Strategic Financial Plan Update

Finance Committee Meeting
January 22, 2024

AGENDA

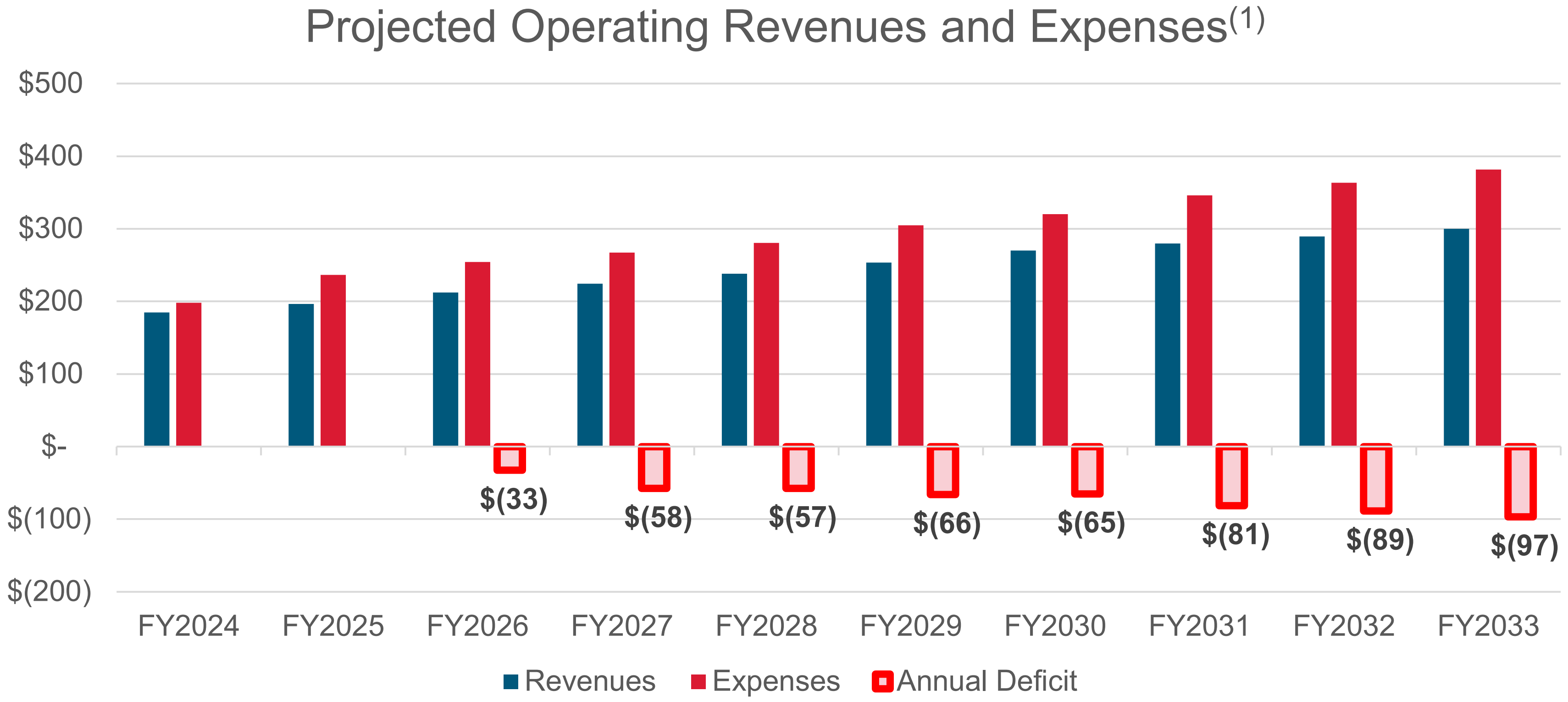
- 2023 Strategic Financial Plan
- 2024 Strategic Financial Plan
- Key Drivers
  - Ridership
  - Farebox Revenues
  - Service Levels
  - Electric Costs
  - Maintenance of Equipment
  - TIRCP Reimbursement
- Revenues vs. Expenses
- Importance of Ridership
- Key Take-Aways
- Next Steps and Recommendations

Strategic Financial Plan – April 2023

- **In April 2023, staff presented Caltrain's Strategic Financial Plan (SFP) and received Board guidance on the underlying assumptions and proposed cost management strategies.**
- **The objective of the SFP was to project operating revenues and expenses over the next ten years and evaluate what steps could be taken to buy time for ridership to return.**
- **Key take-aways included:**
  - Successfully funding operations in FY24 and FY25
  - Maintaining current service levels with no fare increases in FY24 and FY25
  - Recognizing future costs of O&M of electric service, including cost of electricity, create significant long-term financial pressure
  - Including up to $200 million in Capital investment over the next 10 years
  - Executing option on rolling stock, saving over $120 million
  - Monitoring and refining operating cost forecasts as actuals are known

2023 SFP - Projected Operating Deficit

- **Beginning in FY26, operating deficit of ~$545M was projected over the next ten years, reaching nearly $100M annually by FY33.**
  - FY25 Budget included $36M of Measure RR revenues, previously advanced to PCEP, and $15M annually for SOGR/Capital beginning in FY26.
  - Did not include $25M of State funds from MTC expected to be received in FY26.



