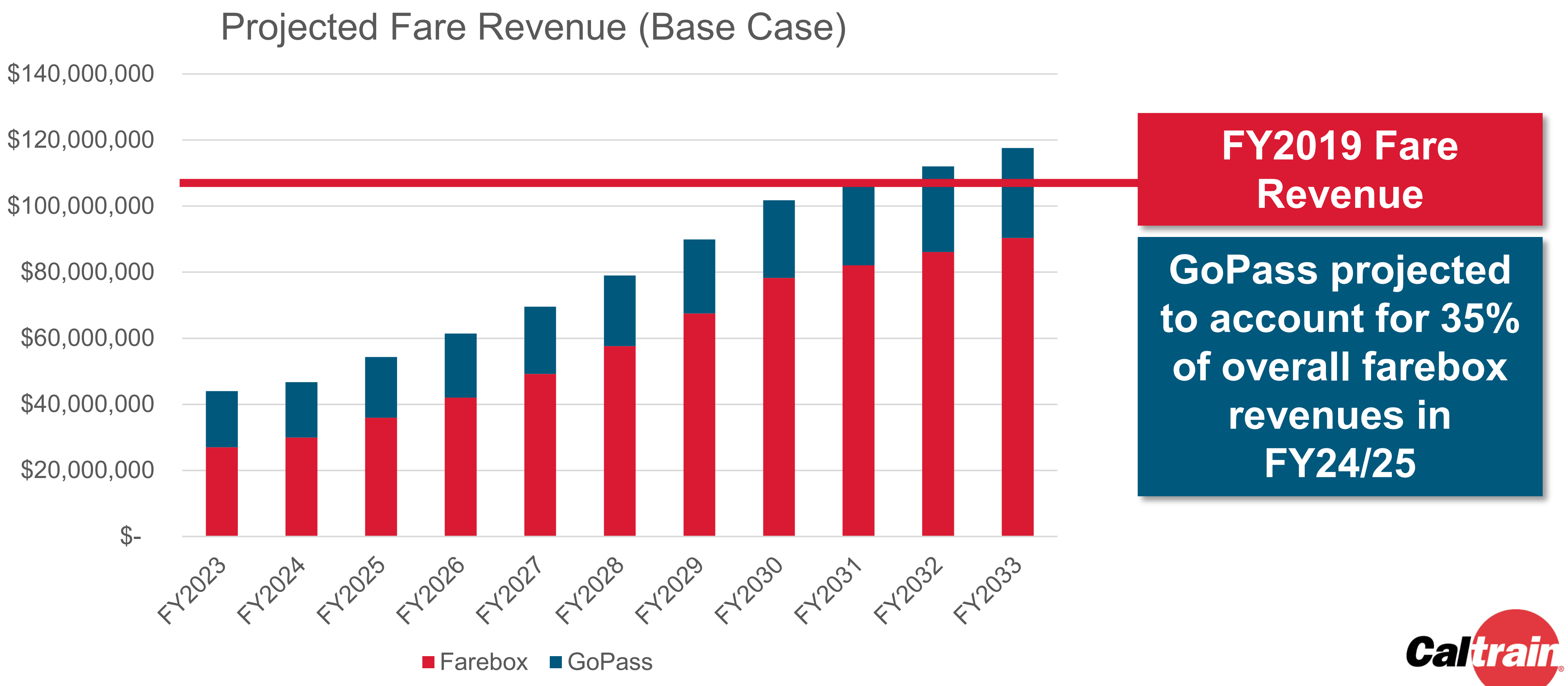
- **Annual Ridership, including GoPass, is projected to increase 20% in FY25 with electrification.**



(1) Based on revenue projections and includes GoPass.

Ten-Year Forecast - Farebox

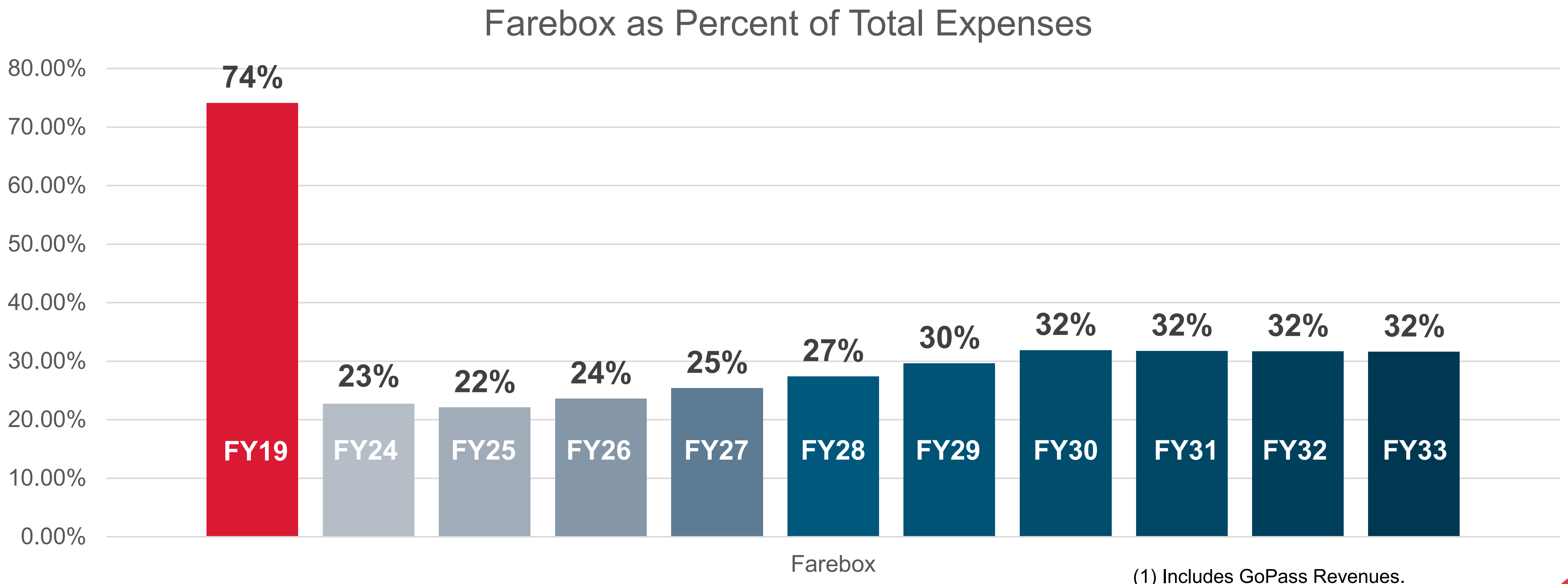
- **2023 Base Case assumes that fare related revenue will not return to 2019 levels until FY2031.**
  - Significant risk exists for GoPass Revenues given service levels and the economic environment.



GoPass projected to account for 35% of overall farebox revenues in FY24/25

Future Farebox as Percent of Total Expenses(1)

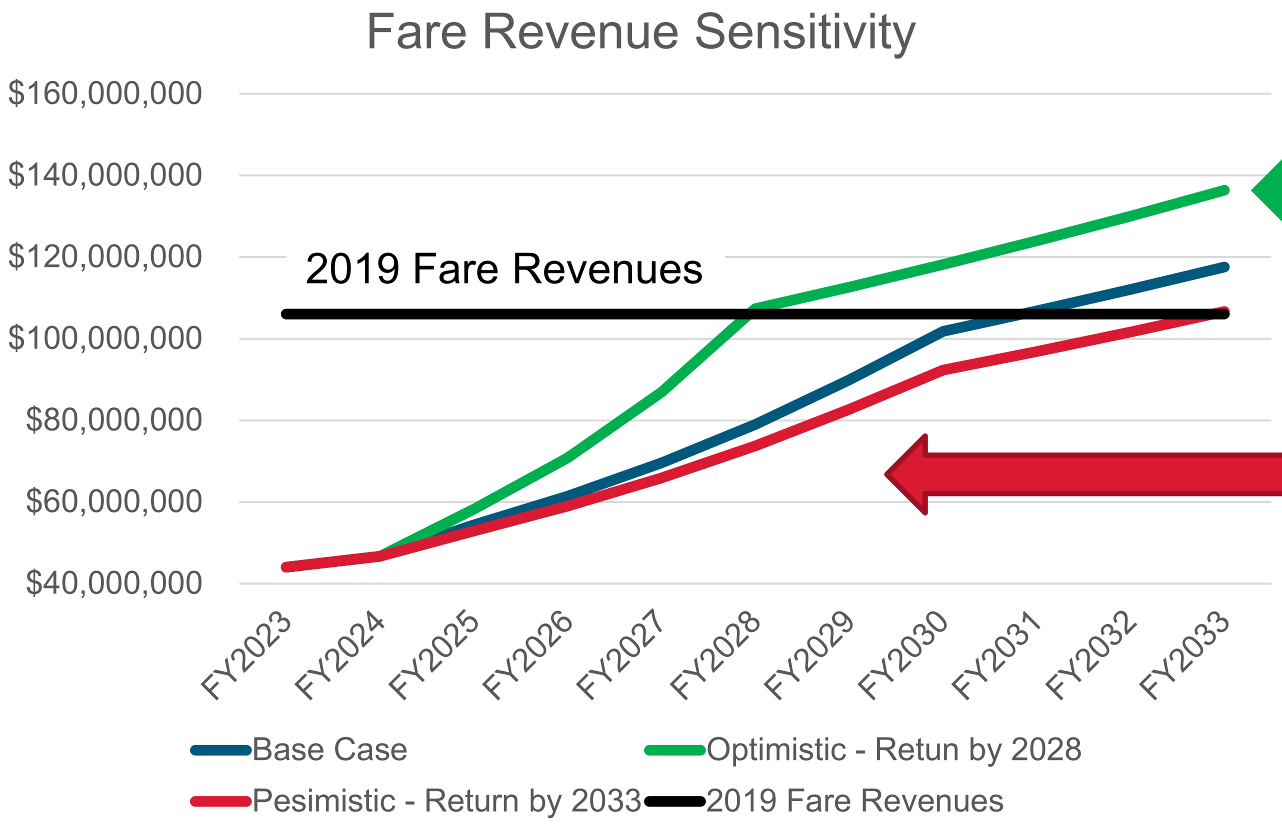
- **Annual Farebox Recovery is projected to increase gradually to around 30% to 35%, but only cover 32% of Total Expenses by FY33.**



(1) Includes GoPass Revenues.

10-Year Farebox Sensitivity

- **How quickly ridership returns, along with any fare increases, will materially impact the projected operating deficit.**



If fare revenues reach 2019 levels by 2028, there is an estimated $150M decrease in the cumulative deficit

If fare revenues do not reach 2019 levels until 2033, there is an estimated $65M increase in the cumulative deficit

Change in Fares

Three potential fare price scenarios were analyzed to understand the range of estimated revenue and ridership impacts in FY24, assuming 104 TPD weekday service

1. No change from current prices in Fare Structure

2. Increase fare prices on July 1, 2023
   - $0.50 increase to Base Fare + Increase Monthly Pass Multiplier from 24 to 30 trips

3. Decrease fare prices on July 1, 2023
   - $0.50 decrease to Base Fare + Decrease Monthly Pass Multiplier from 24 to 16 trips

Fares – Summary of Results

FY24 for 104 TPD	Estimated Annual Revenue* (FY24)	Estimated Annual Revenue Difference from Scenario 1	Estimated Annual Ridership* (FY24)	Estimated Annual Ridership Difference from Scenario 1
1 – No Change from Current Fare Structure	$29.9M	N/A	5.6M	N/A
2 – $0.50 increase to Base Fare + Increase Monthly Pass Multiplier for 24 to 30 trips	$31.7 – $32.6M	$1.8M – $2.7M 6% - 9%	5.4M - 5.5M	(85k) – (175k) (2%) – (3%)
3 – $0.50 decrease to Base Fare + Decrease Monthly Pass Multiplier for 24 to 16 trips	$26.6M – $27.2M	($2.7M) – ($3.2M) (9%) – (11%)	5.7M - 5.8M	113k – 214k 2% - 4%

* Excludes GoPass revenues and ridership.

Fares - Recommendation

Fare Prices Recommendation

- **Staff Recommendation**: **No change from current prices in Fare Structure (Sc. 1)**
  - Increasing fare prices (Sc. 2) is not expected to substantially "close the gap" through revenue generation.
  - Decreasing fare prices (Sc. 3) is not expected to significantly increase ridership and results in revenue loss.

