

***FY2023***

***Preliminary  
Operating  
and  
Capital Budgets***



# Introduction

# Purpose of Presentation

- Present JPB's staff recommended FY23 Preliminary Operating and Capital Budgets
- Discuss feedback from Finance Committee including alternatives, impacts and risks
- Obtain Board guidance on next steps

# Overview

## Preliminary FY23 Budgets

- Build on financial analysis presented at March Board Workshop
- Reflect initial feedback from Board members regarding FY23 priorities
- Further refinement to occur in May with adoption of final FY23 Operating and Capital budgets targeted for June

## A Challenging Year

- Preliminary FY23 Operating Budget is balanced – with little margin to spare
- Preliminary FY23 Capital budget is not yet fully funded – Board guidance and fund sources are needed; or some initiatives may not advance in coming year

# Feedback From Workshop

## Overall Feedback

- Concerns related to financial trajectory of railroad and difficult outlook over next several years
- Need to live within means and control costs- but also supportive of advancing a wide range of priorities (e.g. rebuilding ridership, focusing on grade separations, participating in major regional initiatives)

# Feedback From Workshop

## Initial Staff Approach

- Preliminary operating budget maintains current service levels and fare strategy to retain customers and build ridership during critical juncture as region re-opens
  - Peer agencies not considering service reductions in FY23
  - Staff is significantly concerned that any material service reductions could risk ridership decline or loss of Go Pass customers, potentially resulting in negative financial savings
- Capital budget has been greatly constrained, but advances a range of priorities
- Board input needed on sources of funding for FY23 capital budget

# **FY2023 Preliminary Operating Budget**

# Overview

## Provides

- Continuation of 104 train weekday service level and hourly weekend service
- No increases in fares
- Provides \$700K for continuation of governance process

## Relies on

- Gradual ridership recovery (reaching 36% of pre-COVID, non-go pass fare revenues)
- Usage of all anticipated FY23 Measure RR receipts toward operating budget
- Utilization of State Transit Assistance (STA) carryforward funds
- No further Federal assistance assumed
- No Member Agency funding to operating budget assumed



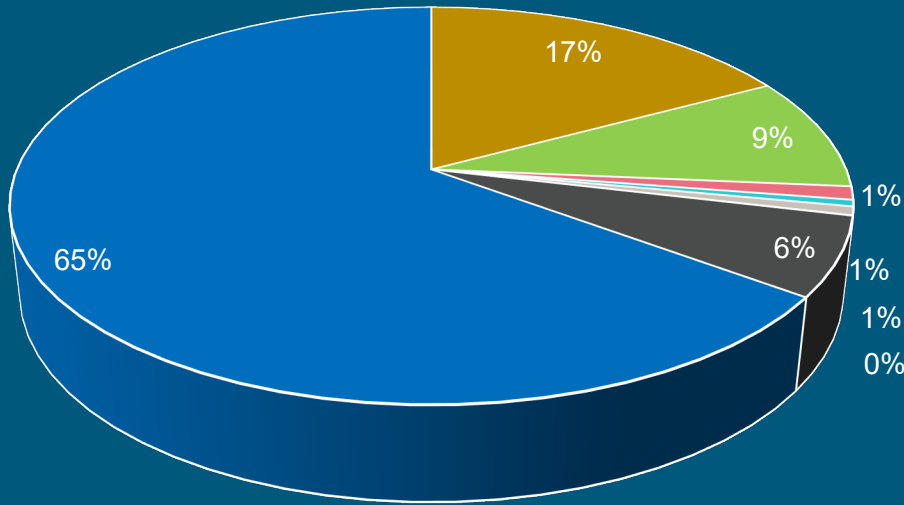
# Preliminary Budget Outlook

(in millions)

	<b>FY2021 ACTUALS</b>	<b>FY2022 BUDGET</b>	<b>FY2022 FORECAST</b>	<b>FY2023 PRELIMINARY</b>
Revenue	\$167.1	\$176.7	\$257.3	\$176.2
Expenditure	<u>\$140.0</u>	<u>\$176.7</u>	<u>\$172.6</u>	<u>\$180.4</u>
<b>Surplus (Deficit)</b>	<b>\$ 27.1</b>	<b>\$ 0.0</b>	<b>\$ 84.7</b>	<b>(\$ 4.2)</b>
Measure RR for Cap Reserve	\$ 0.0	\$ 0.0	\$ 80.0	\$ 0.0
Draw from FY2022 Surplus	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 4.2</u>
<b>Adjusted Surplus (Deficit)</b>	<b>\$ 27.1</b>	<b>\$ 0.0</b>	<b>\$ 4.7</b>	<b>\$ 0.0</b>

