

FY2025 Operating Budget and 10-Year Strategic Financial Plan (SFP) Update

**JPB Board Meeting
January 9, 2025**



FY2025 Operating Budget Update

Staff is committed to maintaining the FY2025 total expense level at \$238M as adopted in June 2023:

- Positive developments that reduced the FY2025 expenditure level pressure:
 - Significantly less actual EMU energy consumption
 - CARB designation to maximize LCFS credit
- Cost reduction measurements implemented:
 - Reduction of FY2025 new FTE requests and delayed recruitment of vacant FTEs
 - Reduction/delay of non-critical professional support and office operating need

Staff will continue to monitor the FY2025 budget closely, implement additional cost saving measures, and update the Board timely during monthly/quarterly financial reports.

FY2025 Operating Budget Update

Ridership growth and non-revenue generation efforts underway:

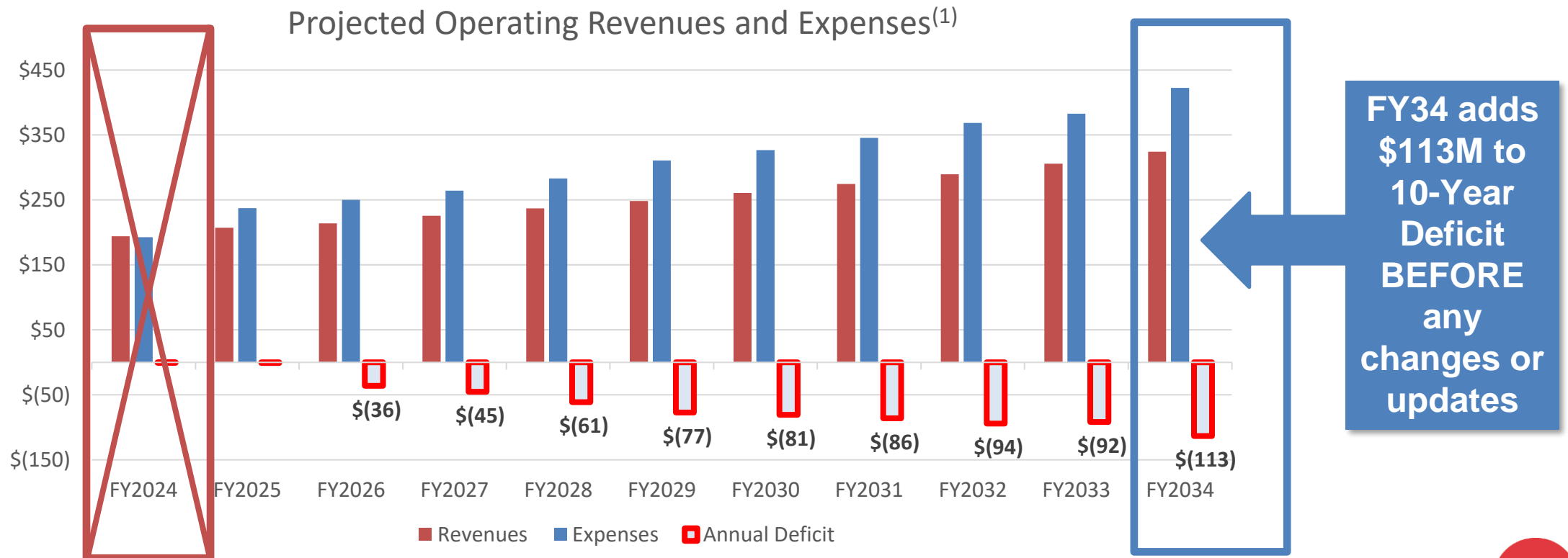
- Ridership and Fare Revenue Growth task force
- New Go Pass pricing structure and marketing sounding
- Non-Fare Revenue Strategy Study (early 2025) focus areas:
 - *Leasing of real estate for commercial, retail, solar, cell towers, and/or EV charging infrastructure etc.*
 - *Joint development of JPB real estate assets including air rights*
 - *fiber optic assets*
 - *advertisement/marketing revenue, ads and/naming rights for stations/trains*

Staff will provide the Board with timely updates on the ridership growth, Go Pass, and potential non-fare revenue generation strategy implementation throughout the year

Strategic Financial Plan (SFP)

10 Year Operating Deficit

- Last January, projected 10-Year operating deficit was \$575M, ranging from \$36M to \$92M.
- Before any updates, altering 10-year period through FY34 increases the deficit to \$690M.