Other Fare Recommendations:

- **Explore other customer enhancements in fares**, to potentially include:
  - Continued participation in regional fare coordination and integration programs (Clipper START, Clipper Bay Pass, potential regional fare transfer discount)
  - Potential changes to Go Pass program
  - Potential new fare products to offer (multi-ride ticket)
  - Limited-time promotional fare offerings
- Return to Board with **updated Fare Structure for adoption later this year.**

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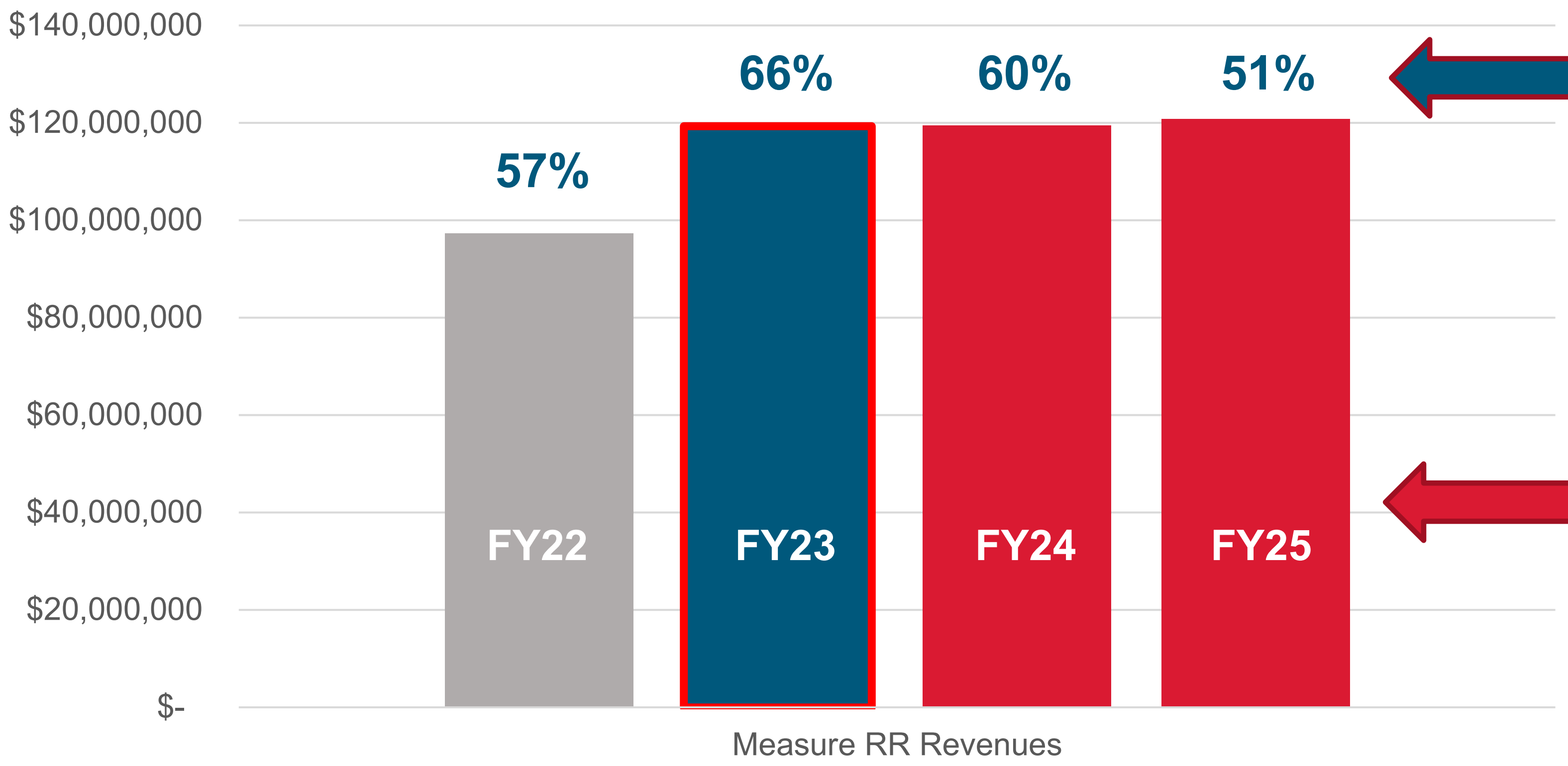
Measure RR as Percent of Total Expenses

- **Measure RR Sales Tax Revenues have performed incrementally better than expected with FY23 year-end forecast at nearly $120M vs FY23 Budget of $114M.**
  - Accounts for over 65% of the operating budget with no immediate ability to fund capital.

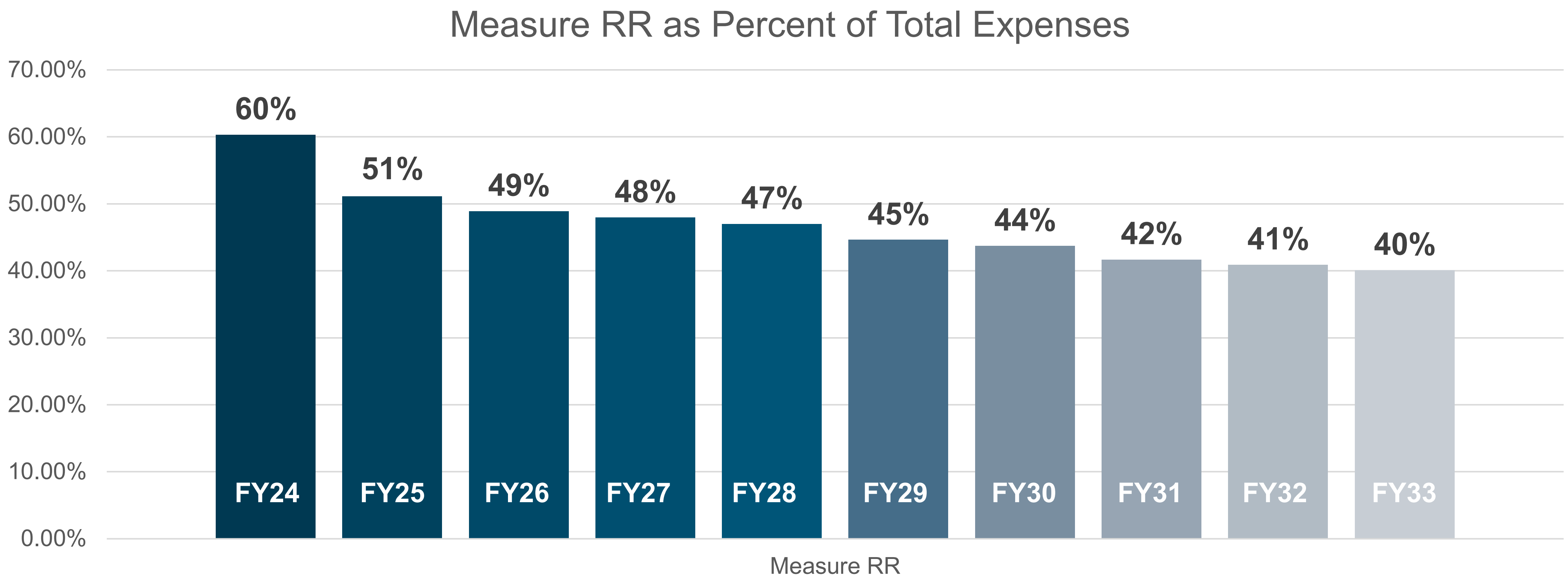


Measure RR as a Percent of Total Expenses is declining due to the increase in projected expenses

Measure RR was originally intended to diversify revenue streams, increase financial capacity, and fund incremental capital

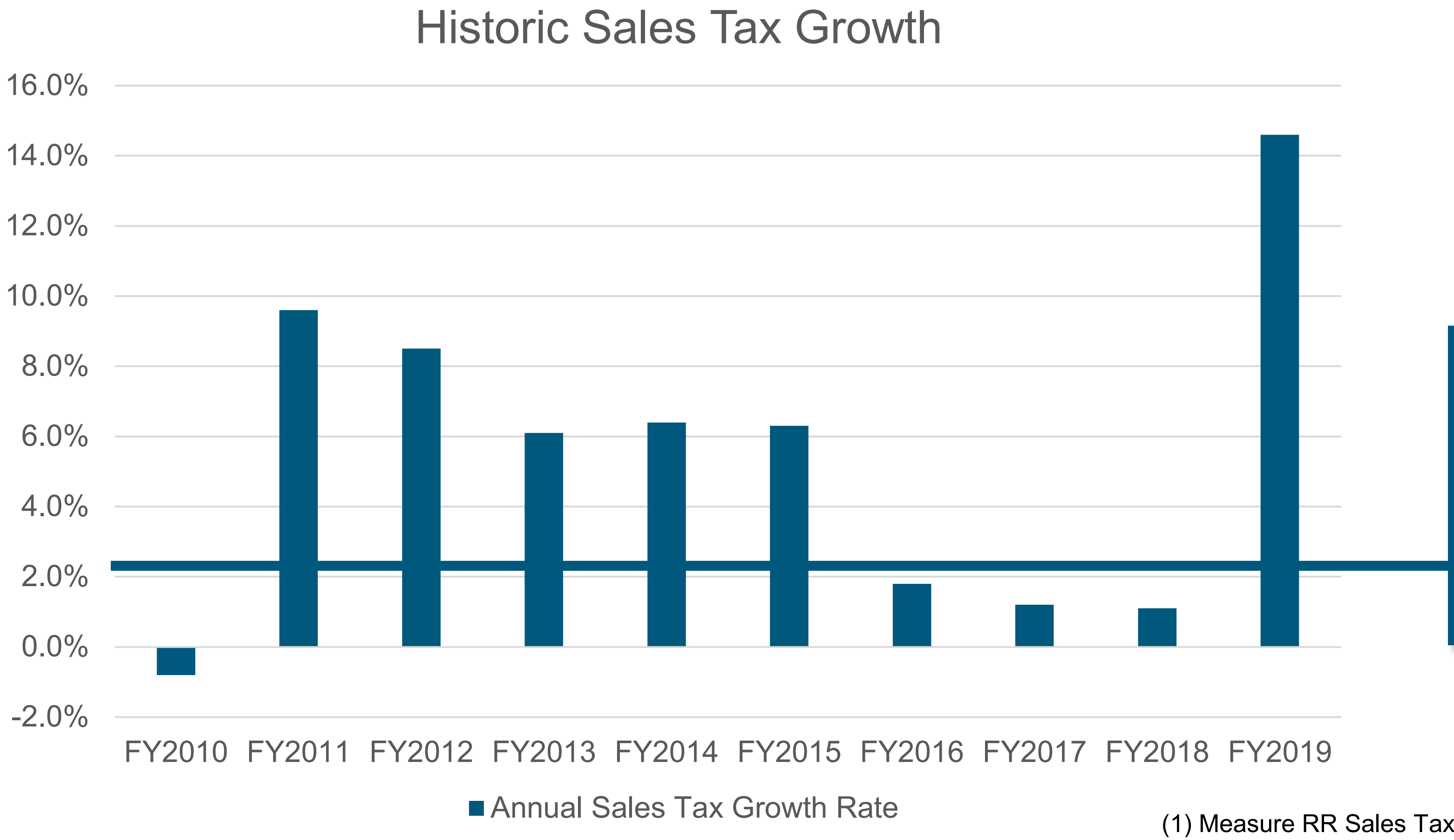
Measure RR as Percent of Total Expenses

- **Annual Measure RR is projected to cover around 40% of Total Expenses by FY33.**



Historic Sales Tax Revenue Growth

- **The average annual growth rate in sales tax across San Francisco, San Mateo and Santa Clara counties for comparable ½ cent sales taxes from 2010 to 2019 was 5.5%[1].**
  - FY2023 Forecast is 4.4% above budget.