# Preliminary Revenues

(in millions)



- Caltrain Fares
- Go Pass
- Parking
- Rental Income
- Other Income
- AB434 & TA Shuttle
- Operating Grants
- Measure RR

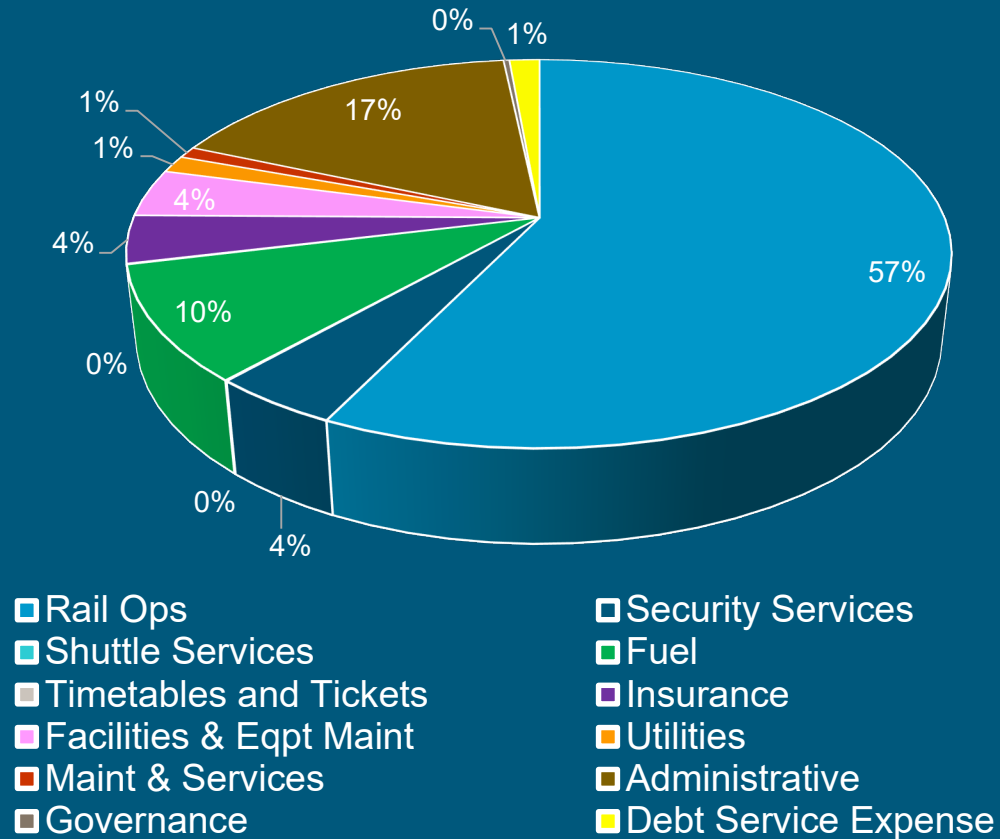
Caltrain Fares	\$30.2
Go Pass	\$16.3
Parking	\$1.9
Rental Income	\$0.9
Other Income	\$1.2
AB434 & TA Shuttle	\$0.0
Operating Grants	\$11.3
Measure RR	<u>\$114.3</u>
<b>Total</b>	<b>\$176.2</b>



# Revenue Assumptions

<b>Farebox</b>	Caltrain fares assumes 36% recovery of Pre-COVID levels Go Pass assumes current levels plus 6% growth
<b>Shuttles</b>	Shuttle contracts will be consolidated under SamTrans
<b>Operating Grants</b>	MTC estimates (Feb 2022) including carryforward funds
<b>JPB Member Agencies</b>	No member agency funding for FY2023
<b>Measure RR</b>	Assumes \$114.3M based on latest estimate
<b>ARPA</b>	No longer available for FY2023, fully recognized in FY2022