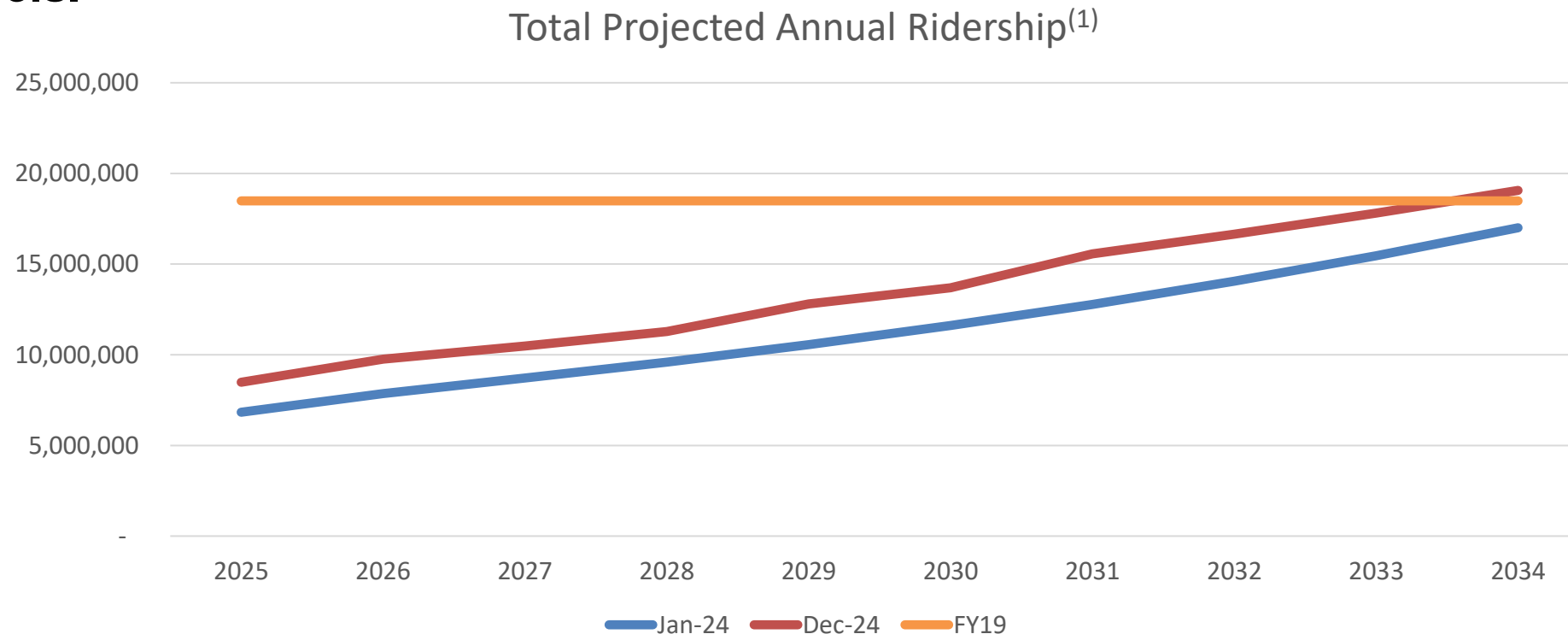
(1) For illustration purposes only; Subject to change. Actual Results will vary.

Recent Ridership Trends

MONTHLY Performance	Oct 2024	Pre-Pandemic Oct 2019	Oct 2024 as % of Oct 2019	Oct 2023	Oct 2024 v. Oct 2023
Avg. Weekday	27,583	70,360	39.2%	19,939	+38.3%
YTD Performance	Oct 2024	Pre-Pandemic Oct 2019	Oct 2024 as % of Oct 2019	Oct 2023	Oct 2024 v. Oct 2023
Total Ridership	2,703,256	6,687,275	40.4%	2,001,054	+35.1%
Avg. Weekday	25,538	71,162	35.9%	20,506	+24.5%
Avg. Saturday	14,381	16,201	88.8%	7,334	+96.1%
Avg. Sunday	13,006	11,611	112.0%	5,967	+118.0%

TOTAL Ridership⁽¹⁾ - Jan. '24 vs. Dec. '24

- Assumes 8.5M passengers⁽³⁾ in FY25 growing to 19M by FY34, exceeding pre-pandemic levels.



- (1) For illustration purposes only; Subject to change. Actual Results will vary.
(2) Based on Actual Ridership for Month of Oct. 2024.
(3) Includes GoPass.

Growth Assumptions⁽¹⁾ – Jan. '24 vs. Dec. '24

- December 2024 assumptions are based on actual ridership in October 2024 and include:
 - Continued growth over FY26, spikes in weekday ridership with increased service in FY29 and FY31, and more measured long-term growth.

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>
Jan. 2024 TOTAL	20%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Dec. Weekday	30%	15%	7.5%	7.5%	15%	7%	15%	7%	7%	7%
Dec. Weekend	80%	15%	7.5%	7.5%	7%	7%	7%	7%	7%	7%
DEC. TOTAL	35%	15%	7.5%	7.5%	13%	7%	13%	7%	7%	7%

