



Proposed

Peninsula Corridor Joint Powers Board

Report of the Measure RR Tax Revenues and Expenses

Citizens' Advisory Committee

Fiscal Year 2022 (July 2021 – June 2022)

I Introduction and Findings of the Citizens' Advisory Committee

The Citizens' Advisory Committee (CAC) of the Peninsula Corridor Joint Powers Board (JPB) is pleased to provide its first annual report on the expenditure of tax proceeds from the Measure RR Funds. This report covers the FY 2022 fiscal year, from July 1, 2021, through June 30, 2022. With regard to Measure RR, the principal duties of the CAC are to ensure that the tax proceeds have been expended for the purpose set forth in the Measure RR ballot language and to provide a report on the independent audit conducted pursuant to the ballot language and the JPB Resolution which placed Measure RR on the ballot.

The CAC is composed of nine members to represent the City and County of San Francisco and the Counties of San Mateo and Santa Clara. Under the CAC's charter, as amended by the JPB through Resolution No. 2022-03, the CAC serves as the independent oversight committee for the Measure RR sales tax. In its capacity as the independent oversight committee, the CAC is responsible for verifying that the tax proceeds are invested in a way that is consistent with the purpose of the tax by:

- Receiving the JPB's annual audit report on receipts and expenditures of Measure RR tax proceeds;
- Holding a public hearing; and
- Issuing an annual report to provide the public with information regarding how the tax proceeds are being spent.

The Board of Directors of the JPB is responsible for the prioritization and distribution of funds received pursuant to the provisions of Measure RR. The independent audit conducted by the JPB and the CAC's report is intended to provide additional accountability with respect to the expenditure of these proceeds by the JPB. The CAC received the audit on March 10, 2023 and the CAC held a public hearing on the report on March 15, 2023.

The CAC finds that the Independent Auditor's report appropriately presents the Measure RR revenues and expenditures, as contemplated by the ballot language, for the fiscal period ended June 30, 2022. In addition, the CAC is pleased with the process by which the audit was conducted and with the outcomes of the Independent Auditor.

II Purpose of Measure RR

Measure RR levies a one-eighth (1/8) of one percent (0.125%) retail transactions and use tax for a period of thirty (30) years in the City and County of San Francisco and the Counties of San Mateo and Santa Clara, and is the first and only dedicated funding for Caltrain. The purpose of Measure RR is to fund the operating and capital expenses of the JPB rail service and to support the operating and capital needs required to implement the Service Vision adopted by the JPB on October 3, 2019, as part of the Caltrain Business Plan.

In accordance with the Board of Directors of the JPB's Resolution No. 2020-41, the tax revenues from Measure RR will be prioritized as follows

- To support the operation of Caltrain service levels throughout the corridor from San Francisco to Gilroy. The required support includes the maintenance of equipment, infrastructure, and system necessary to sustain and expand the service.
- To support the infrastructure, rolling stock, and capital projects necessary to advance the expansion of the Caltrain peak hour service.
- To develop and implement programs to expand access to the Caltrain service and facilitate the use of the system by passengers of all income levels.
- To help leverage other local, regional, state, and federal investments to advance capital projects necessary to implement the Caltrain Business Plan’s 2040 Service Vision, adopted by the JPB on October 3, 2019.
- To provide the JPB with a steady stream of funding to support the annual operating, maintenance, and capital needs of an electrified Caltrain service with increased frequency and capacity.

III Audit Findings

The JPB’s annual audit report on receipts and expenditures of Measure RR tax proceeds for the Fiscal Year ended June 30, 2022 was provided on December 22, 2022 by Brown Armstrong, CPAs, an independent accounting firm. This firm has several years of experience in conducting independent audits of the financial statements of the JPB. In its audit, Brown Armstrong, CPAs provided what is known as an unmodified opinion (what is often referred to as a “clean” opinion) on the Measure RR financial statements as prepared by the JPB staff. The CAC held a public hearing on the audit report on March 15, 2023, and a copy of the audit report is attached as Appendix A.