# Preliminary Expenditure (in millions)



Rail Ops	\$102.6
Security Services	\$7.9
Shuttle Services	\$0.1
Fuel	\$17.5
Timetables and Tickets	\$0.1
Insurance	\$7.1
Facilities & Eqpt Maint	\$7.3
Utilities	\$2.6
Maint & Services	\$1.8
Administrative	\$30.0
Governance	\$0.7
Debt Service Expense	<u>\$2.6</u>
<b>Total</b>	<b>\$180.4</b>

# Expenditure Assumptions

<b>Rail Operator Service</b>	104 tpd for full FY23, labor/burden increase, 2 new stations for maintenance, fiber maintenance
<b>Fuel</b>	Assumes the following hedging strategy: Hedged 65% \$2.96/gal Unhedged 35% \$3.41/gal  Fuel Consumption: 4.5 million gallons
<b>Shuttle Services</b>	Shuttle contracts are being consolidated under SamTrans and no longer run through JPB Budget
<b>Measure RR Costs</b>	Activity completed, no budget expected for FY2023
<b>Governance</b>	Aspects of governance process (agreements, legal work) to continue throughout FY2023
<b>Staffing Levels</b>	See next slide

# Staffing, Wages and Benefits

Function	FTE Allocation		Total
	OPERATING	CAPITAL	
Rail & CalMod	34.5	91.9	126.4
Administration, Finance, & Planning	19.7	19.7	39.3
Communications	19.5	1.6	21.1
<b>Total</b>	<b>73.7</b>	<b>113.2</b>	<b>186.9</b>

## Key Changes relative to FY22:

- Includes 4.5 new positions to be funded by operating budget
- Universal wage increase (3.5%)
- Increased contribution to CalPERS
- Assumes a vacancy rate savings of 4% (same assumption as last year)
- Includes new FTEs related to governance: Directors for Government & Community Affairs, Budgets & Financial Analysis, Real Estate Development, and Grants & Funds Management

# FY23 Operating Budget Risk Areas

## Revenue

- Ridership Recovery / Fares
- Go Pass continuation
- Measure RR Receipts

## Expenditure

- Fuel

# **FY2023 Preliminary Capital Budget**



# Overview

## Provides

- \$48.9 million in capital investment (relative to \$69.0 million unconstrained request)
- Includes basic SOGR for track, systems and stations along with significant investment in safety sensitive repair of Guadalupe Bridge
- Significant investments in system enhancements including projects related to customer and operational communications, mapping and surveying tools, and back up control facility
- Advancement of planning and early-stage design work for various regional, corridor and station-specific efforts
- General capital program and contingency support

# Overview

## Relies on

- \$13.7 million in anticipated Federal SOGR funds
- \$1.5 million in anticipated STA SOGR funds

## Needs

- **\$33.7 million in additional local funding sourced from member agency funding and/or use of unrestricted funds and reserve funding**

# Preliminary Capital Budget Projects

(in millions)

	Unconstrained	Constrained
<b>SOGR</b>		
Bridges	\$15.4	\$ 9.7
Right of Way	\$13.8	\$ 9.8
Signal & Communications	\$ 7.3	\$ 5.6
Station & Intermodal Access	\$ 4.0	\$ 2.0
<b>Legal Mandates</b>	\$ 0.1	\$ 0.1
<b>Operational Improvements</b>	\$21.1	\$15.2
<b>Planning/Studies</b>	\$ 4.5	\$ 3.7
<b>DTX Funding</b>	\$ 1.5	\$ 1.5
<b>Capital Contingency Funds</b>	\$ 1.3	\$ 1.3
<b>Total*</b>	<b>\$69.0</b>	<b>\$48.9</b>

## **Key Projects Not Funded in Constrained Budget:**

- San Francisquito Creek Bridge Replacement (\$4.3M)
- Broadband Comm (\$3.1M)
- SOGR Track (\$3.0M)
- SOGR Comm System (\$1.7M)

\* Excludes Externally Funded Projects

# FY23 Unrestricted Funds & Reserves

(in millions)

## Available Unrestricted Funds

Unrestricted Fund Balance	\$ 42.9M
FY23 proposed Operating Reserve	<u>27.0*</u>
Remaining Unrestricted Fund Balance,	\$15.9M