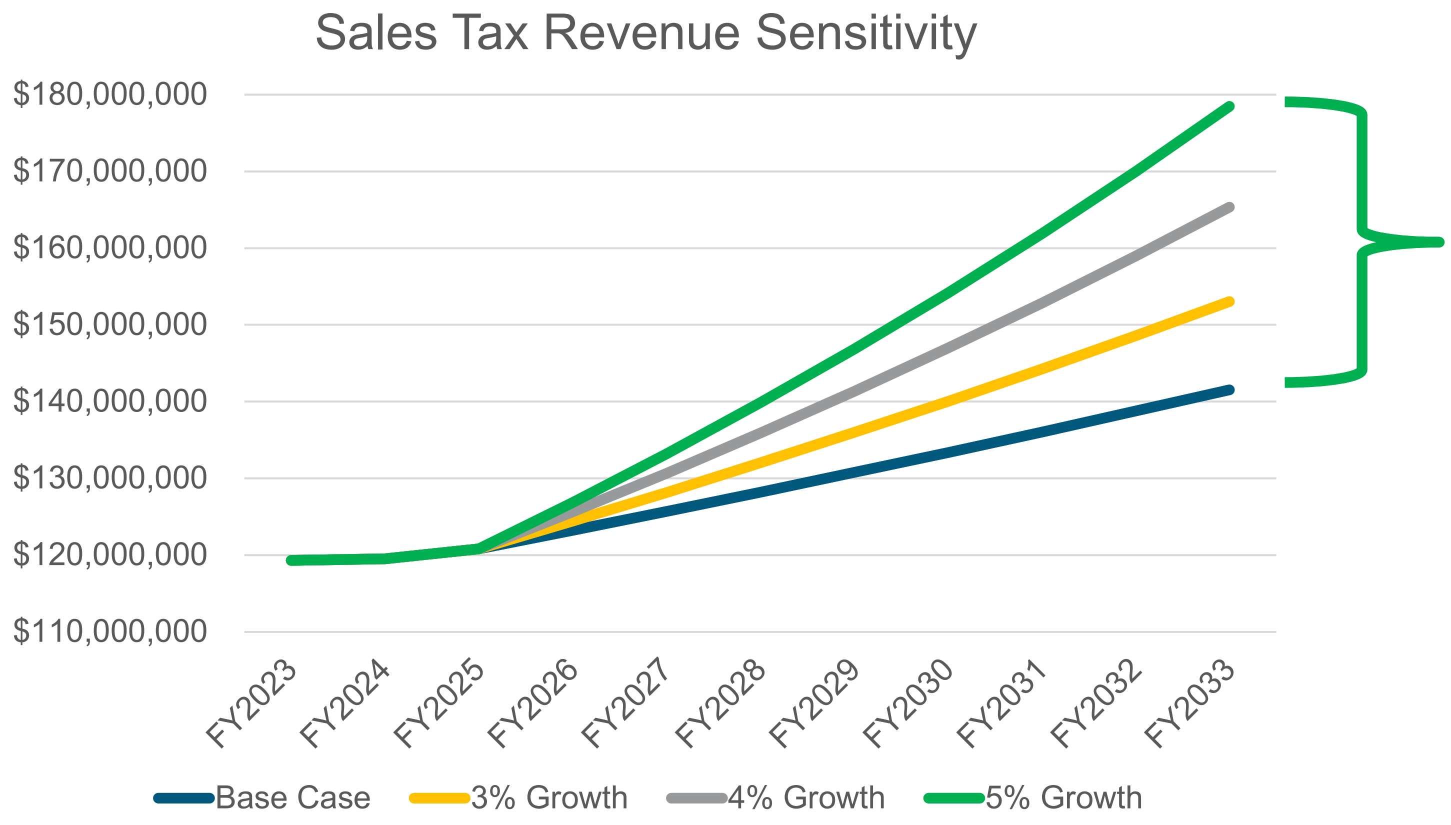


Base Case assumes 2% annual growth beginning in FY2026

(1) Measure RR Sales Tax Revenue Bonds, Series 2022A

Sales Tax Revenues Sensitivity

- **While not within Caltrain's control, annual growth rate in sales tax is material - even small changes can significantly reduce the projected deficit over the next 10 years.**
  - A 10% to 15% decline would result in a decrease of $12M to $18M in annual revenues.



Every 1% increase in annual sales tax growth is equivalent to $50M in the 10-year cum. deficit

4% vs. 2% annual growth beginning in 2026 results in an estimated $100M decrease in the 10-year cum. deficit

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Board Member Comments and Questions?

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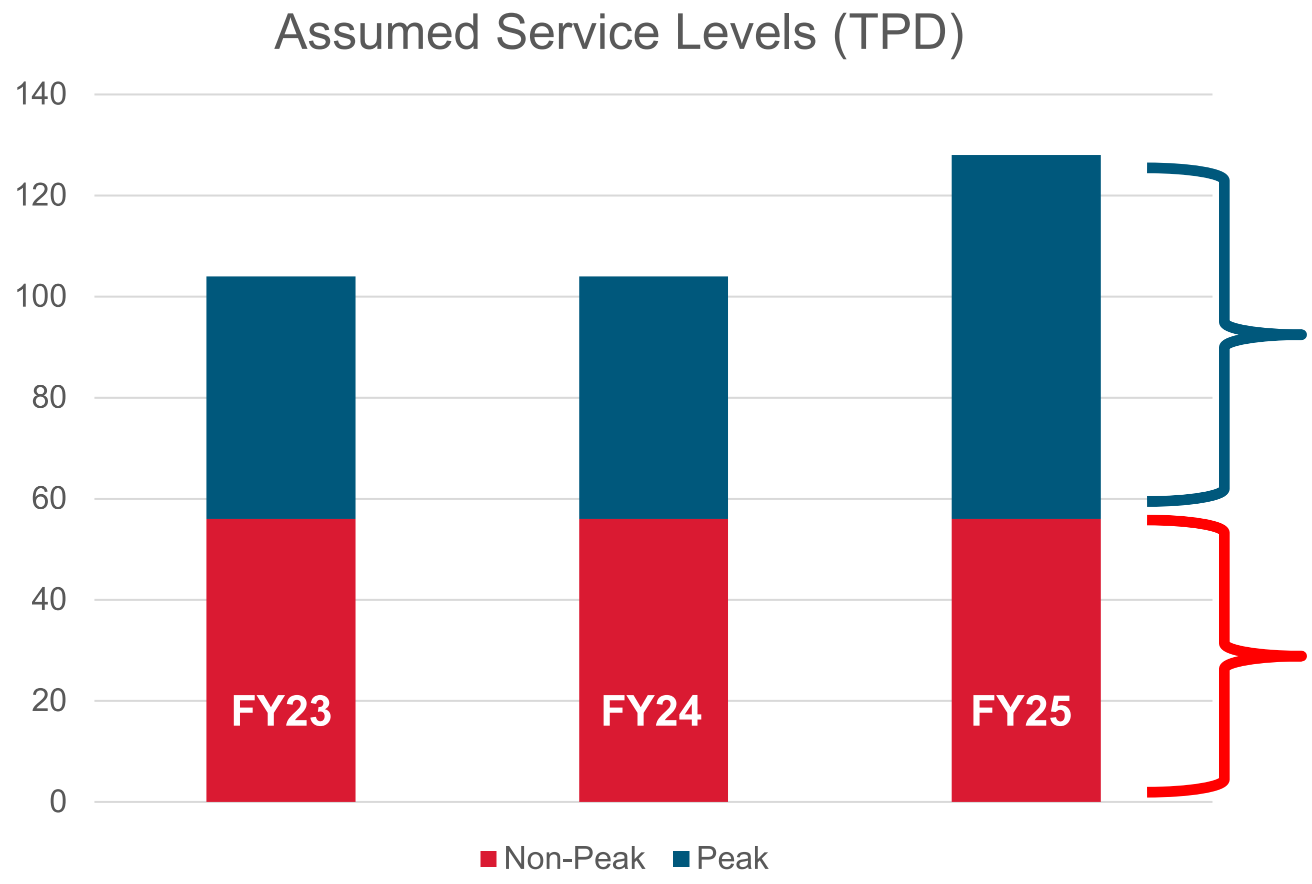
Two-Year Forecast – Service Levels

- **The Base Case assumes that Caltrain maintains its current level of non-peak service and increases peak service from 4 to 6 trains per hour in FY2025.**

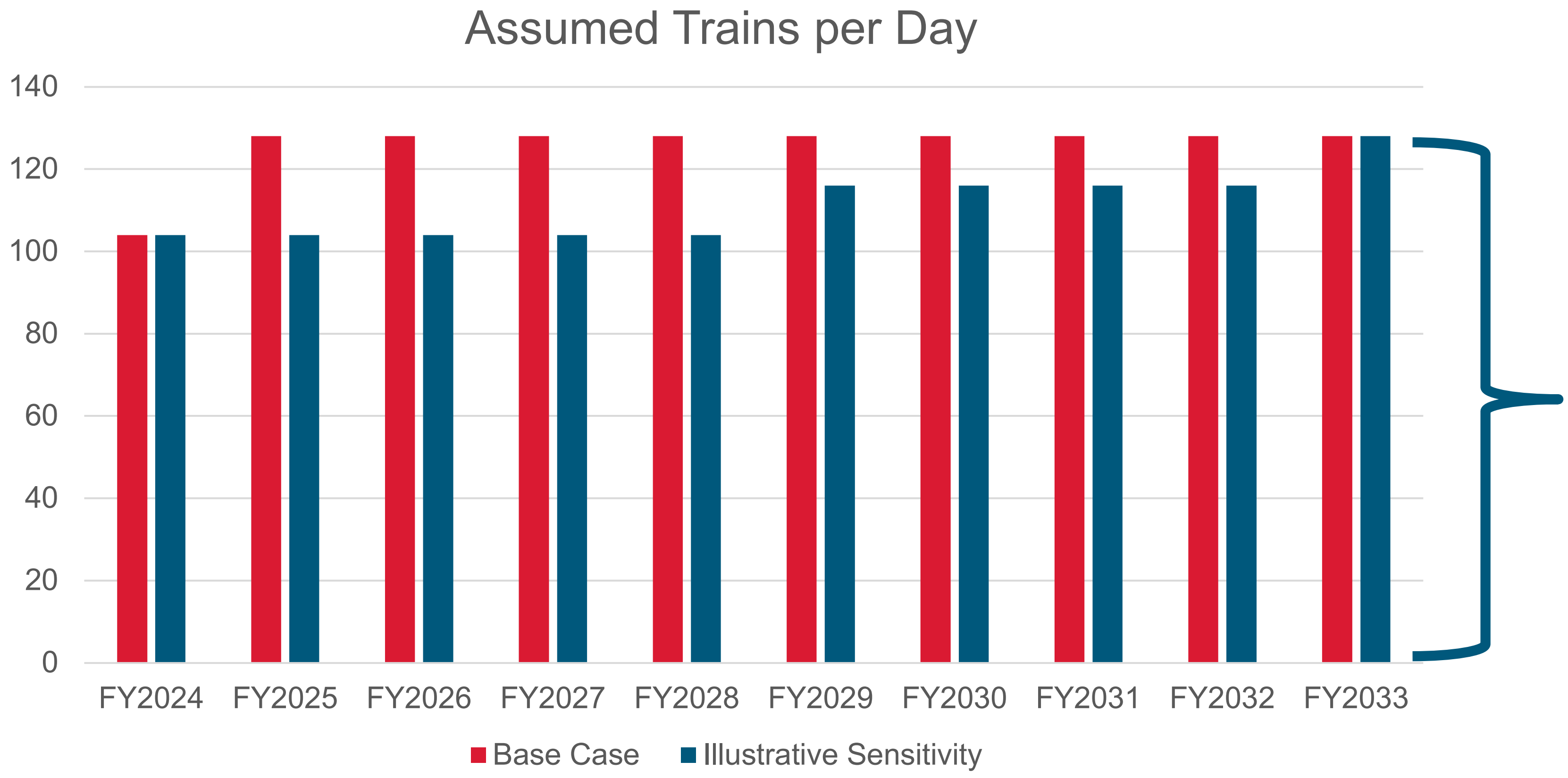


Caltrain's current service commitment to the FTA under the Full Funding Grant Agreement (FFGA) is to increase Peak Service to 6 trains per hour

Increasing Peak Service to 6 trains per hour <u>AND</u> maintaining current non-peak service results in 128 TPD

10-Year Forecast – Service Levels

- **Base Case assumes that Caltrain meets its FTA full funding service commitment by FY2025, but the sensitivity assumes a gradual ramp up consistent with a return of ridership.**
  - While initial conversations have begun, Caltrain will need FTA approval to maintain current service levels.



104 TPD assume 4 Peak
116 TPD assume 5 Peak
128 TPD assume 6 Peak

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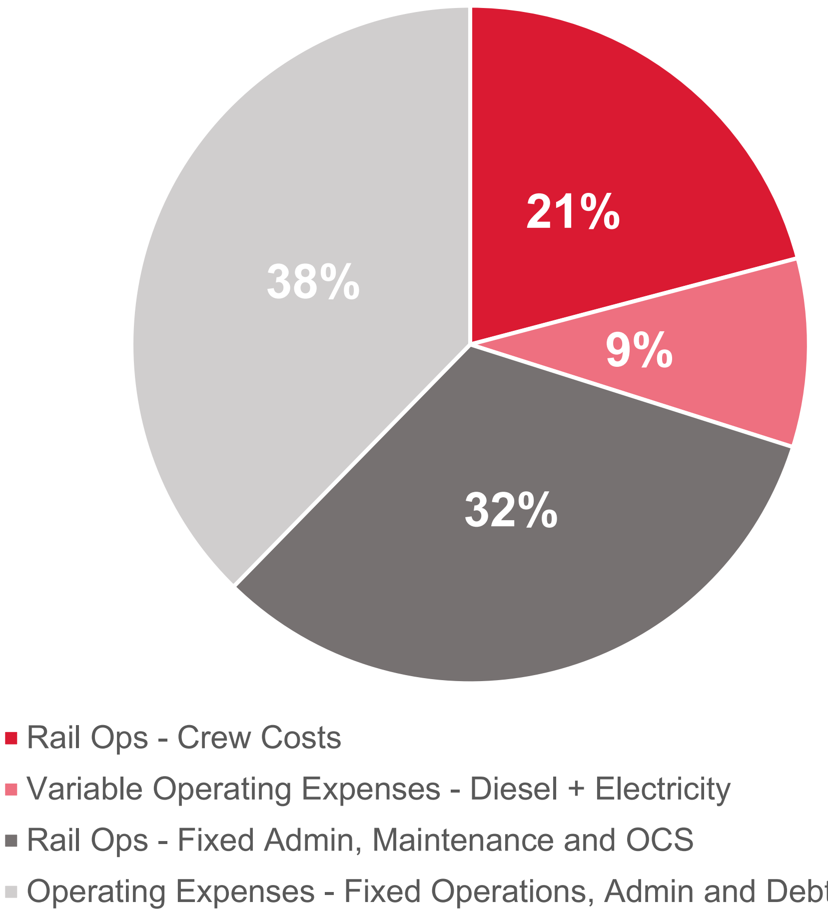
Fixed vs. Variable Operating Costs

- **Expenses are in large part fixed**
  - Rail has a high fixed cost and low marginal cost – **there is no way to cut our way to long-term financial stability.**
  - **40% of the Rail Operator budget is crew costs**, but adjusting service must consider operational constraints and projected service levels and requirements over time
  - **Minimum service levels, including the number of peak trains per hour, can also negatively impact farebox and GoPass revenues**, both of which would dilute the benefit of any reduced costs.

