



Peninsula Corridor Joint Powers Board

**Citizens Advisory Committee**

**Report on Measure RR Tax Revenues and Expenses**

Fiscal Year 2022 (July 2021 – June 2022)

The Citizens Advisory Committee (CAC) of the Peninsula Corridor Joint Powers Board (JPB) is pleased to provide its annual report on the expenditure of tax proceeds from the Measure RR Funds. This report covers the Fiscal Year 2022, 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 representing 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 providing information to the taxpayers of the three counties in the following ways:

- Receive the JPB's annual audit report on receipts and expenditures of Measure RR tax proceeds
- Hold an annual public hearing on the audit report
- Issue an annual report of the CAC on the audit results 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 are intended to provide additional accountability with respect to the expenditure of these proceeds by the JPB.

The JPB's annual audit report on receipts and expenditures of Measure RR tax proceeds for the Fiscal Year ended June 30, 2022, was conducted 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 (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. A copy of the audit report is attached as Appendix A.

## Section 1. Measure RR Funding Priorities

In 2020, voters in the City and County of San Francisco, County of San Mateo, and County of Santa Clara approved Measure RR, which levies a one-eighth (1/8) of one percent (0.125%) retail transactions and use tax for a period of thirty (30) years in all three areas. This tax provides the first and only dedicated funding source 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 as 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.

## Section 2. Overview of Caltrain Funding Sources

In fiscal year 2019, prior to the pandemic, Caltrain received \$103 million from fare revenue, about 72% of its total revenue base. This made Caltrain one of the nation's transit systems with the highest farebox recovery. In the past, farebox revenue, though affected by downturns in the economy, was a more stable revenue source for transit agencies than sales tax, which is a major revenue source for many transit agencies in the Bay Area. However, during and since the pandemic, transit systems that used to rely heavily on ridership and fare revenues have been hit the hardest in the Bay Area, and have yet to see their revenue base return.

Caltrain's farebox revenue in 2021 and 2022 dropped to around \$33 million, less than 20% of total expenses. During that same time period, from 2020 – 2022, the federal government provided critical operating assistance to transit agencies across the nation, allowing them to continue providing service for those who needed it. In 2022, federal assistance to Caltrain totaled nearly \$116 million, more than the total annual fare revenue before the pandemic. As a result, Caltrain was able to budget a significant portion of the new Measure RR revenues for two critical capital reserves described in more detail below.

Unfortunately, federal funding for transit operations stopped after FY 2022. For Caltrain, passage of Measure RR, while not originally intended as the primary source of operating funds, has replaced fare revenue as the largest revenue component. Without Measure RR, the system could not operate even lifeline service. Since many office jobs have not yet returned to in-person work at pre-pandemic levels many people riding Caltrain rely on the system as their only means of transportation to jobs, school, and appointments.

While this audit covers Fiscal Year 2022, it is important to note that this trend continues and for Fiscal Years 2023, 2024 and 2025, all of the Measure RR revenues are dedicated to the Operating Budget to help cover expenses.

## Section 3. FY 2022 Revenues and Expenses

### **A. Measure RR Revenues**

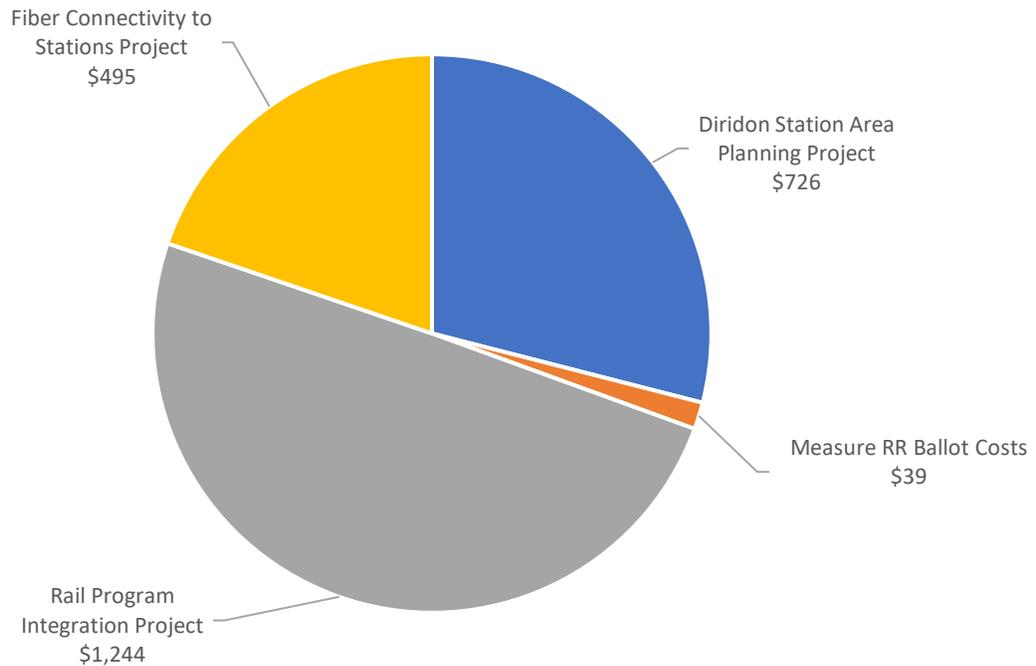
A total of \$112.6 million in Measure RR transaction and use tax was realized and recorded in Fiscal Year 2022. Of that, \$91.0 million was received prior to June 30, 2022, and \$21.6 million was received in July and August of 2022.

### **B. Measure RR Allocations and Expenditures**

The \$112.6 million in Measure RR funds received in 2022 were used as follows:

1. \$60 million was reserved for the Peninsula Corridor Electrification Project (PCEP), while waiting for the state to allocate the necessary funding to complete the project (in early 2023 the state allocated sufficient funding, so the \$60 million reserved funds will be used for future operating expenses);
2. \$20 million was reserved for undesignated future capital expenditures;
3. \$17.3 million was allocated for FY 2023 Operations;
4. \$12.9 million was committed for capital projects but as of yet is unspent. Those capital projects include 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
5. \$2.5 million was spent during Fiscal Year 2022 for five capital programs, as shown in the figure below.

**Figure 1: Measure RR expenditures (in thousands)**



**C. Expenditure Detail and Consistency with Measure RR Core Principles**

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

1. 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. Additional funds for this program were committed in 2022 but not spent.
2. 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. 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.

4. Measure RR Ballot Costs (\$39k) – A small amount of funds were spent for remaining costs related to putting Measure RR on the ballot.

#### Section 4. Future Measure RR Allocations

As mentioned previously, for the next three fiscal years, likely through FY 2025, Caltrain anticipates that all Measure RR proceeds will be needed to subsidize the operating costs of the railroad. Without passage of Measure RR and the ability to use the funds for operating service, the agency would not be able to continue to operate, even as the long-awaited electrification of the railroad is anticipated by September 2024. Using the funds to subsidize the operating budget, at least in the short-term, will allow Caltrain to continue to provide much needed service for those who have no choice, and to meet the changing needs of commuters who come back to the service as in-person work policies evolve and commute traffic increases. Like other Bay Area operators, Caltrain staff continues to advocate for external funding from the state and to consider other potential regional solutions.

Attachment: FY2022 Measure RR audit (Appendix A)

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