\*JPB Reserve Policy requires \$18M (10% of operating budget) plus \$9M (required to reach 15% of operating budget)

## Additional Reserves

Capital reserve account (established FY22) \$20M

# FY23 Capital Budget Funding

## Use of Unrestricted Fund Balance

### Context

- **Constrained FY23 Capital Budget needs an additional \$33.7 Million in local funding to balance**
- Overall financial picture of the railroad remains volatile and challenging. With lower fare revenues, Measure RR funds are needed to support operating budget
- The JPB has \$20 million remaining in a capital reserve account that was established in FY22 as well as a balance of \$15.9 M in unrestricted funds above and beyond the target amount established by the Board adopted reserve policy

# FY23 Capital Budget Funding

## Use of Unrestricted Fund Balance

### Staff Recommendation for FY23

- Staff recommends utilizing \$15.9 million in unrestricted funds (excess above what is required to fund operating reserve at the policy-target level)
- Staff recommends utilizing an additional \$2.1 million from the \$20 million capital reserve account
- Staff further recommends establishing a capital reserve policy

# FY23 Capital Budget Funding

## Member Contributions

### Context

- **Constrained FY23 Capital Budget needs an additional \$33.7 Million in local funding to balance**
- Overall financial picture of the railroad remains volatile and challenging. With lower fare revenues, Measure RR funds are needed to support operating budget
- Staff has consistently projected that ongoing member agency capital contributions will be needed to advance the JPB's capital program (including both basic SOGR and improvement as well as Caltrain participation in regional projects)
- Prior to FY22, member contributions to the capital budget have been between \$5 to \$7.5 million per partner (\$15-23M total)

# FY23 Capital Budget Funding

## Member Contributions

### Staff Recommendation for FY23

- Staff recommends balancing capital budget by seeking \$15.7M in member contributions for the FY23 capital budget (or \$5.3M per member)