Allocation of FY24 Total Expenses



Only 30% of Projected FY24 Total Annual Expenses vary with service

Fixed Operating Costs

- **While Caltrain's fixed operating costs are high – and projected to increase – managing operating costs and service levels is material over time.**
  - Long-term benefit to the operating deficit is predicated on right sizing crewing for both the current and projected service levels given the actual and projected ridership.
  - Additional benefit in continuing to optimize the crewing given service levels and reducing reliance on OT.
  - The projected cost of electricity is also material in the context of service levels.

Trains Per Day (TPD)	Peak Trains Per Hour	Est. FY25 Total Annual Expenses(1) ($)
128	6	$245M
104	4	$230M
70	2	$215M

(1) Estimates only for illustrative purposes; Actual results may vary.

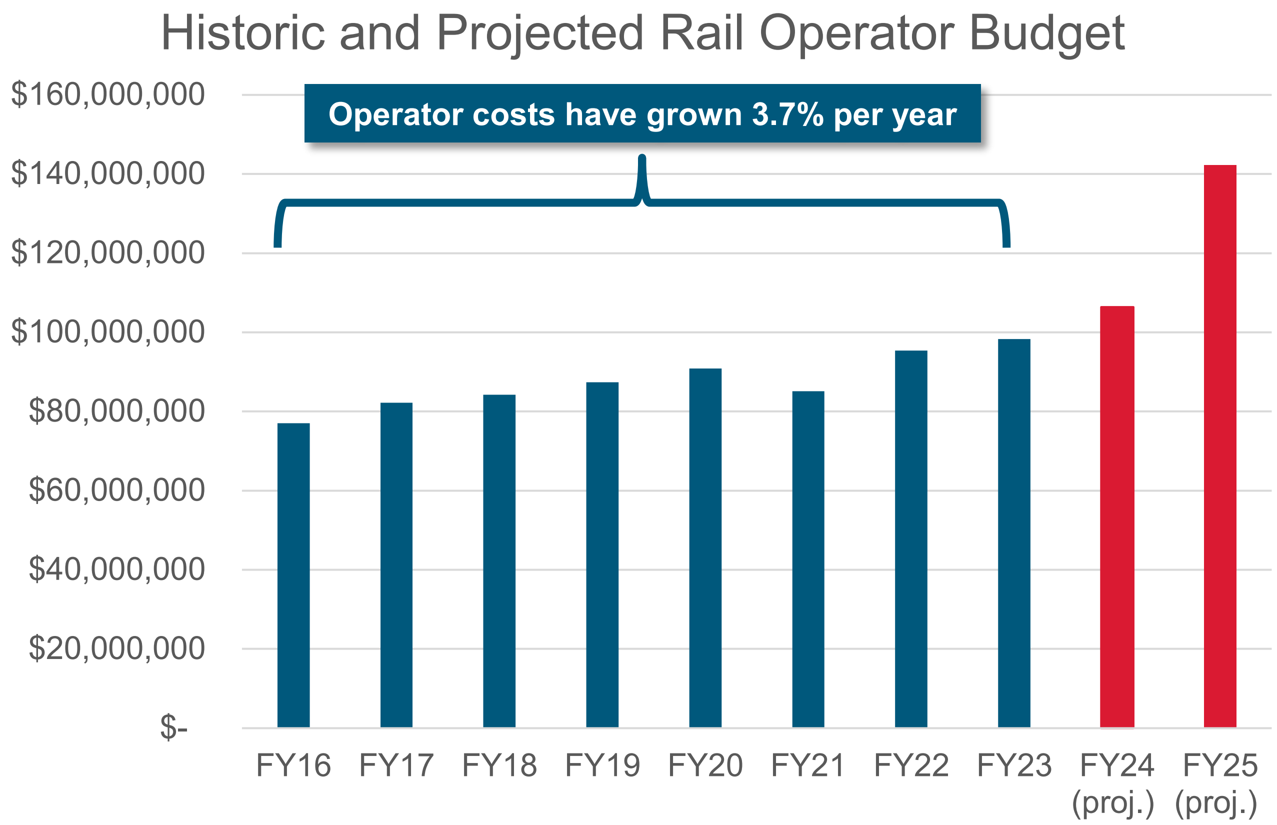
Service Levels – South County

- **Another consideration is the provision of service to Gilroy and Morgan Hill, specifically potential expansion of service to include a 4th daily train sooner than currently anticipated.**
  - Test the market to see additional ridership.

- South County service beyond the existing Trackage Rights Agreement (TRA) would benefit from reviewing constraints, if any, of providing additional service on the Union Pacific ROW.

Historic and Projected Rail Operator Budget

- **Assuming 128 TPD, Rail Operator costs are forecasted to grow by as much as 35% in FY25, with $10M due to meeting service commitments to the FTA and $26M due to the operating costs of electrification.**



Category	FY2024 ($M)	FY2025 ($M)
Operations	$41.7	$50.0
Admin, Safety, Customer Service	$8.2	$8.6
Rolling Stock Maintenance	$24.5	$23.5
Track, Station and OCS Maintenance	$22.6	$48.7
Other[(1)]	$9.5	$11.4
Total	$106.5	$142.2

(1) Includes overhead and performance fees.

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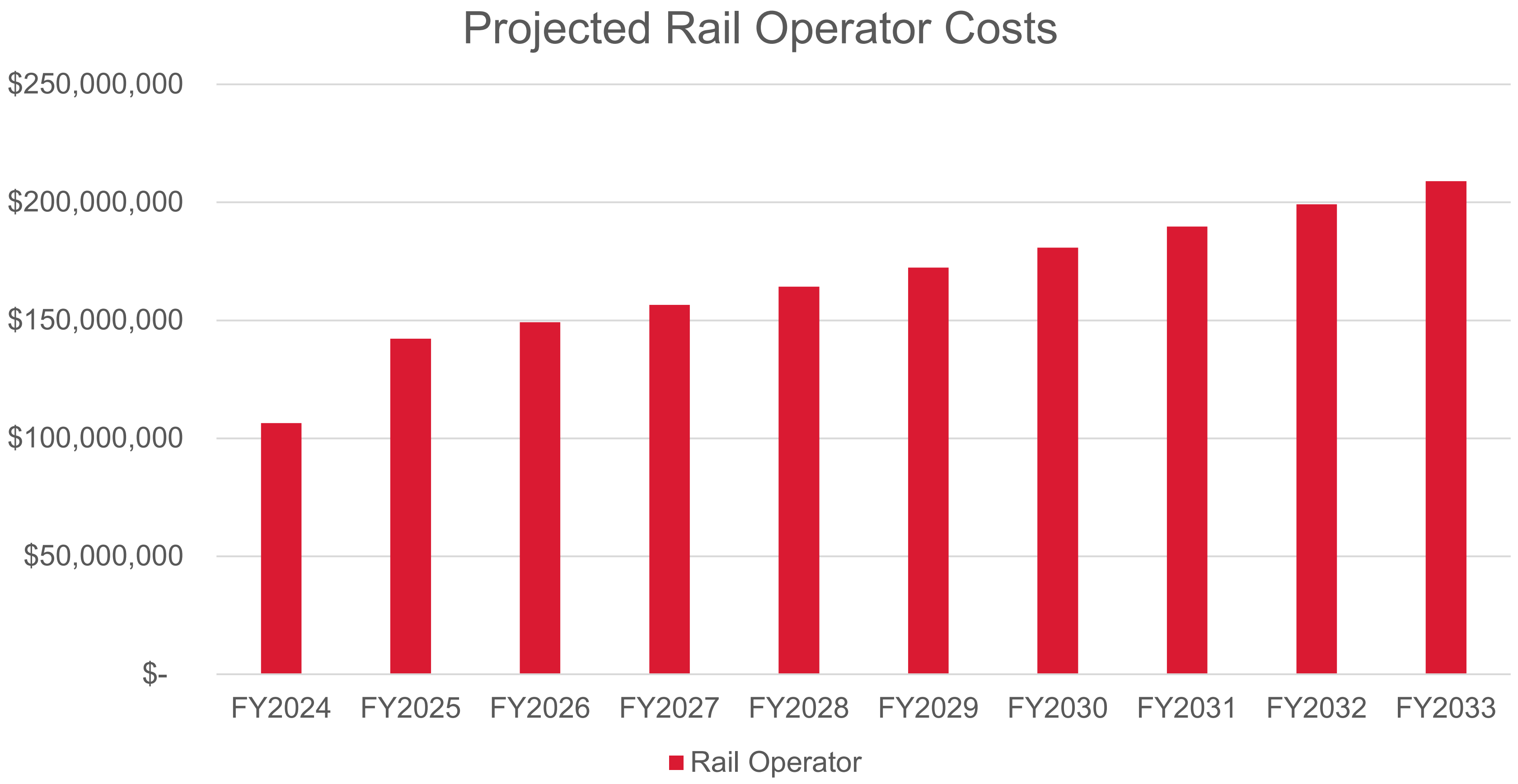
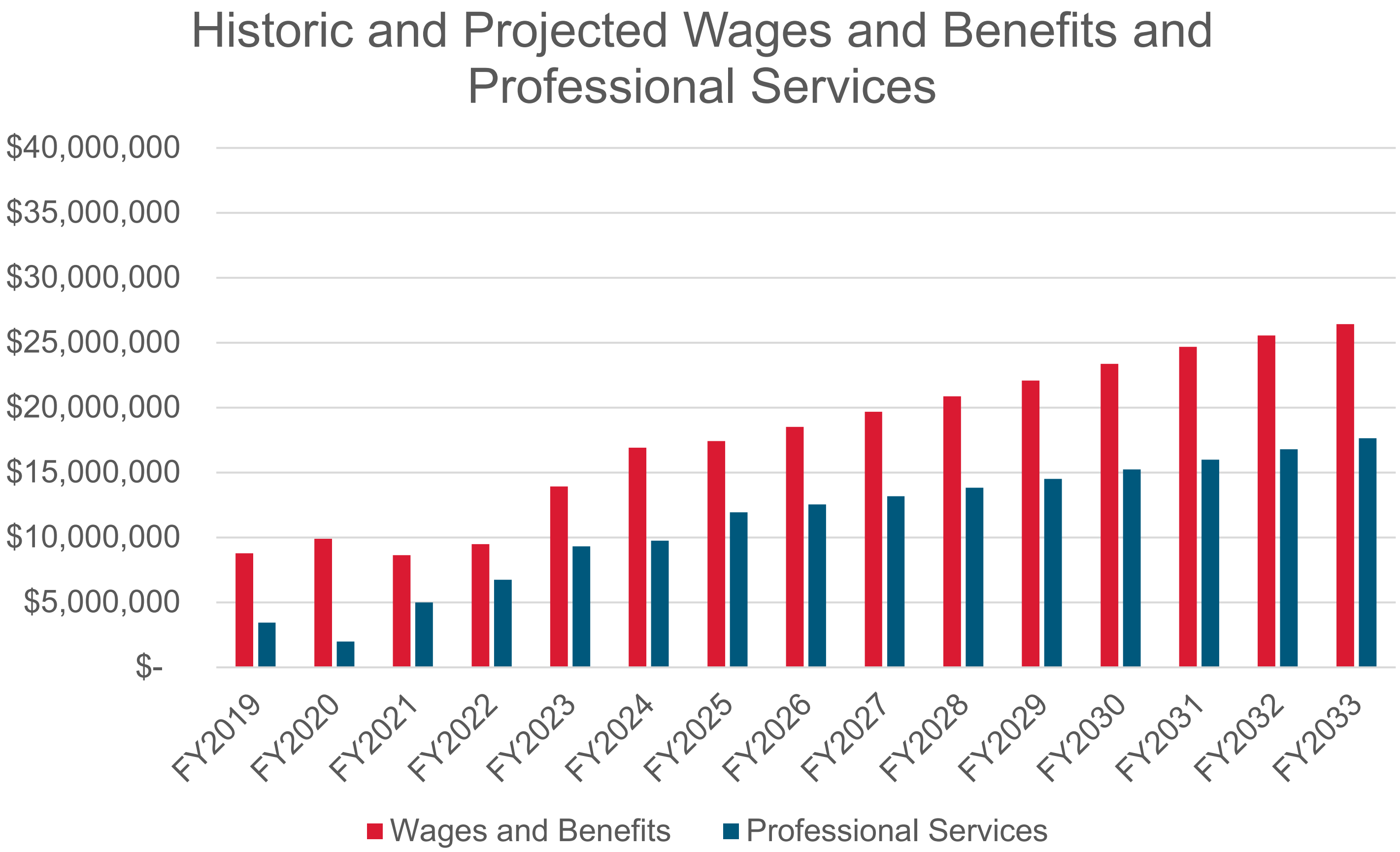
10-Year Forecast – Rail Operator

- **Rail operator costs are projected to exceed $200M in the next 10 years.**
  - Biggest drivers are service levels, including crewing and labor escalation, and the costs of maintaining the power traction system.