January 2024

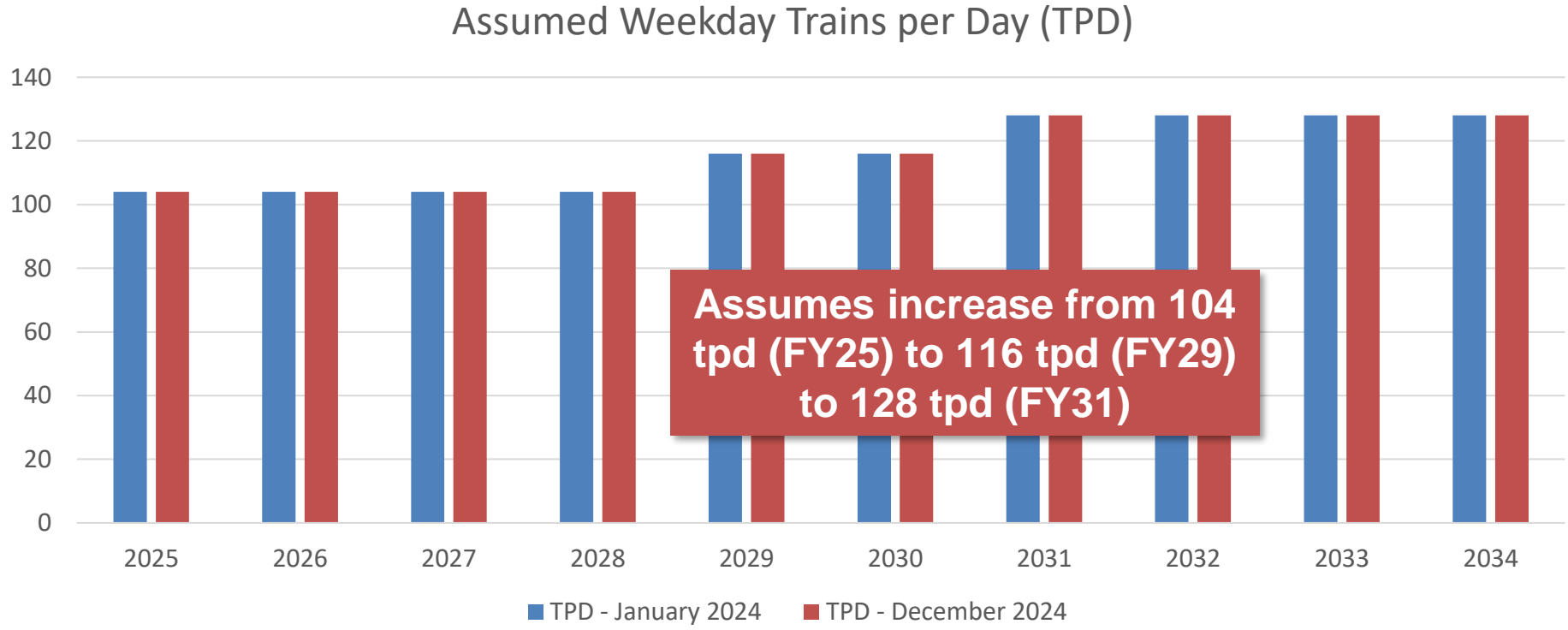
December 2024



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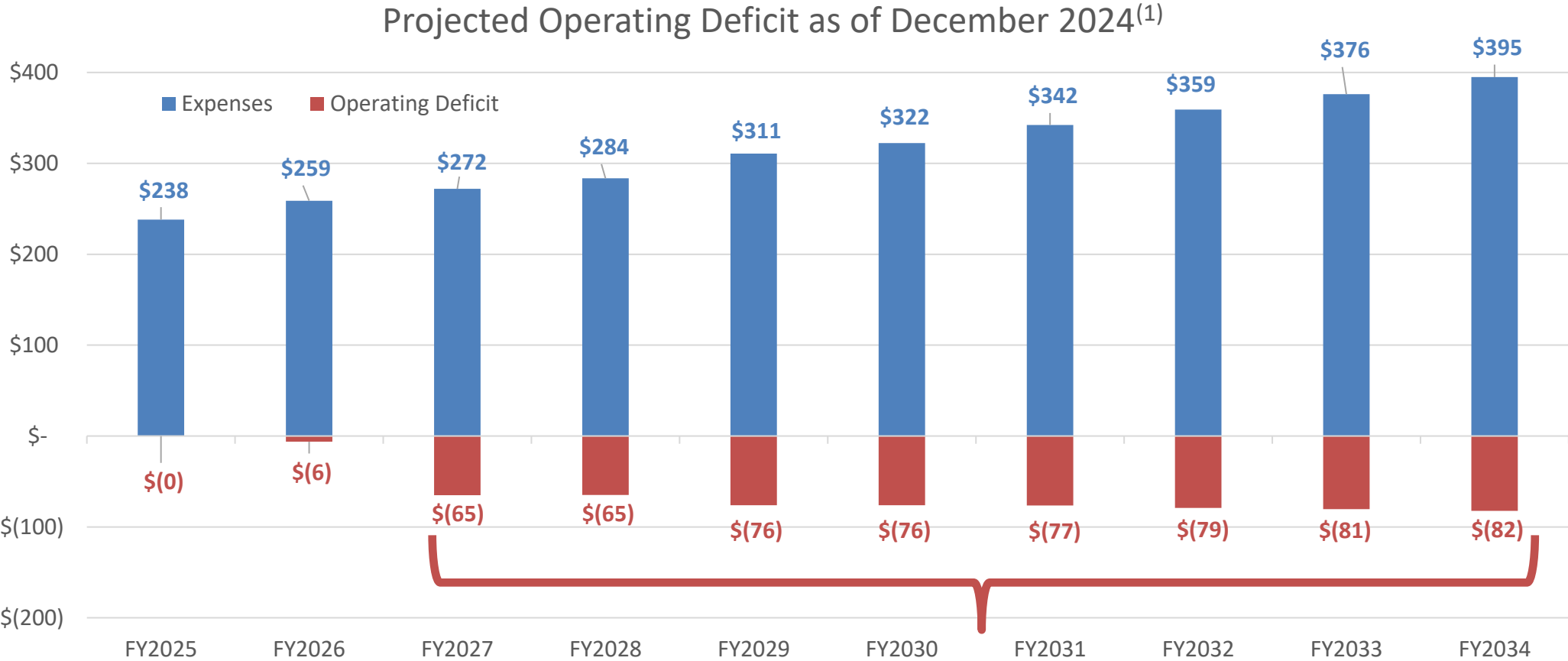
Service Assumptions – Jan. '24 vs. Dec. '24

- **December 2024 SFP assumes the same service level increases as last January.**
 - Requires extension of FFGA waiver beyond December 31, 2027.