# **Questions & Clarifications on Preliminary FY23 Budget**

# Alternative Approaches

# Feedback From Finance Committee (April 25<sup>th</sup>)

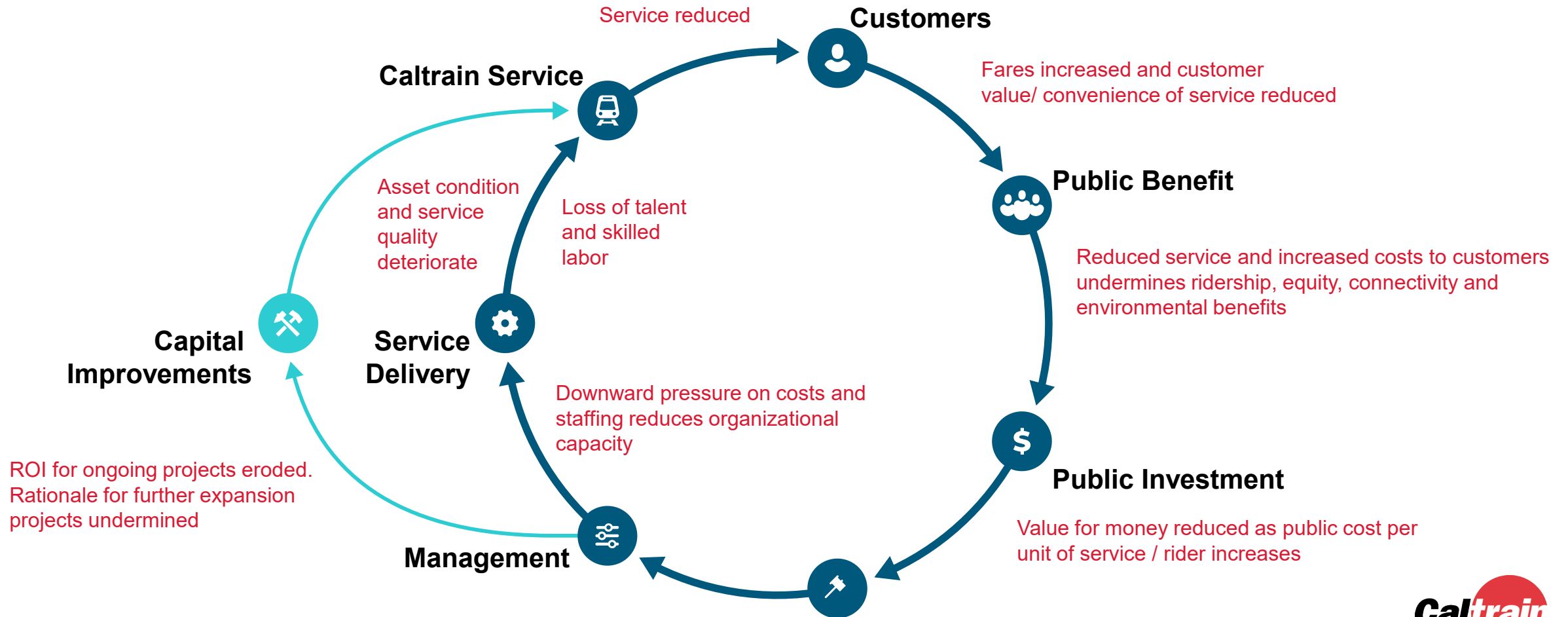
## Key Feedback

- Concerns expressed regarding need to use unrestricted funds, reserves and/or member agency funding to balance FY23 Preliminary Capital Budget
- Desire to see alternative approaches that reduce expenditures

## Staff Approach

- Modified and clarified recommended funding approach for FY23 capital budget
- Developed of illustrative budget cuts that show potential savings and impacts of cutting services and projects below levels recommended in preliminary FY23 budgets

# Rationale for recommended approach - avoiding a downward spiral



# Approach to Service & Fares

## Service

- Current service balances needs of many different travel markets and meets equity and connectivity commitments
- Provides essential foundation for multi-year process to rebuild ridership and transition to electrified service
- Savings from cutting service are offset by significant revenue risk (see subsequent slides)
- Staff has not been able to identify a peer operator (either regionally or nationally among commuter railroads) planning major service cuts in FY23

## Fares

- Avoids deterring new and returning riders and is consistent with Caltrain's equity commitments
- GoPass discount acknowledges and strengthens long-term partnerships with institutional customers
- Deferring fare increases consistent with practices of other national commuter railroads as well as regional agencies (SFMTA, VTA)
- Staff to evaluate fares comprehensively (both at Caltrain and in regional context) in coming year

# Approach to Capital Budget

## SOGR

- Proposed budget already constrains SOGR activities from initial proposal
- Funds essential activities needed to control capital maintenance backlog (next slide)
- Leverages local funding as match to maximize use of federal and state funds

## Enhancements and Studies

- Prepare railroad for electrification and provide essential enhancements to help rebuild ridership and improve system management
- Advance work on regional and local projects (stations, grade separations) that have repeatedly been expressed as partner priorities

# Deferred Capital Maintenance

(in millions)

	Total Updated SOGR Requirement	Allocated Capital Funds (FY19 - FY22)	Unfunded SOGR Backlog
Facilities	\$ 22.4	\$ 1.2	\$ 21.2
Guideway Elements	\$144.0	\$ 61.1	\$ 82.9
Station	\$ 32.9	\$ 9.9	\$ 23.0
Systems	\$ 50.0	\$ 12.9	\$ 37.1
Vehicles*	<u>\$134.2</u>	<u>\$ 34.8</u>	<u>\$ 99.4</u>
<b>Total</b>	<b>\$383.4</b>	<b>\$119.9</b>	<b>\$263.5</b>

*\*Does not include the \$460M for end of life revenue vehicle replacement identified in 2018 TAM plan associated with the PCEP project*

# FY23 Unrestricted Funds & Reserves

(in millions)

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## Additional Reserves

Capital reserve account (established FY22) \$20M

**Staff Recommendation would fund operating reserve to target recommended level (\$27 million) and would leave an additional \$17.9 million available in capital reserve account (which did not exist prior to fall of 2022)**



# Balancing use of unrestricted funds with Member Contributions

## FY 22 – 26 Deficit Forecasts Updated from March Workshop

Millions

Item	104 TPD			Electrification	
	FY22 Projection	FY23 Projection	FY24 Projection	116 TPD FY25 Projection	116 TPD FY26 Projection
Carve out RR for capital reserves	\$80.0				
<b>Surplus/deficit</b>	<b>\$4.8</b>	<b>(\$4.2)</b>	<b>(\$12.1)</b>	<b>(\$26.4)</b>	<b>(\$21.3)</b>