10-Year Forecast – Wages/Professional Services

- **As electrification goes into service, there will be significant additional demands on Caltrain, necessitating new staff and resources.**

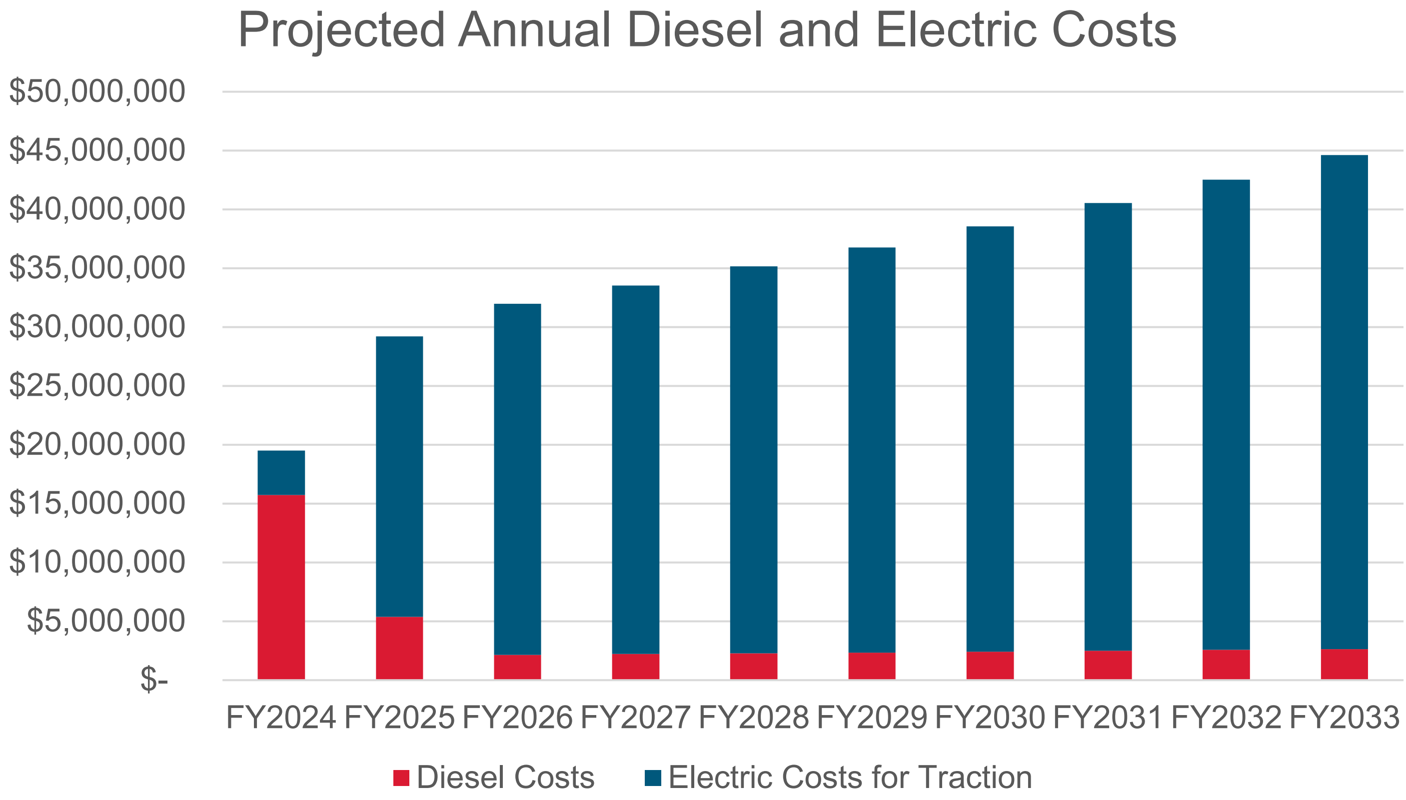


Wages and Benefits average only 8% of total annual expenses

Professional Services average only 5% of total annual expenses

10-Year Forecast - Fuel and Electricity

- **While electrification will produce significant policy and financial benefits as an environmental and sustainability matter, it does come with operating costs.**
  - Even assuming only 5% annual increases, electric costs are projected to eclipse Caltrain's annual cost for wages and benefits within the next two years.



Fiscal Year	Rate Projection (per kWh)(1)
2024	$0.20
2025	$0.21
2026	$0.22
2027	$0.23
2028	$0.24

(1) Assumes PG&E 2023 rate B-20-T equal to $0.19589 as of March 1, 2023.

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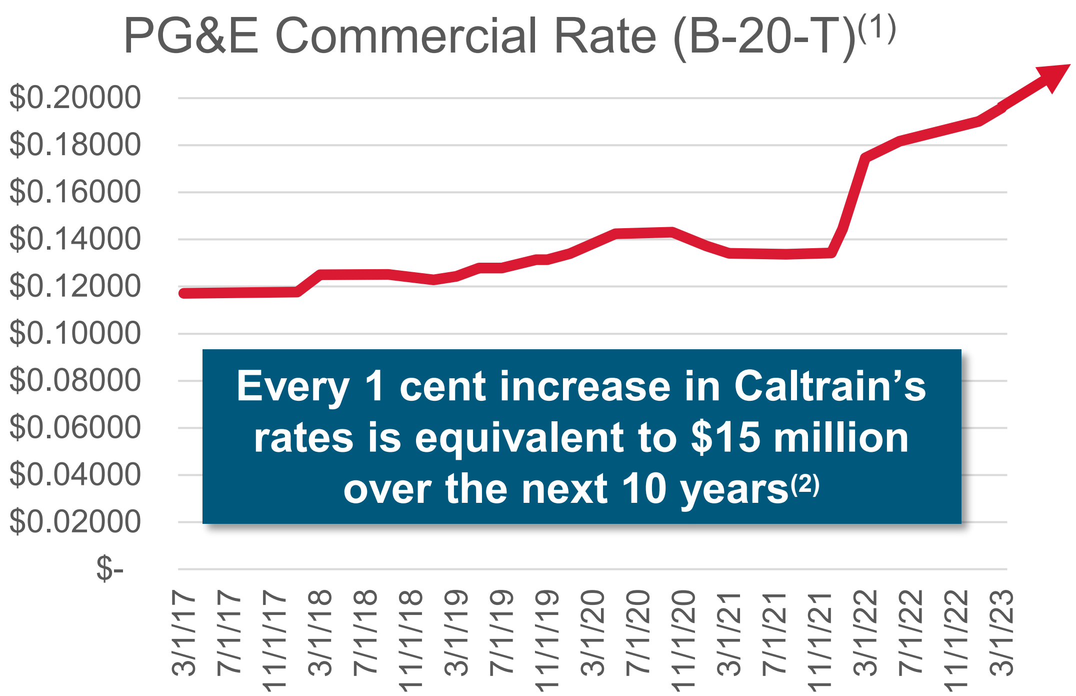
Electric Rates are Highly Volatile

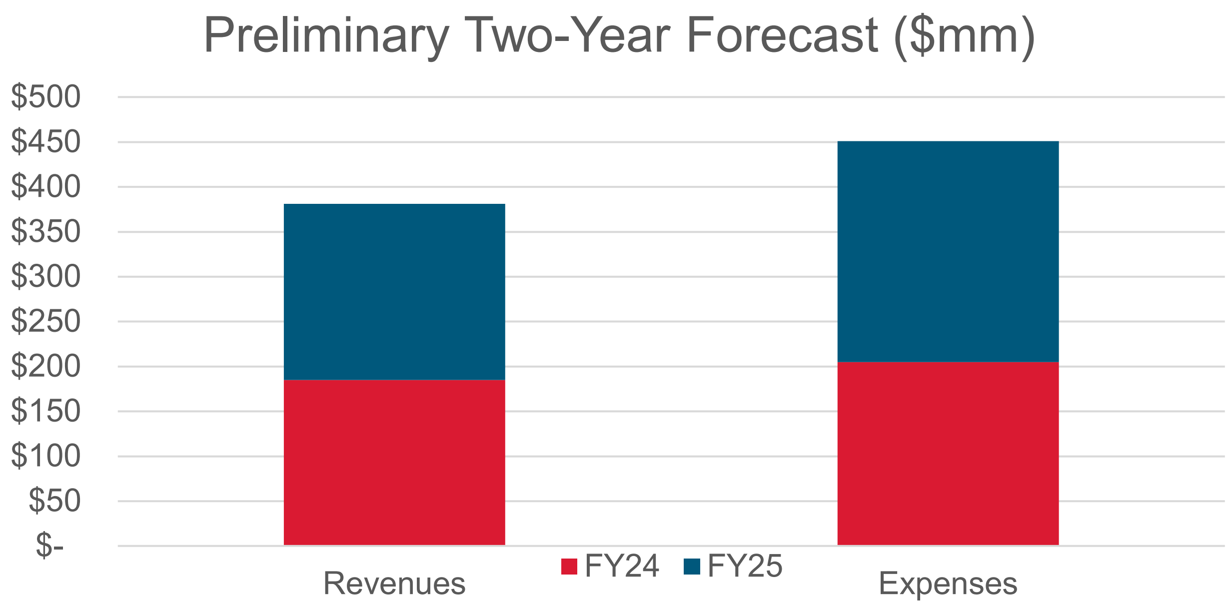
- **Caltrain will have significant exposure to the power market, and past volatility in electric rates creates substantial financial risk for Caltrain moving forward.**
  - Caltrain received the FFGA award on May 23, 2017, and from March 1, 2017, to March 1, 2023, PG&E rates for Caltrain's expected rate class have increased nearly 8 cents or approx. 67%[1].
  - It is likely that Caltrain will not know the full extent of projected electric costs until the trains are running.
- **Policy, and corresponding strategies, for energy procurement should be priority.**
  - Net metering, which could impact usage by 30% to 40%, and Low Carbon Fuel Standards (LCFS) revenues, worth $7M to $10M annually, will also need to be carefully considered.



(1) Based on E-20-T rate class as of March 1, 2017 and B-20-T rate class as of March 1, 2023. Source: https://www.pge.com/tariffs/electric.shtml#INDUSTRIAL
(2) Assumes 128 TPD and rates increase at 5% per year.

Two-Year Forecast – Operating Deficit

- **Assuming 128 TPD by FY25, Two-Year Operating Deficit is approx. $70M[(1)].**
  - Assumes no allocation for Capital or SOGR from Operating Revenues.
  - Rolling stock maintenance of the diesel fleet will be reduced significantly, but there are also significantly increased costs in electricity, Overhead Catenary System (OCS) and specialized labor.

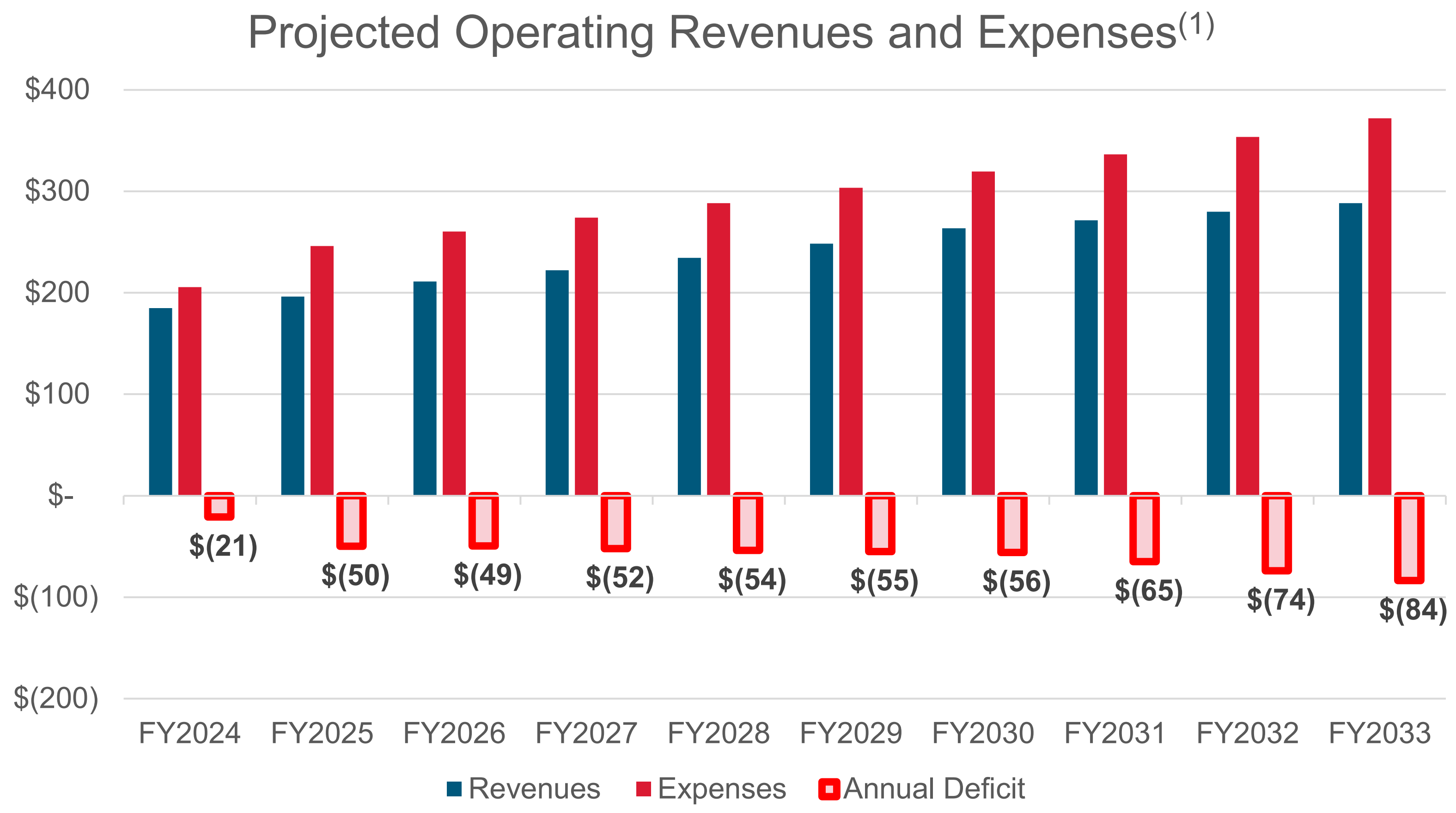


($M)	FY24	FY25
Revenues	**$185**	**$196**
Expenses	**$205**	**$246**
(Deficit)	**($20)**	**($50)**

(1) Estimates only. For illustrative purposes. Actual Results will vary.