III.a Receipt of Funding

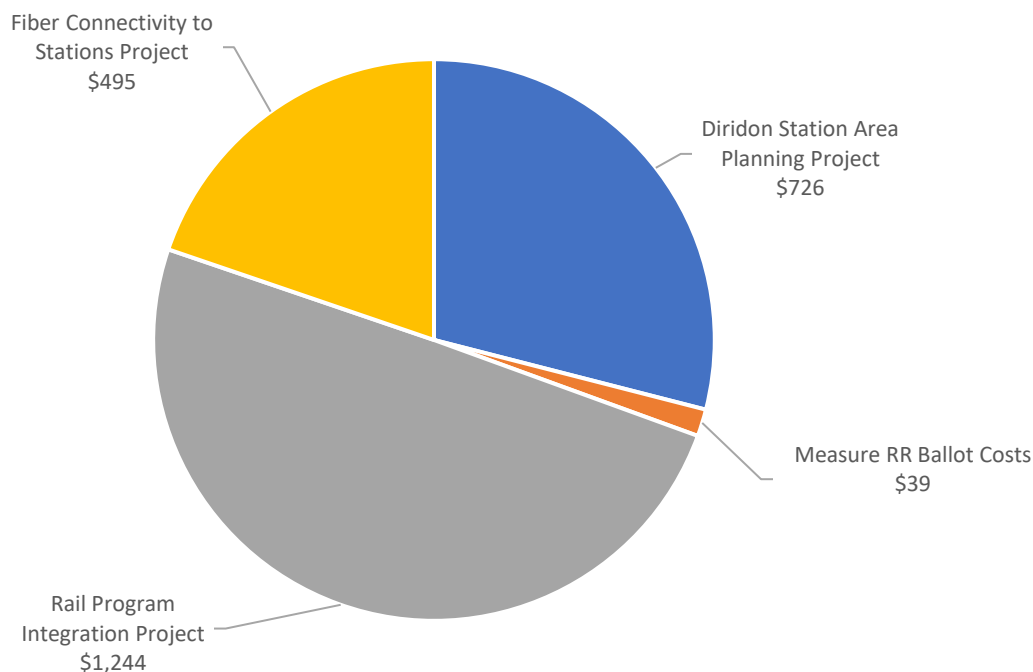
A total of \$112.6 million in Measure RR transaction and use tax was realized and recorded in Fiscal Year 2022. \$91.0 million was received prior to June 30, 2022 and \$21.618 million was received in July and August of 2022.

III.b The JPB Expenditures of Measure RR in Fiscal Year 2022

The JPB Measure RR revenues were spent on supporting the JPB in several capital projects and in operating areas. Measure RR generated \$112.6 million tax in tax revenues for the JPB, and an additional \$22,854 was generated in Interest Income.

Expenditures totaled \$2.5 million in Fiscal Year 2022 as shown in Table 1 below

Table 1: the JPB Expenditures (in thousands)



The remaining funds, totaling \$110.1 million were allocated as follows:

- \$60.0 million was reserved for the Peninsula Corridor Electrification Project (PCEP), in the event that efforts to obtain the funding from external sources was unsuccessful (in early 2023 the state allocated sufficient funding for the PCEP project, so the \$60.000 million reserved funds are available for other funding);
- \$20.0 million was reserved for undesignated future capital expenditures;
- \$12.9 million was committed for capital projects, including additional costs for the Rail Integration Project Program (\$3.4 million), State of Good Repair (SOGR) projects (\$2.0 million), and Grade Crossing Improvement Construction (\$1.0 million); and
- \$17.3 million for FY 2023 Operations.

IV The JPB Expenditures and Consistency with Measure RR Core Principles

The expenditures listed below adhere to the principles of Measure RR.

1. The largest share of expenditures was for the Rail Program Integration and Transition (\$1.2 million). The objective of this program is to focus on identifying, defining, and implementing the integration of work necessary to support Caltrain's transition to electrified service. As part of the Program Integration, the Rail Activation effort will ensure that each element of the activation work is accomplished in accordance with the following phases: commissioning, acceptance, pre-revenue service, safety certification, and overall Electrified Revenue Service plan and objectives.

2. The second largest share of expenditure was for the Diridon Station Area Planning (\$0.7 million). The objective of this plan is to continue to advance the study of the Diridon Integrated Station Concept Plan (DISC). This is a collaborative effort among Caltrain, the California High-Speed Rail Authority, Santa Clara Valley Transportation Authority, Metropolitan Transportation Commission, and the City of San Jose, to establish an implementation plan that charts out a strategy for the program of projects that will comprise and enable DISC to develop the Diridon Station as a world-class transit center.
3. The third largest share of expenditure was for the Fiber Connectivity to Stations (\$0.5 million). This program will connect Caltrain's passenger stations with a Very High Frequency (VHF) voice radio system to Caltrain's Fiber Backbone network. Currently, Caltrain is using AT&T leased line for the VHF voice radio system to communicate to the train engineer and conductors. By migrating these communication lines to Caltrain stations and radio system from AT&T's system to Caltrain Fiber Backbone network, it enables Caltrain to reduce expenditures and increase reliability.

V. Future Allocations of Measure RR

Although this report is intended to cover the 2022 Fiscal Year, it is important to provide a context for future allocations of the funding. When Measure RR was passed by the voters of the three counties, Caltrain's Operating Budget was relatively healthy, thanks to one of the highest Fare Recovery Ratios in the country (over 70%). Since the pandemic, though, Caltrain's ridership and fares have recovered very slowly, among the slowest in the region. In Fiscal Year 2023, all of the Measure RR revenues are dedicated to the Operating Budget in order to help cover expenses. On June 1, 2023, the Caltrain Board will consider its first Two Year Biennial Budget, covering Fiscal Years 2024 and 2025, which again dedicates all funding from Measure RR to the Operating Budget. The FY 2025 Budget also requires partial allocation of the \$60.0 million that was reserved for the PCEP project in FY 2022 in order to cover expenses (about \$37.3 million). The remainder of that reserve will be available to cover future operating and capital costs.

VI. Additional Information

- FY2022 Measure RR audit (Appendix A)

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