Projected Operating Deficit – December 2024⁽¹⁾

- December 2024 Projected 10 Year Operating Deficit is ~\$605M

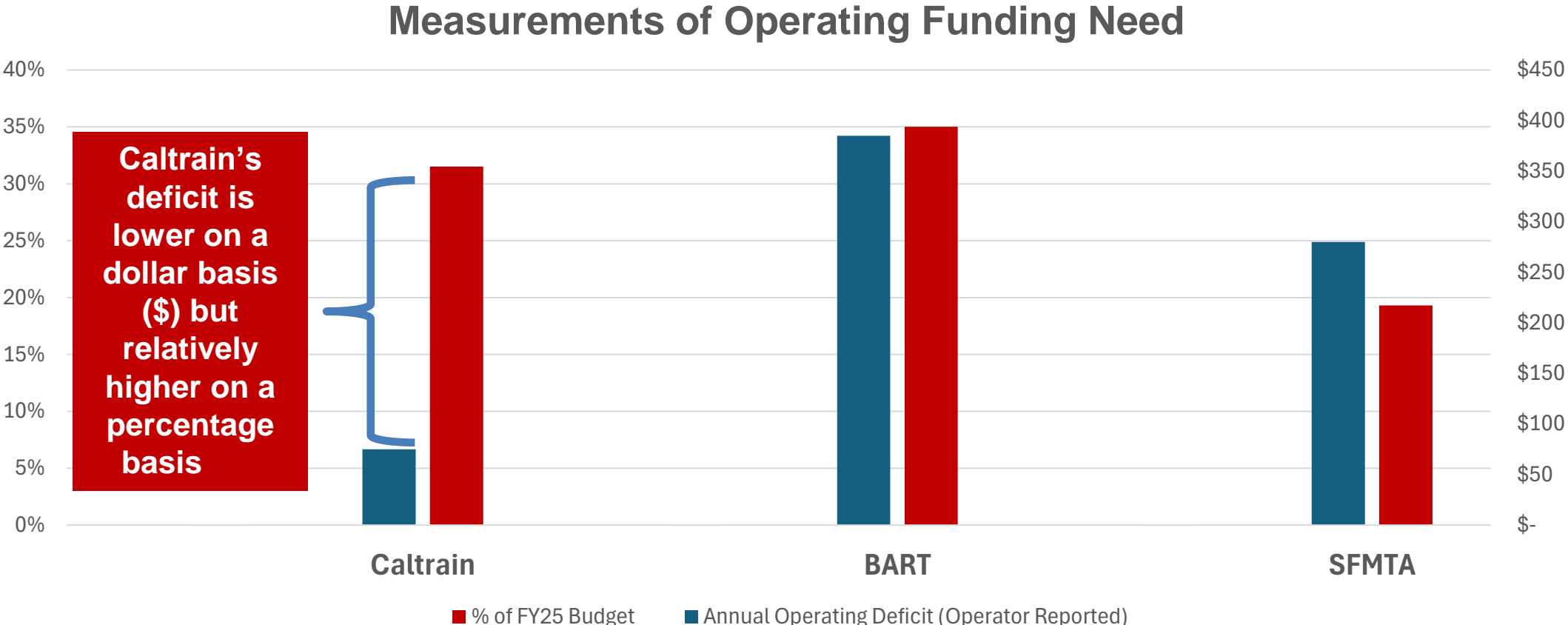


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Average Annual Deficit = \$75M/yr



Projected Deficit Comparisons⁽¹⁾



(1) For illustration purposes only; Source: Caltrain Annual Deficit based on average projection from FY27 to FY34 December 2024; Operator deficits from MTC Transportation Revenue Measure 12/9/24; Percentage of FY25 Budget assumptions: BART \$1.1B and SFMTA \$1.45B.



Projected Deficit – Dec. '24 Key Assumptions

- **There are several key revenue and expense assumptions that drive the projected deficit.**

- The forecast includes:

- \$25.4M from State in FY26 (SB125)
- \$28.7M in one-time funds applied to FY26 (Measure RR)
- Fare increase of ~4% to 5% annually over next 3 years and 3% annually thereafter⁽¹⁾
- \$4.7M in LCFS revenues in FY25 and \$6.6M annually thereafter (subject to actual consumption)
- \$65M in increased insurance costs through FY34
- Managing Agency Overhead costs at 2.5% total annual costs (less JPB Debt Service and Overhead)
- Projected annual lease costs for HQ of \$1M FY27 growing to \$2.8M in FY34
- Annual contribution of \$15M in Measure RR funds toward Capital/SOGR beginning in FY26

- Cost control/reduction measures include:

- No new operating FTEs from FY26 to FY34, unless projections materially change
- Professional services held flat beginning FY29
- \$105M reduction in electric costs through FY34 with assumed annual growth of 5%⁽²⁾

- The forecast excludes:

- \$55M in capitalized electric vehicle maintenance costs.

(1) Last Base Fare increase was February 2016.

(2) For illustration purposes only; Subject to change. Actual Results will vary.