10-Year Base Case – Operating Deficit

- **Annual Operating Deficit is projected to increase from approx. $20M to $85M(1).**
  - Farebox and Measure RR combined are **projected to cover only 70% of $380M Budget** forecast (FY33).
  - Assumes full dedication of Measure RR to operations with **no contribution to Capital**.



YOY Growth	2-YR AVG.	6-YR AVG.	10-YR AVG.
Revenues	5.45%	5.85%	5.00%
Expenses	17.25%	9.30%	7.70%

Projected Cumulative Operating Deficit:

$70M in 2 years
$280M in 6 years
$560M in 10 years

(1) Estimates only. For illustrative purposes. Actual Results will vary.

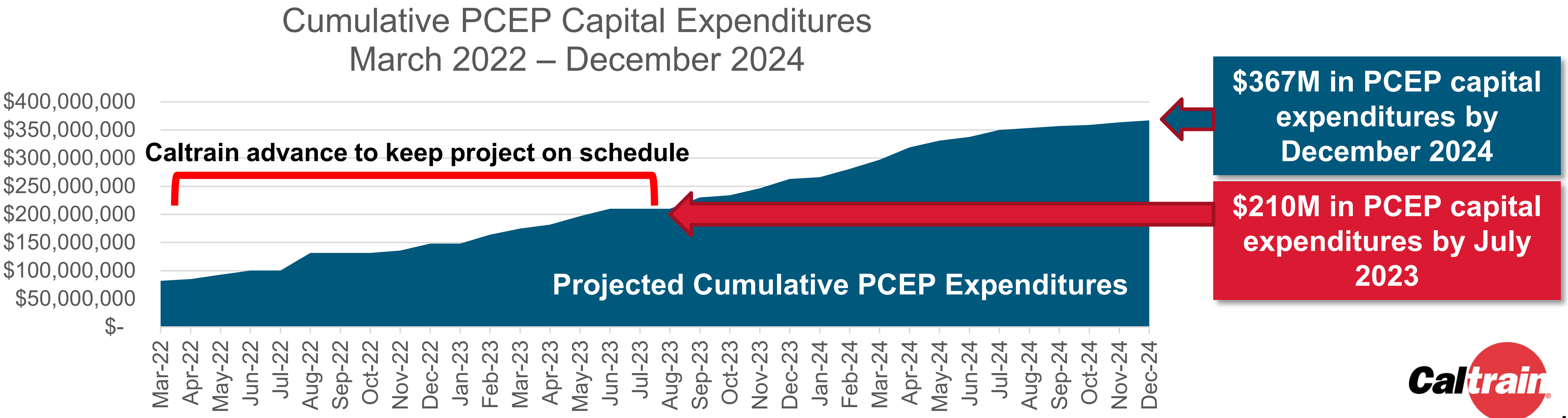
Financial Reserve Funds

- **Caltrain is projected to have $46.9M in Operating and Capital reserve funds.**
  - $227M in Federal relief funds to support operations have been exhausted by FY22
- **Additional $15M to $20M in State Rail Assistance (SRA) and Low Carbon Transit Operations Program (LCTOP) funds.**
  - Projected $6M in future annual SRA funds
  - Projected $7M to $10M in Low Carbon Fuel Standards (LCFS) revenues
- **The Board currently has a policy governing the operating reserve but not the capital reserve.**

FUND	PROJECTED BALANCE AS OF 6/30/23
Operating	**$26.9M**
Capital	**$20.0M**

TIRCP Funds

- **On January 31, 2023, Caltrain was Successfully awarded $367M by the State under the Transit and Intercity Rail Capital Program (TIRCP) to fund PCEP capital costs.**
  - Caltrain advanced $210M Measure RR funds for project cashflow from March 2022 through July 2023.
    - $60M from revenues on hand and $150M from 2022 Measure RR Bonds
    - Targeted reimbursement of July 2023
  - The balance of $157M are expected to be spent on PCEP from August 2023 to December 2024.



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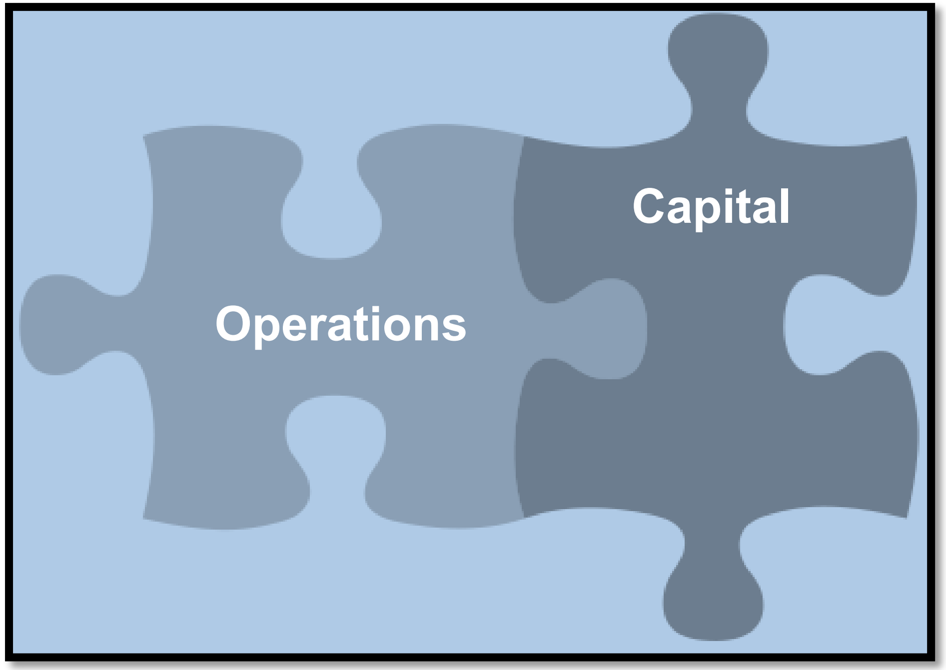
Taking a Balanced Approach

- **Board will need to make policy decisions regarding the use of reimbursed funds**
- **Staff recommends a balanced approach to help address both Caltrain's operational and capital needs.**
  - $60M for operations to postpone the fiscal cliff.
  - There are restrictions on $150M originally funded from Bonds.
- **Staff is proposing to return to the Board with a detailed list of options and recommendations for the $150M in reimbursed funds.**



Potential Operational Levers

Scenario ($M)	2-YR Deficit[1]	6-YR Deficit[1]	10-YR Deficit[1]	Incremental Benefit over 10 Years
Base Case	$70	$280	$560	
Use $15 mm of SRA/LCTOP	$55	$265	$545	+$15M
Apply $60 mm Reimbursement	$0	$205	$485	+$60M
Annual Contribution of SRA funds for Ops.	$0	$180	$435	+$50M
Maintain Comparable Current Service (104 TPD/4 Peak)	$0	$105	$285	+150M
Additional Regional, State, and/or Federal Funding	$0	TBD	TBD	TBD

(1) Approximate estimates only. For illustrative purposes. Actual Results will vary.

Operating Take-Aways

- **Even with Measure RR dedicated entirely to the operating budget there are projected deficits.**
  - **Fully dedicate Measure RR to the Operating Budget** in the next two-year cycle.
  - **Impossible to "cut" your way out of a deficit in the short-term**, although service levels are impactful on long-term operating deficit.
  - Conversations have started but change from the level of service implementation agreement in the FFGA is subject to FTA approval.
  - **One-time funds can support operations for the next two to three years but will not solve long-term funding issues**.
  - **New funding source is needed to support long-term operations**, including any service enhancements.

Board Member Comments and Questions?

Capital Investment

- Capital Budget
- State of Good Repair
- Mega-Projects
- Capital Endowment Fund
- Member Obligations
- Rolling Stock
- Additional Strategic Initiatives
- Capital Take-Aways

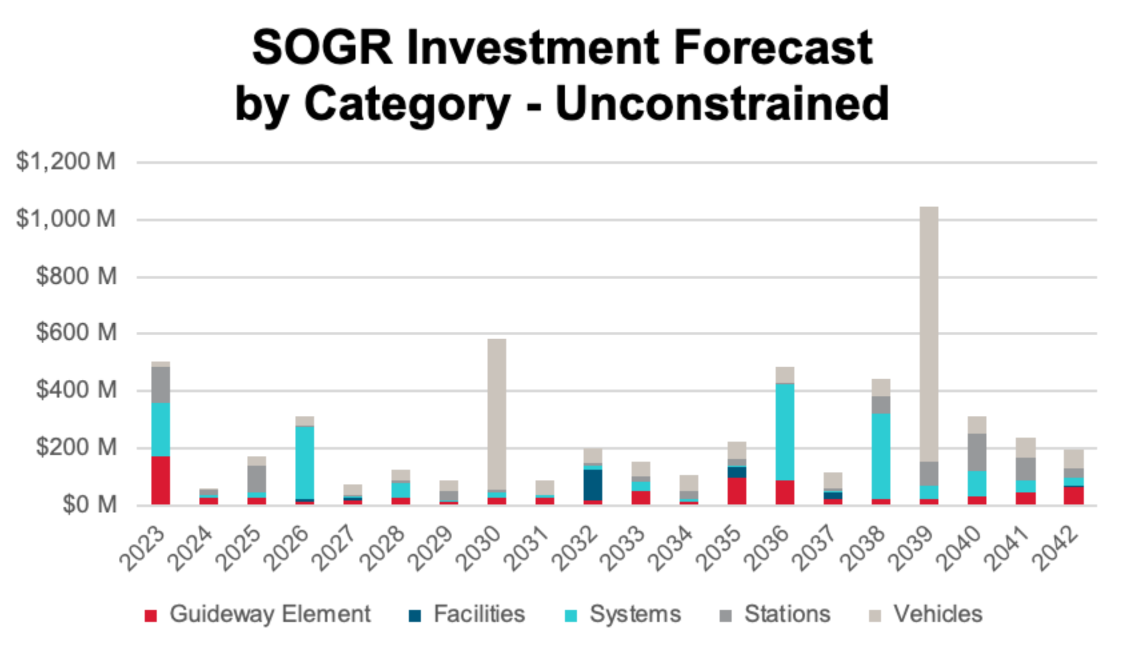
Capital Budget

- **While Caltrain has some financial resources to push off the fiscal cliff for operations, this strategy does not address the substantial and critical need to fund capital.**
  - There are $158M of unmet capital funding needs for FY2024 and FY2025 alone, including both SOGR and necessary operational improvements.
  - Potential operational improvements, some underway, include:
    - San Mateo Parking Replacement Track
    - Railroad Worker Protection Safety Program
    - Broadband Enhancements and Improvements
    - GIS and System Upgrades