Caltrain is facing mid- and long-term financial sustainability challenges



# FY23 Capital Budget

## Alternative Approaches

### Alternative Funding Approaches

- In lieu of member agency funds, the capital budget could be balanced through greater use of the \$20 million capital reserve account
- Funding the full local capital budget need (\$33.7M) out of unrestricted funds and the capital reserve account would leave approximately \$2 million in the capital reserve account
- Taking this approach would limit Caltrain's financial capacity to establish a capital reserve policy or to deal with anticipated future shortfalls and financial challenges

### Deferment of Priorities and Projects

- Service, projects and initiatives within the capital and operating budget could be deferred

# Cutting the Capital Budget

## Example of cuts needed to save approximately \$10M in FY23 Capital Budget

- Reduce funding for Guadalupe and San Francisquito bridge replacement projects
- Reduce track-related SOGR
- Eliminate funding for Diridon Station ceiling repairs  
(**\$5.3M savings- adds to capital backlog, increases downstream risk on projects**)
- Eliminate funding for Asset Management System  
(**\$1M savings - delays needed improvements to system management capabilities**)
- Eliminate funding for DTX support, Redwood City Corridor Planning and San Francisco Corridor Planning
- Remove Caltrain contribution to DTX  
(**\$3.2M savings- severely constrains Caltrain's ability to support and advance local and regional priorities unless alternative funds identified**)

***Further cuts begin to eliminate whole categories of work and/or compromise Caltrain's ability to fully match and leverage federal and state funds***



# Cutting the Operating Budget

## Estimating Financial Impacts of Service Cuts is Complicated

### Expenses

- Fixed-cost nature of railroads means financial impacts of cuts are not linear
- Crew costs are major driver of operating expense- but are hard to estimate precisely without fully re-crewing schedule
- Cuts and ranges shown should be understood as indicative, preliminary estimates

### Revenue

- Revenue impacts of service reductions are difficult to estimate- especially at a time when market and ridership sentiment are in major flux and heavily influenced by external factors
- Significant risk of losing larger amounts of revenue if service is cut to a point that triggers loss of GoPass subscriptions
- There is a real risk that some cuts could result in a negative net financial impact



# Cutting the Operating Budget - Examples

Example Service Cut	Range of Expense Savings	Range of Revenue Loss	Range of Potential Net Savings
Eliminate Gilroy Service (truncate 6 trains per weekday)	\$1M (direct costs only) \$2.5M (with crew reductions)	\$0.5-\$1M	\$0-\$2M
Eliminate Baby Bullet Service (eliminate 12 trains per weekday)	\$2M (direct costs only) \$5M (with crew reductions)	\$2-\$5.5M	(\$3.5)-\$3M
Return to 70 tpd Service Level	\$5.5M (direct costs only) \$13M (with crew reductions)	\$6-\$15M	(\$9.5M)- \$7M

Examples and estimates only. Revenue estimates based on current, per-train revenues

# Summary

## Capital Budget

- Already significantly constrained
- Cuts will increase SOGR backlog and limit Caltrain's ability to meet stakeholder priorities

## Operating Budget

- Cuts not aligned with multi-year policy and business objectives and will significantly impact customers
- Potential for cuts to result in minimal or even negative net savings

## Staff Recommendation for FY23

- Advance preliminary FY23 Operating and Capital budgets
- Balancing capital budget by seeking \$15.7M in member contributions for the FY23 capital budget (or \$5.3M per member), using \$15.9M in unrestricted funds, and \$2.1M from capital reserve accounts

# Next Steps

## Board Guidance

- Provide input to staff on preliminary Operating and Capital Budgets including concurrence on overall approach
- Identify funding for FY23 Capital Budget
  - Concur with staff recommendation on use of member agency funding and reserves to balance FY23 Capital budget, or discuss;
  - Consider alternative funding approaches
  - Discuss projects or priorities to defer
- Draft capital reserve policy

## Staff Work

- Issue formal request and discuss funding needs with JPA partners
- Refine operating and capital budgets based on Board guidance and member agency input
- Develop more detailed FY23 workplan to accompany draft budget

FOR MORE INFORMATION

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