Key Drivers – Electric Procurement Strategy

- **Caltrain continues to implement proactively its Energy Procurement Strategy (EPS).**
 - Successfully purchasing **100% renewable energy with 0% carbon** from Peninsula Clean Energy (PCE) and San Jose Clean Energy (SJCE).
 - Successfully registered with CARB for the Low Carbon Fuel Standards (LCFS) program **with “Fixed Guideway/Heavy Rail” designation.**
 - Finalizing Interconnection and Totalization Agreements with PG&E, who has completed their technical assessment **with no findings for additional remediation.**
 - Totalization has an estimated value of ~\$3.5M annually
 - Continuing to explore strategies for capturing benefit of regenerative braking being exported to the grid.
 - Ongoing conversations with PCE/SJCE/PG&E for some financial return
 - Seek potential legislation
 - Develop and evaluate long-term Battery Storage Plan
 - Each of these regenerative braking strategies have **different trade-offs in costs, timing and returns to Caltrain.**

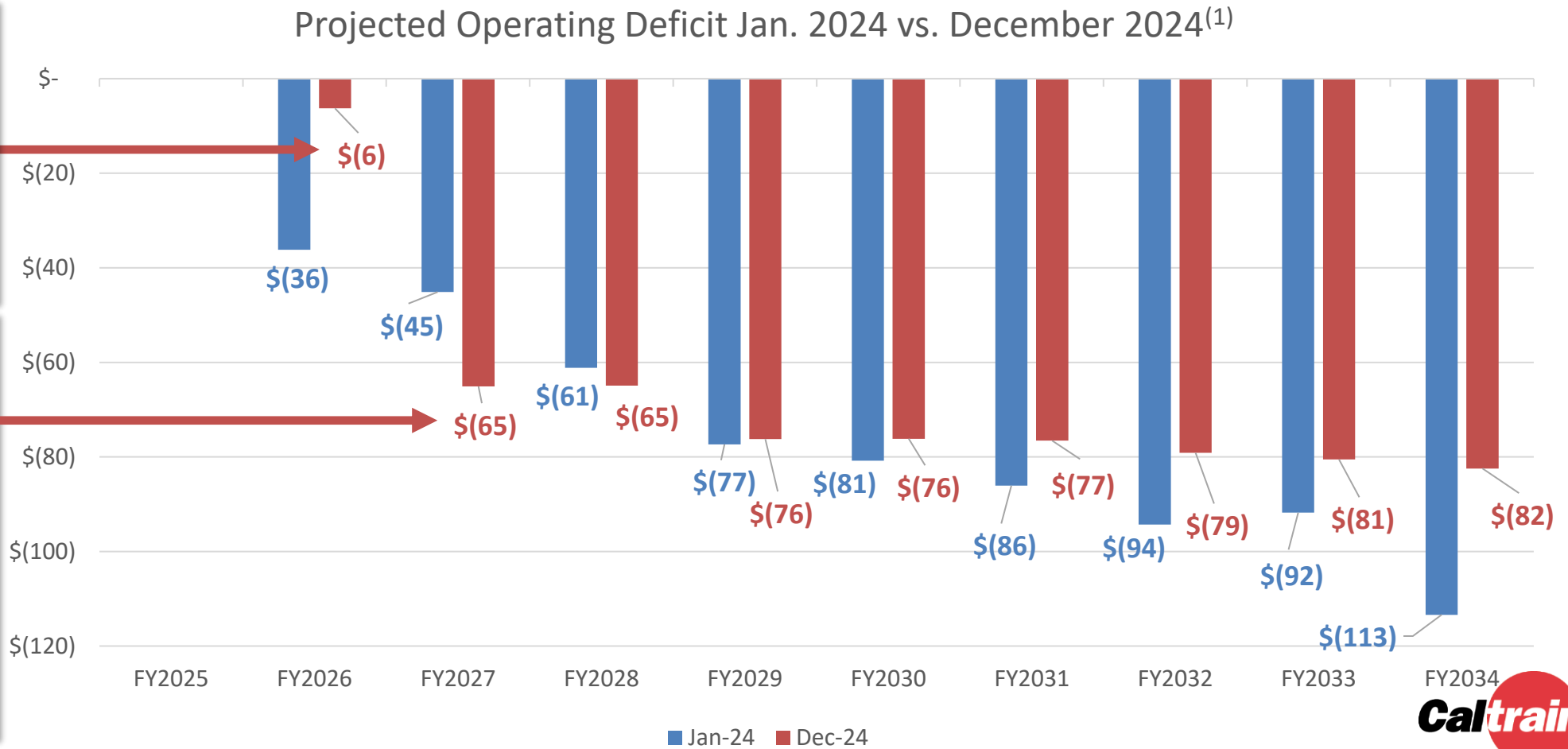


Projected Deficit - Jan. '24 vs. Dec. '24⁽¹⁾

- December 2024 Forecast reflects a significant reduction of the adjusted January forecast of \$690M, due to increased revenue and lower cost projections.

Increased ridership, decreased electric costs and one-time funds are projected to nearly cover FY26

\$65M projected deficit as soon as FY27 due to increased costs in insurance, shared services and HQ lease with no remaining one-time Measure RR or State Funds