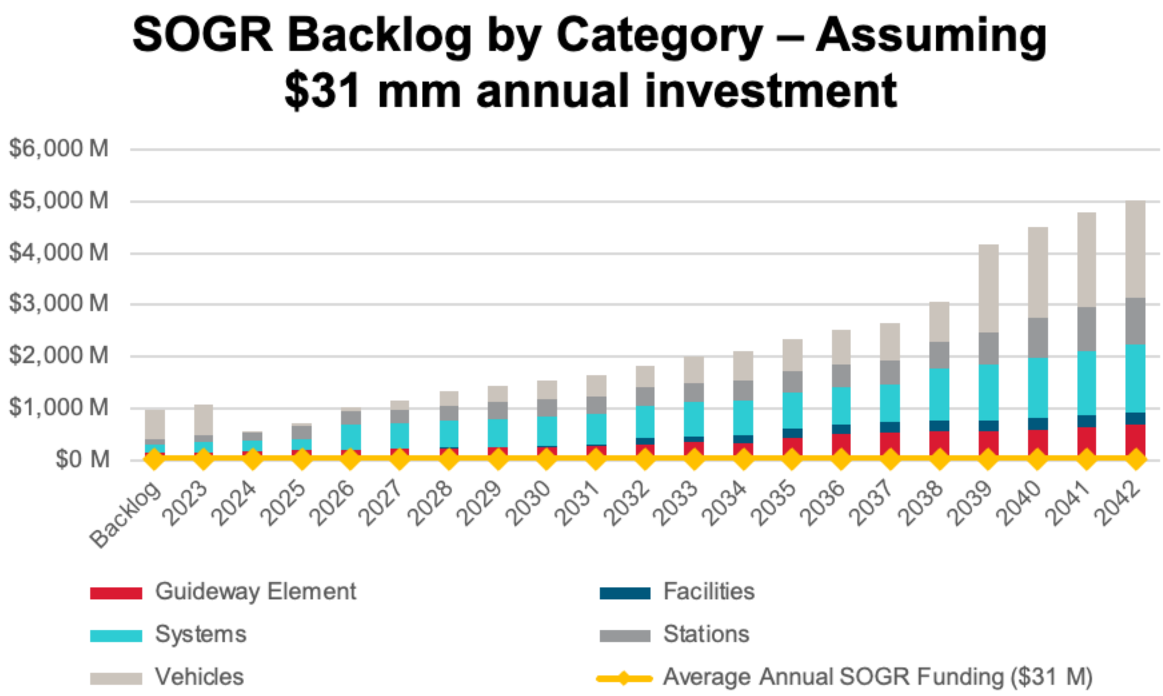
Capital Plan Summary	FY24 ($M)	FY25 ($M)
SOGR	$59.1	$60.3
Planning	$10.0	$8.8
Operational Improvements	$7.9	$8.9
Capital Contingency	$1.3	$1.3
Total	$78.3	$79.3

State of Good Repair – Projected Backlog(1)

- **SOGR remains a key priority of the agency and has to be managed carefully.**
  - Theoretical need is as much as $250M per year, which at the current investment of $31M per year, the backlog could grow to as much as **$5 billion** in 20 years.



The average dollar amounts extracted are based on Year of Expenditure and accounts for inflation across the 20-year forecast period

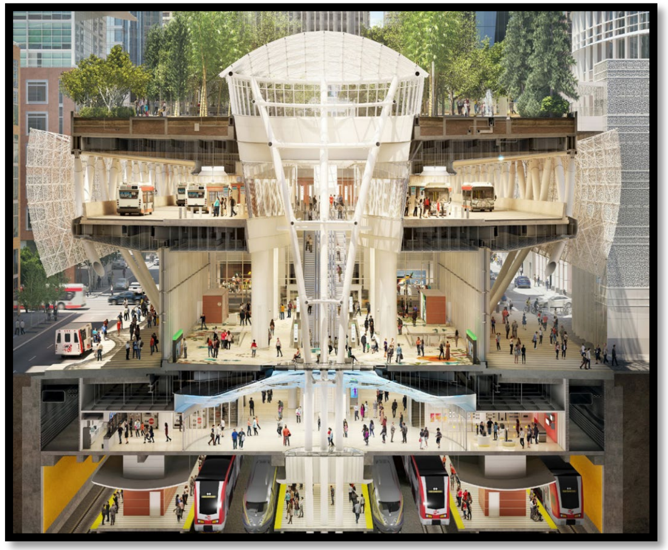


$31M per year is based on the historical allocation from FY18-22, which ranges from $25.8M - $31.7M in Year of Expenditure for the 20-year forecast period

(1) Transit Asset Management Plan September 29, 2022

Mega-Projects

- **Caltrain continues to partner opportunistically on service expansion and mega-projects**
  - These projects, including DTX, Diridon, Redwood City and Railyards, have been led, in many cases, by Caltrain's partners.
  - Some of these projects could have financial implications for Caltrain's operating or capital costs.
- **DTX is proceeding quickly with TJPA's recent submission to the FTA**
  - The current process calls for the adoption of a Master Cooperative Agreement ("MCA") this summer, prior to TJPA's updated submission to the FTA anticipated in August.
  - **The Board has adopted a policy of cost neutrality, but significant open issues remain including how incremental operating costs will be funded.**
- **Caltrain is also developing Corridor Crossings Strategy is an effort to define a systematic corridor-wide approach to grade crossings.**
  - Objective is to evaluate alternatives and align stakeholder goals with an implementable program.

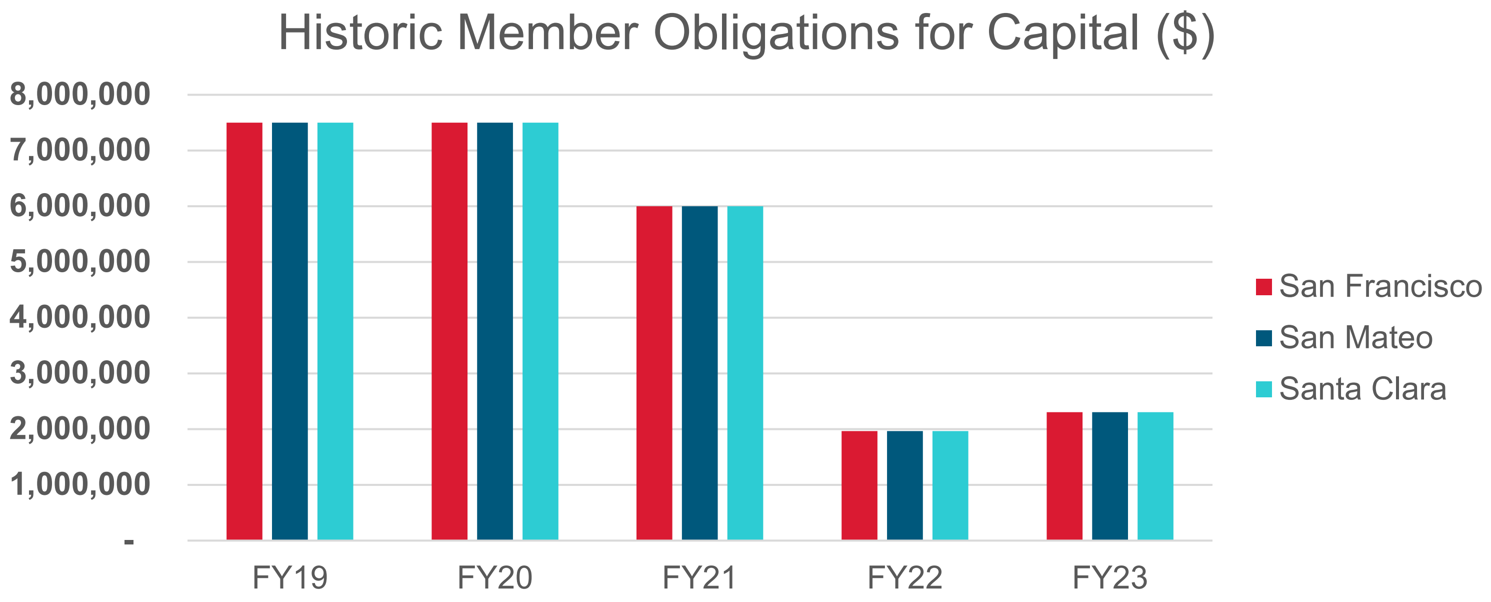


Capital Endowment Fund (CEF)

- **One potential long-term capital strategy is a potential Capital Endowment Fund (CEF), although how and when such an approach is funded is critical to success.**
  - Create a **long-term, stable revenue stream** that can be budgeted for future capital needs.
  - Ensure that **Caltrain retains 100% ownership, oversight, and control** of the fund.
  - Have **clear and transparent rules** for eligible expenditures, known draws, and administration.
  - Segregate funds with **strict investment guidelines** governed by the laws of the State of California for public investments and Caltrain's Board adopted Investment Policy.
  - Use **interest earnings to grow the financial resources** of the fund.
  - Provide the **regular reports to the public** of use and performance of the fund.
  - Create a **legacy asset for long-term investment in the system for future generations**.
- **While an endowment fund would be innovative for transit, it is commonly used strategy among almost every higher education institution and university in the country.**
  - If created, would return to the Board to approve a program and policy governing the funding, applications/eligibility, administration, monitoring, and reporting.

Additional Contributions for Capital

- **Given the significant need for additional capital investment, any additional contributions would significantly increase the capacity and/or life of a CEF.**
  - One strategy could include a long-term, defined annual member obligation for capital.
  - The objective would be to create a Board policy and/or agreement (i.e., Member Contribution Agreement) that establishes clear annual expectations – as opposed to an ad-hoc determination annually.
  - Another strategy could include non-traditional funding sources and/or a capital campaign or contribution(s) from the public as a donation.



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Rolling Stock

- **One immediate and short-term capital decision is the option on 4 replacement train sets by August 2023.**
    - Awaiting results of Federal grant application.
    - Each trainset is estimated to reduce costs from $80M to $50M.
    - **Potential savings of $120M while significantly reducing future operational and procurement risk.**
    - Requires $44M in local match.

Rolling Stock Option

- **The benefits to Caltrain of exercising the option are not just financial but also in risk mitigation and significant future operational flexibility**
  - Substantial future cost risk – option train costs are known; future costs are estimated and uncertain.
    - Car builders are busy, and if this continues, prices will continue to rise
  - Ability to continue to retire the diesel fleet which have a SOGR backlog of $558M.
  - If a different car builder wins, Caltrain will have a fleet of mostly Stadler cars with a minority of other cars having different issues and operational and maintenance requirements.
    - Maintenance requirements and timetables could vary
    - Reliability issues would vary – all trains have their soft spots, and they aren't the same from builder-to-builder
    - The future spare parts requirement is increased, since parts would not generally be interchangeable

<u>Significant Financial Benefit</u>

Capital Savings = $120M
Financing Savings = $10M
<u>Operational Savings = $TBD</u>

Total Savings = $130+ M

Additional Strategic Initiatives

- **There are also a number of strategic initiatives that Caltrain can pursue to support Operations and/or Capital – all with significant lead times.**
    - **Pursue Non-traditional funding**
        - Advertising – Stations and Rolling Stock
        - Communications – Leasing
        - Payment Services
        - Naming Rights

Capital Take-Aways

- **Caltrain operates a capital-intensive business and has significant short and long-term capital investment requirements.**
  - Caltrain has **recently begun the process of developing a comprehensive Capital Improvement Plan (CIP)** to better identify and quantify needs
  - In the short-term, $158M in projects in the upcoming budget are competing for limited funding
  - In the long-term, **Caltrain needs a stable and predictable means of funding annual capital needs**
    - Caltrain cannot afford to do nothing
    - Even in the immediacy of funding operations over the next two fiscal years, ongoing capital investment in the system is necessary
    - There are significant opportunities that Caltrain should capture, including rolling stock, if financially feasible
  - Caltrain also receives substantial and **critical funding from external partners**
    - Need financial resources to meet the local funding match future Federal and State grant funding

Board Member Comments and Questions?

Caltrain

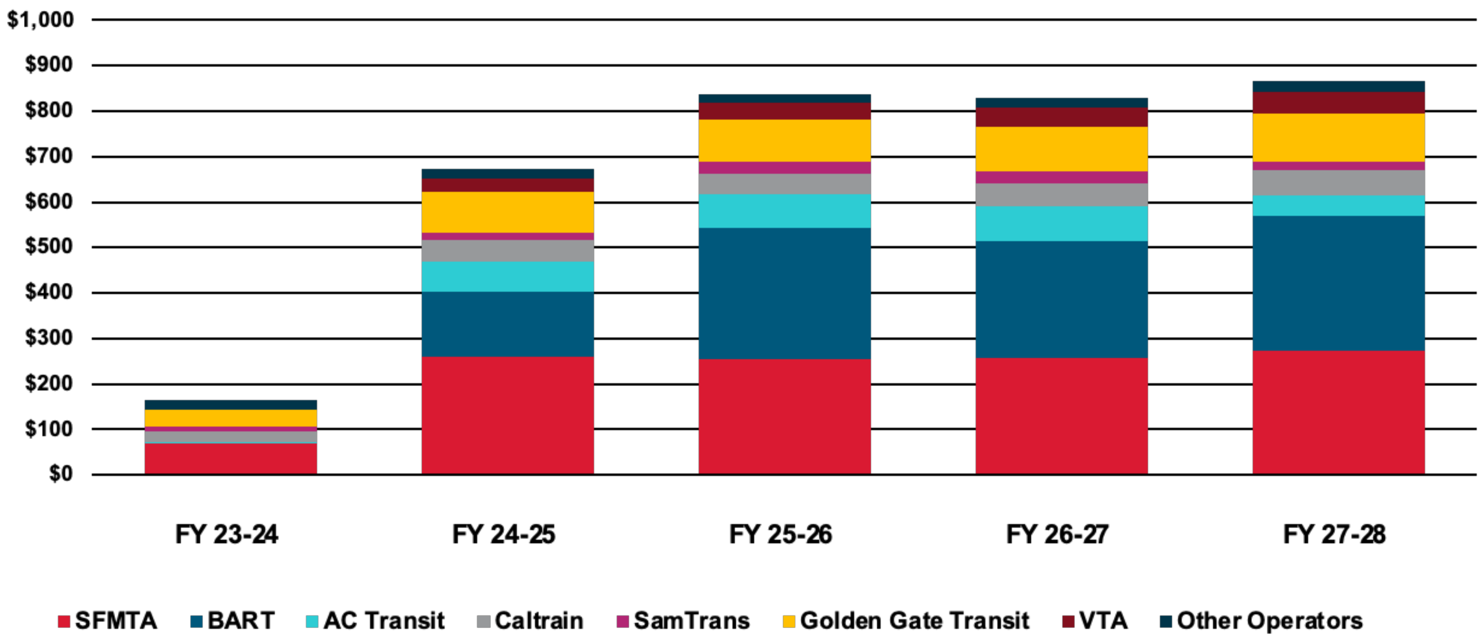
Take-aways and Recommendations

- Caltrain is Not Alone
- Making the Case
- Finding a Funding Solution
- Recommendations
- Updated Fiscal Cliff Analysis
- Building a Measured Approach
- Summary
- Next Steps
- With Support: Our Future

Caltrain is Not Alone

- **One-time federal funds for operations insulated operators, including Caltrain, from bankruptcy and enabled them to sustain service.**
  - Most agencies have already or will exhaust these funds in the near-term.

Forecast of Annual Operating Shortfalls by Operator(1)



Bay Area transit operators anticipate a cumulative operating shortfall of between $2.5 - $3.3 billion over next five years

Note: Amounts shown in table represent high end of possible shortfall forecast.
Source: Operator forecasts provided the California Transit Association

Source: Saving Transit Service: Understanding the Bay Area's Transit Operating Fiscal Crisis – MTC Programming and Allocations Committee 2/8/23

Making the Case for a Funding Solution

- **Transit is a major economic undertaking and is a cornerstone of our social safety net and a ladder of economic opportunity.**
  - In 2019 Californians took nearly **1.3 billion trips and traveled almost 8 billion miles** - more than any other state in the country other than New York.
  - **Transit is a major economic contributor** - annual operating expenditures of $7.2 billion in 2021, annual capital investments averaging just under $4.5 billion over the last decade, and employment of 32,000 direct workers and thousands more contract workers.
  - **Deep cuts to public transit disproportionately impact those most reliant on this essential service**: the state's low-income and non-white residents and residents who do not own a car.
    - Almost 60% of California residents who commute via public transit have a household income below $35,000.
  - High-quality, abundant transit is **critical to meeting California's climate and sustainability goals**.
    - More than 40% of the state's greenhouse gas emissions come from the transportation, primarily from cars.
  - California is also **depending on transit to support** its vision for land use, including **more housing and reduced parking.**

Source: San Francisco Bay Area Planning and Urban Research Association - **How California Can Help Transit Survive and Thrive March 17, 2023**

Finding a Funding Solution

- **Continue to work with regional and state partners to advocate for a new multi-year operating assistance funding source**
  - If successful, would likely be a short-term funding option
- **There are numerous efforts being discussed and underway**
  - BART, SFMTA and MTC have all presented their current challenges, including the impending fiscal cliffs for transit operators.
  - Universal agreement on the importance of securing additional funding through a regional or District measure(s), including a potential three, five or nine county measure:
    - Transit Transformation Action Plan
    - MTC moving forward measure in 2024 – housing but still considering transportation
    - Potential transportation measure in 2026 or 2028
- **Regardless of the recommended solution, it is critical that Caltrain actively participate in the solution.**

Staff Recommendations – Operations Budget

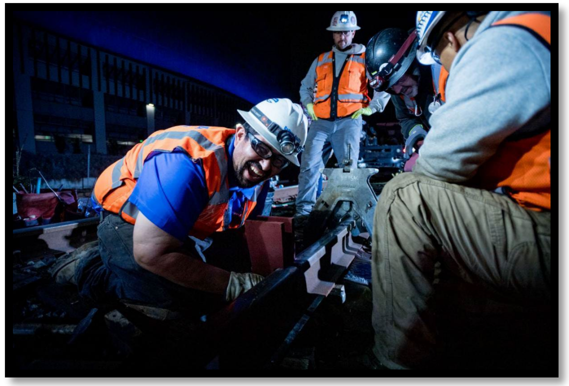
- **Board direction needed to inform 2-year Budget:**
  - Adopt new Fare Structure in June 2023, with **no fare increases until FY26** at the earliest
  - **Use $15M of SRA/LCTOP funds for operations** in FY24/25 Operating Budget
  - **Apply $60M reimbursement of Measure RR funds for operations** for the next 2+ fiscal years
  - **Continue discussions with FTA** staff to maintain comparable levels of existing service (104 TPD)
  - **Advance 4th train to Gilroy**
  - **Continue to partner proactively with regional partners** to develop and participate in new funding source(s)

Staff Recommendations – Near-term Operations

- **Board direction needed to inform near-term actions:**
  - **Continue to partner proactively with regional partners** to develop and participate in new funding source(s)
  - **Pursue proactively strategies and opportunities to reduce cost of electricity**
    - Monetize Low Carbon Fuel Standards
    - Evaluate alternative energy procurement and storage
    - Evaluate what legislative or other changes would result in lower costing electricity
  - Continue to **review and regularly assess the financial performance of the Railroad**, at least annually, **making adjustments as foreseen and unforeseen events unfold**.

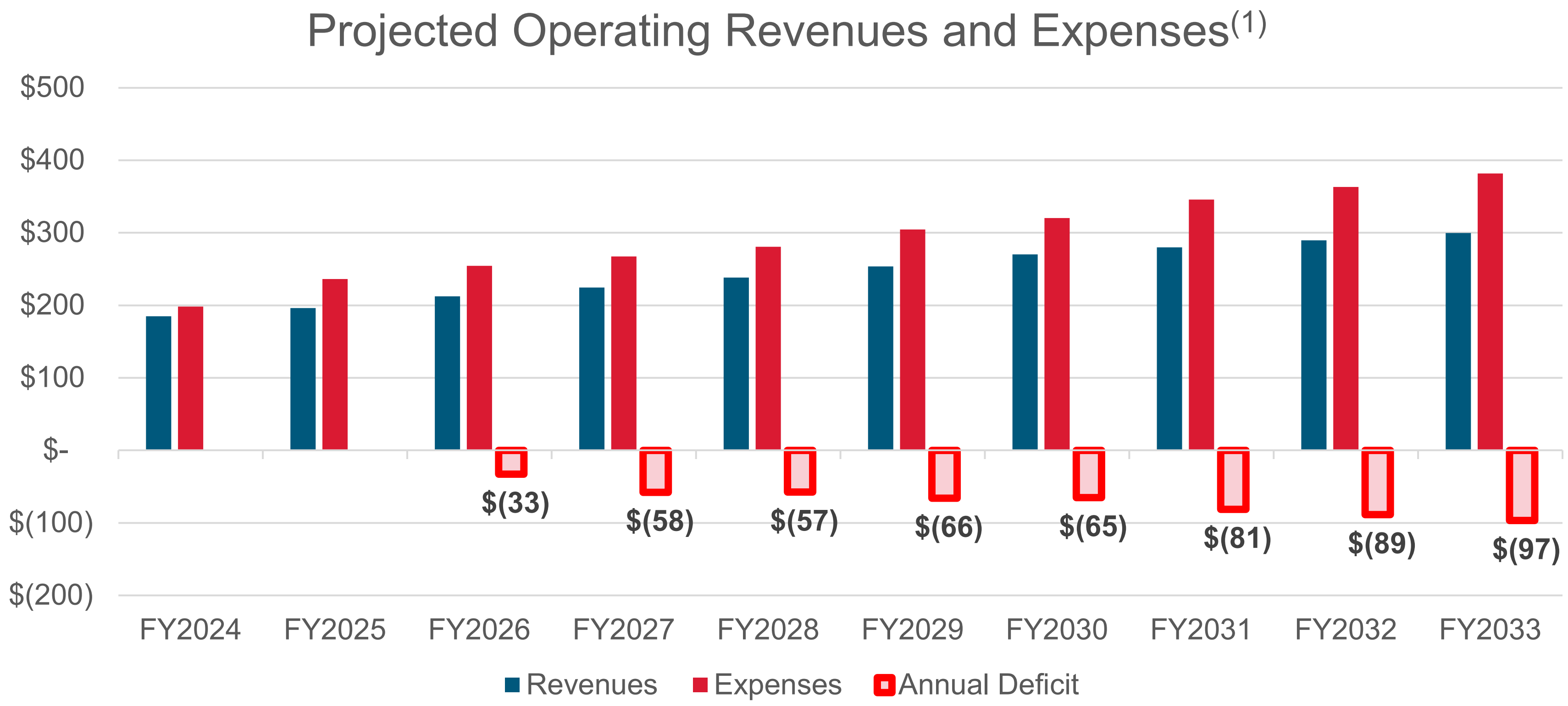
Staff Recommendations – Capital Budget

- **Board direction needed to inform Capital Budget and near-term actions:**
  - **Consider longer-term agreement for Member Obligations for Capital**.
  - **Target $15M to $25M in future Measure RR revenues for Capital** beginning in FY26, subject to Budget approval.
  - **Reserve future SRA funds for capital** beginning in FY26.
  - Return with a **detailed plan for the use of the $150M of reimbursed funds**.
  - **Explore the creation of a Capital Endowment Fund (CEF)**
  - Pursue further **exercising the option on rolling stock**.



Updated Fiscal Cliff Analysis

- **If Caltrain could dedicate 100% of Measure RR to operations and ridership was at 2019 levels, there would likely not be any material operating deficit with current service levels.**
- **However, even with the short-term recommendations, there remains a sizable long-term operating deficit, ranging from approx. $35M (FY26) to $95M (FY33).**



(1) Assumes Measure RR long-term growth rate of 3% and $15M annual commitment of Measure RR revenues beginning FY26. Estimates for illustration purposes only. Preliminary; Subject to change. Actual Results will vary.

Building a Measured Approach

- **The results of these recommendations are a measured approach.**
  - Assumes current service levels ramping up to 128 TPD by FY33, ridership return to 2019 levels by 2031, Measure RR growth more in line with history (3%) and $15M annual allocation of Measure RR for Capital.
  - Designed to build time for ridership to return and assess the revenue and cost impacts of electrification.

KEY METRICS	BASE CASE	STRATEGIC FINANCIAL PLAN
2-YR Deficit	**$70M**	**$0**
6-YR Deficit	**$280M**	**$215M**
10-YR Deficit	**$560M**	**$545M**
10-YR Capital Contribution	**$0**	**$120M[1]**
Rolling Stock Savings	**$0**	**$120M+**

Key Potential Advantages Include:

- **Successfully funding operations over next two years**
- **Maintenance of current service levels, including equity plan, and addition of 4th train to Gilroy**
- **Subject to Board approval, no fare increases for next two years**
- **Flexibility to adjust service and fares if, and when, ridership returns**
- **Up to $200 million in Capital investment over the next 10 years**
- **Over $120 million in savings on rolling stock**
- **Ability to measure and adjust as circumstances unfold**

(1) Assumes $15M/Yr. of future allocation of Measure RR allocations.

Summary

- **The pandemic has crippled the transit industry.**
  - Fiscal cliff is looming.
  - Caltrain is not alone.
  - Ridership recovery is very slow.
- **Regional/state/federal funding solutions need to be pursued to fully mitigate the fiscal cliff.**
- **Immediate policy actions are needed to manage the fiscal cliff and invest in infrastructure.**
  - A balanced approach is essential – manage fiscal cliff, ensure safe railroad, and provide as much quality service as possible.
- **Rigorous monitoring will be performed to fact check forecasted variables with actuals.**
- **Financial strategic plan will be updated regularly to guide financial decisions.**

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Next Steps

- Based on the Board's feedback, next steps include:
  - Fiscal cliff analysis and Strategic Financial Plan (April 2023)
  - Draft 2-year Caltrain budget (May 2023)
  - Final 2-year Caltrain budget (June 2023)
  - Additional analysis and Board discussions (Fall 2023)
  - Return with update to the financial plan (Winter 2023)

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With Support: Our Future

- **Electrified Passenger Service is soon to be here!**
  - Provide timely service and enhanced amenities
  - Inspire new riders
  - Fight climate change, retire 30-year-old diesel trains
  - Maintain and grow jobs directly and indirectly
- **Support quality of life in the region and support mobility for everyone.**

Smoother ride, digital signs, wi-fi, power sources every seat, baby changing table

Thank you - Board Member Comments and Questions?

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FOR MORE INFORMATION

WWW.CALTRAIN.COM