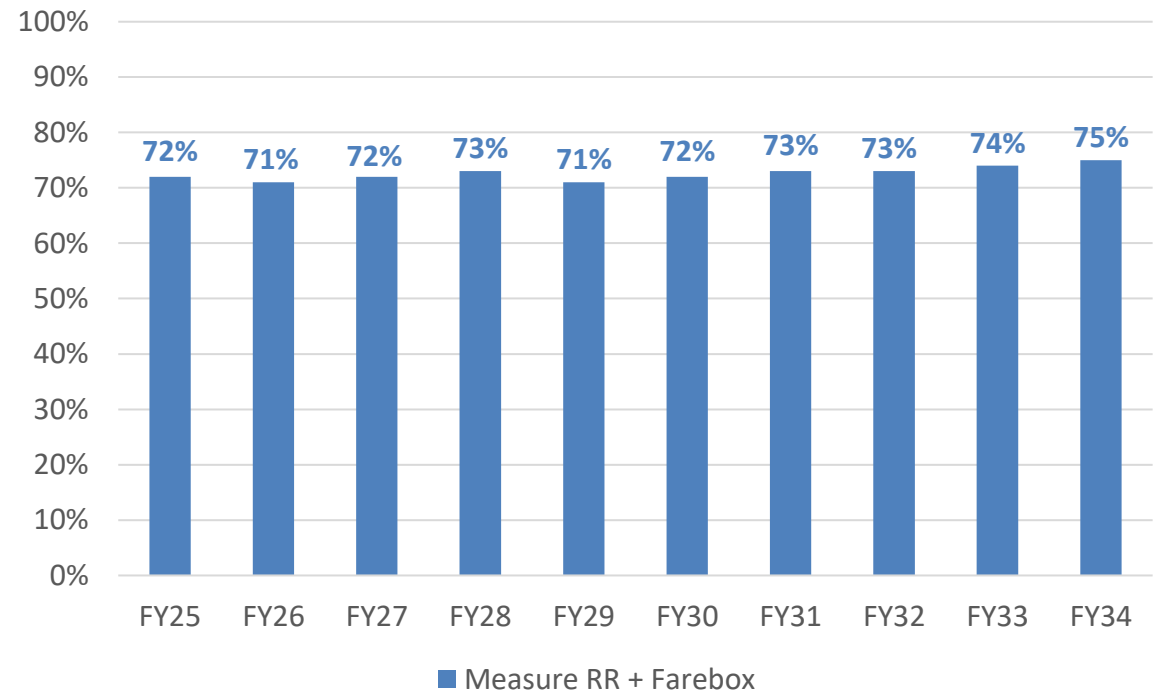


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Projected Operating Deficit Moving Forward⁽¹⁾

- **Measure RR and Farebox Revenues do not cover the projected expenses of Caltrain.**
 - Measure RR revenues account for **50% to 60% of total revenues** and are only projected to grow at 2.5% annually.
 - Measure RR revenues + Farebox only **account for 70% to 75% of projected operating expenses.**
 - Puts significant pressure and risk on future ridership growth and/or additional funding.

Measure RR + Farebox as % of Total Annual Operating Expenses⁽¹⁾

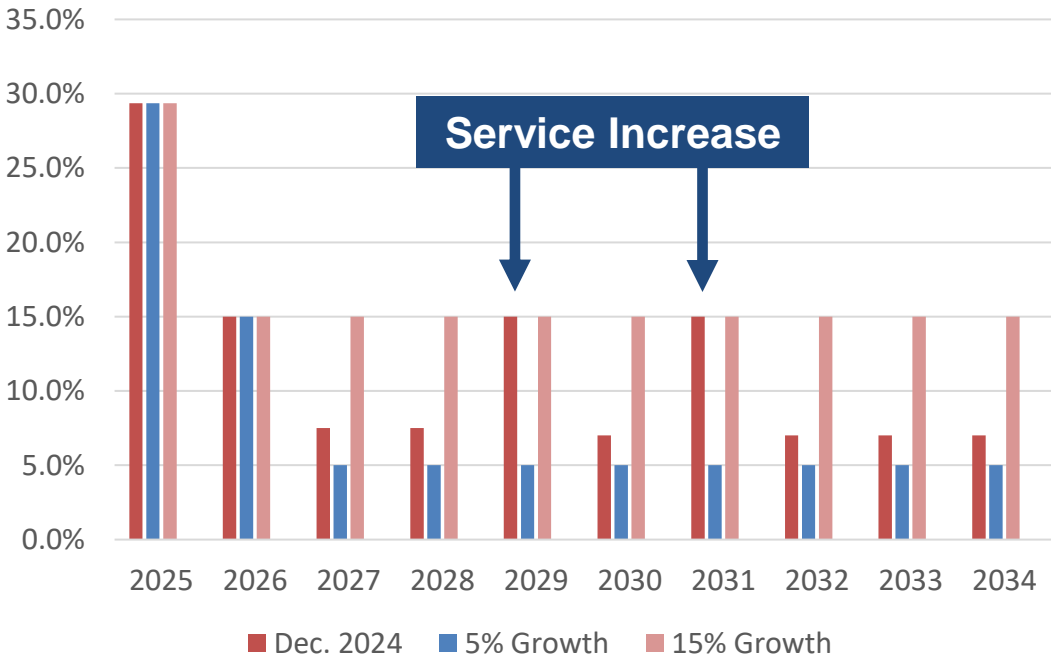


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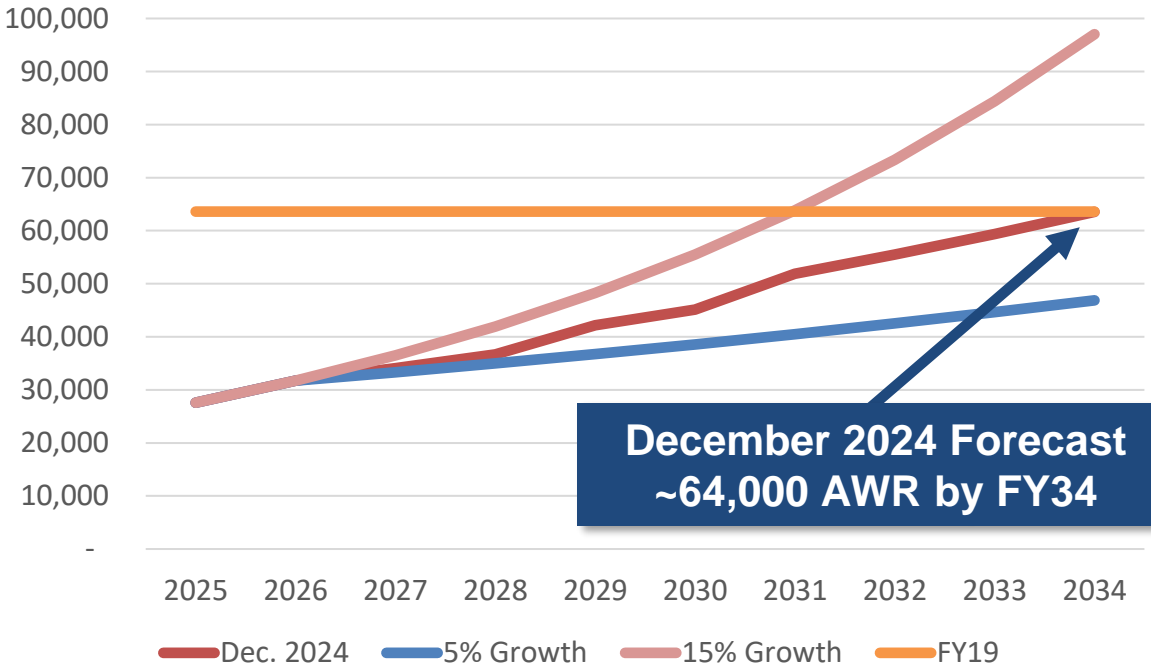
Ridership Sensitivity - Closing the Gap⁽¹⁾

- Magnitude and pace of ridership return is material in Caltrain's long-term outlook.

Assumed Annual Growth Rate in Weekday Ridership⁽¹⁾



Projected Avg. Weekday Ridership⁽¹⁾

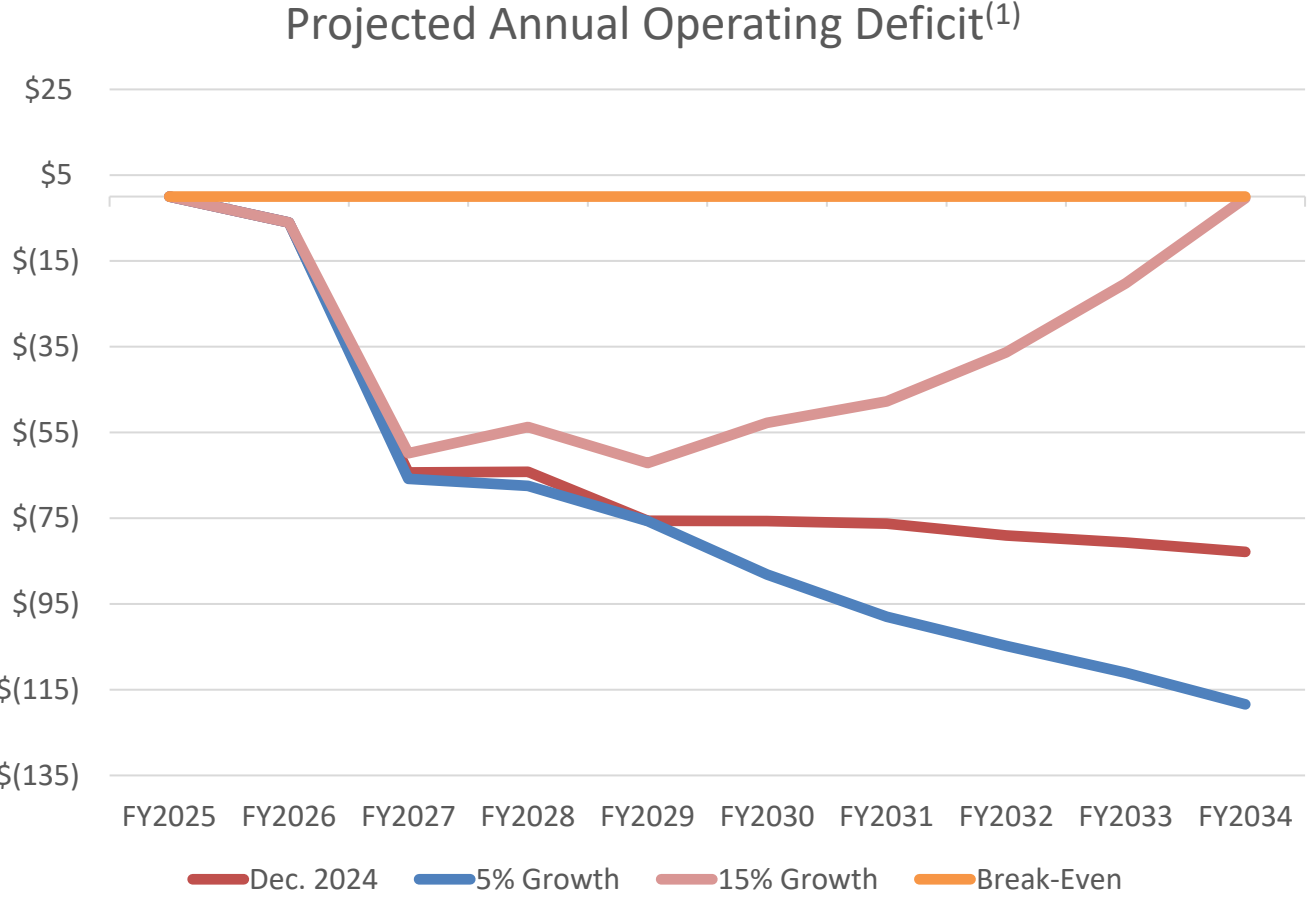


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Ridership Sensitivity⁽¹⁾ - Operating Deficit

- Ridership return alone will not solve all of Caltrain’s financial challenges.



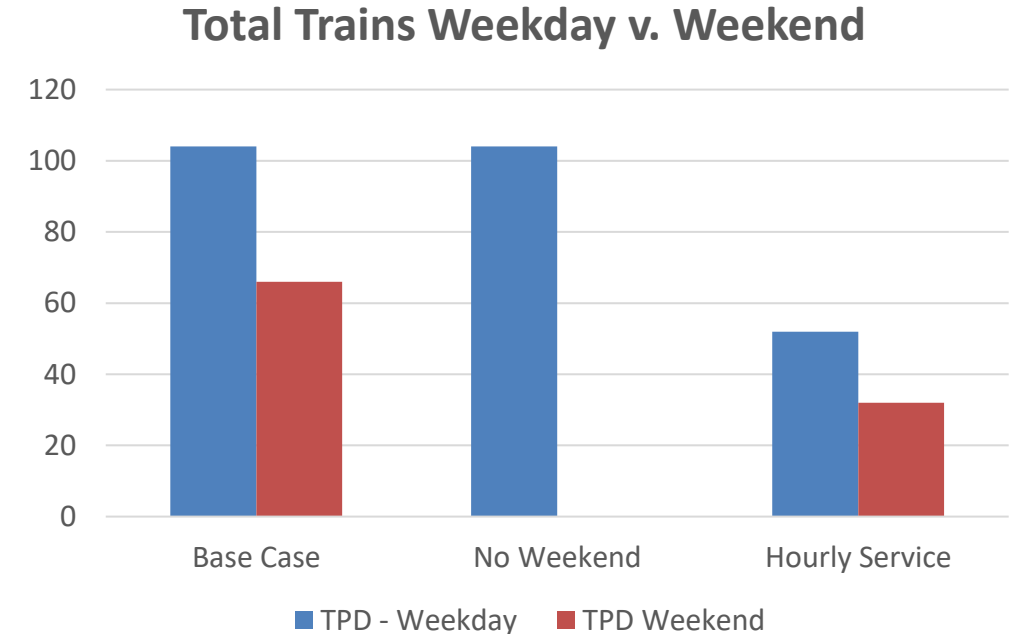
AVG. Ridership Growth FY27 to FY34	Est. FY34 Avg. Weekday Ridership ⁽¹⁾	Est. FY34 Annual Deficit ⁽¹⁾	Est. Cumulative Deficit FY25 to FY34 ⁽¹⁾
15%	95K	\$0M	\$340M
9%	64K	\$83M	\$605M
5%	45K	\$120M	\$750M

(1) For illustration purposes only; Subject to change. Actual Results will vary.



Additional Operating Cost Reductions

- **If no additional funding is realized, will require very difficult decisions and some combination of:**
 - Member contributions
 - Service cuts
 - FTE reductions
 - Deferred maintenance
 - Mothball portions of fleet
- **Presents significant challenges and uncertainty to Caltrain's long-term business and service model.**
 - High fixed costs and low variable costs
 - Inability to ramp labor up and down easily
 - Impact on ridership could be dramatic and long-term
 - Asset disposition has long-term implications



2024 - A Year to Remember!

- **There has been a lot of success over the past year!**
 - Launch of electrified service!
 - Great customer reception and growth in ridership!
 - Procurement of 100% renewable energy with 0% carbon!
 - Registration at CARB for LCFS revenues!
 - Forecasted reduction of electric consumption by 25%!



Key Take-Aways (December 2024)

- **Use one-time funds continues to address most short-term funding needs in FY25 and FY26.**
 - \$25M SB125 funds and \$29M in Measure RR in FY26.
 - With exhaustion of one-time funds, FY27 deficit forecast of \$65M.
- **Growing ridership, cost containment and non-fare revenue strategies remain top priorities.**
 - Optimizing crewing and rail operating costs and managing electric costs.
 - Seeking incremental funding from Caltrain's assets.
- **Growth in ridership and Measure RR will not be enough; critical prioritize long-term funding**
 - Even with large increases in ridership, there will be an operating funding gap.
 - Systemic deficit forecast of an average of ~\$75M from FY27 to FY34.
- **Cutting service alone will not address the funding shortfall.**
 - Eliminating weekends or providing hourly service would not balance the budget and would still require additional stable and ongoing funding.

Next Steps and Recommendations

- **Recommendation #1: Riders, Riders, Riders**
 - Every strategy that can be used to grow ridership is critical.
 - Need to reinvent Go Pass program and evaluate how best to market the service.
 - Public engagement on any potential changes to the fare structure, including analysis of demand response
- **Recommendation #2: Continue to focus on cost containment and capturing incremental revenues.**
 - Continue to optimize crewing and operations given electric service.
 - Capture financial benefit of regenerative braking and develop, evaluate, and present a Battery Storage Plan.
 - Aggressively pursue non-fare revenue opportunities.
- **Recommendation #3: Implement long-term funding strategy because FY27 is right around the corner.**
 - Continue to participate in Regional Measure discussion.
 - Pursue proactively potential local funding options.
 - Consider impacts of no new funding.
- **Recommendation #4: Align future SFP updates with budget process.**
 - Continue to update SFP annually but alter timing to reduce risk of differences with budget.
- **Staff will continue to monitor and update key revenue and expense drivers and provide periodic updates to the Board, funding partners, and the public.**