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2024 Strategic Financial Plan (SFP)

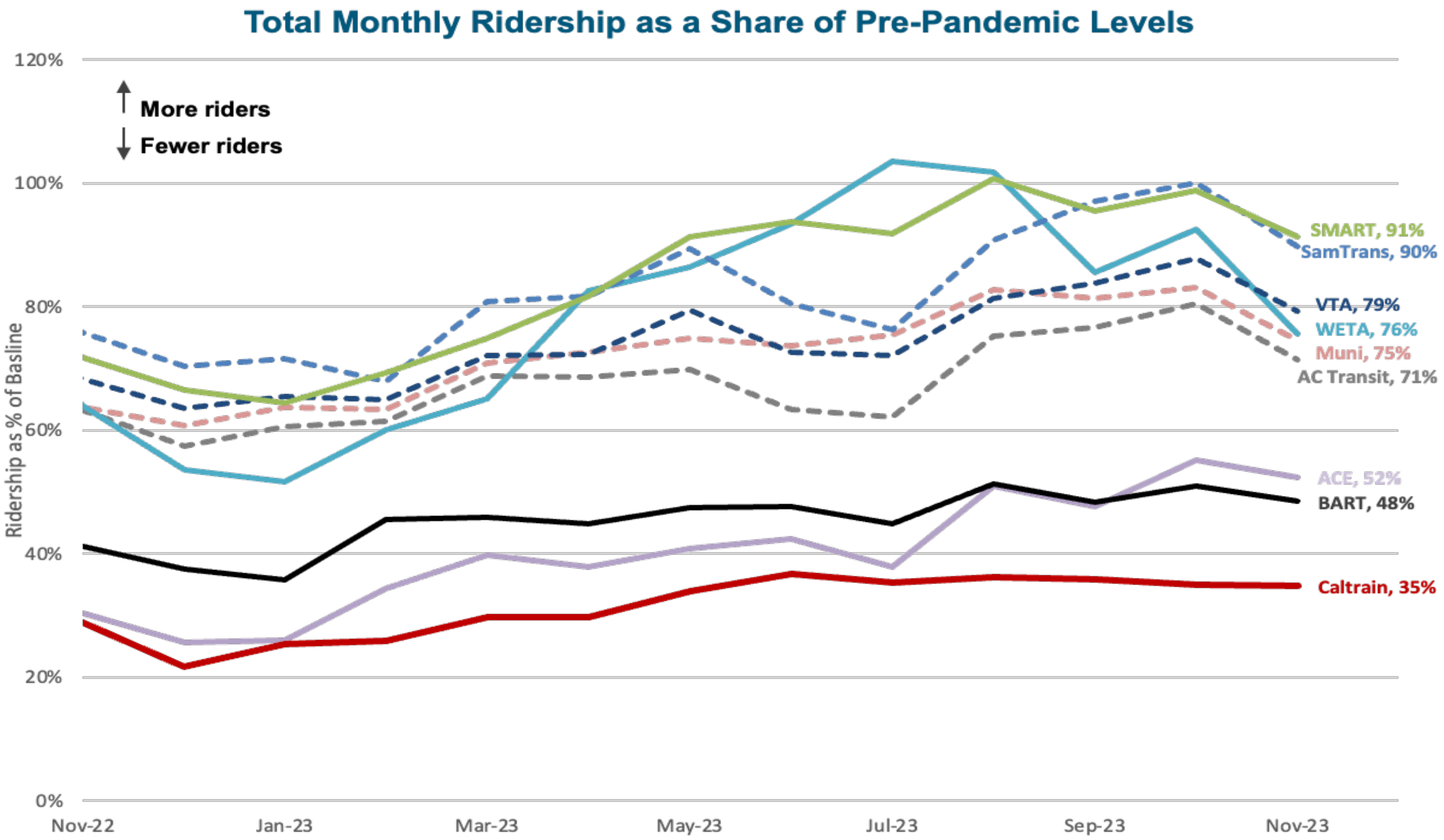
- **Since April 2023, staff continues to monitor and update the Strategic Financial Plan.**
- **The objective is to continue to refine the SFP as we learn more, additional data is obtained, and PCEP approaches in service date of September 2024.**
- **Key changes include updated:**
  - Ridership projections
  - Revenue and farebox forecasts
  - PCEP operating costs
- **Key take-aways include:**
  - Ridership growth remains slow and growth strategies are critical
  - Revenues are lagging, including Go Pass
  - Operating shortfall as soon as FY26 but incremental State funding remains critical
  - Costs have shifted but overall costs are in line with 2023 SFP
  - Dedicated additional long-term funding is still needed as soon as FY27 even with assumed growth in ridership and Measure RR

Key Driver – Ridership Trends

Ridership continues to lag. In FY19, there were 18.5M annual riders, compared to 5.1M in FY23.

Fiscal YTD Performance	Current Year Nov 2023	Pre-Pandemic Nov 2019	Current Year as % of Nov 19	Last Year Nov 2022	Current Year to Last Year
Total Ridership	2,489,651	8,159,969	**30.5%**	2,290,186	**8.7%**
Avg. Weekday	**20,581**	**70,884**	**29.0%**	**17,867**	**15.2%**
Avg. Saturday	7,554	16,071	47.0%	9,172	**-17.6%**
Avg. Sunday	6,023	11,530	52.2%	7,942	**-24.2%**

Key Driver – Ridership Trends

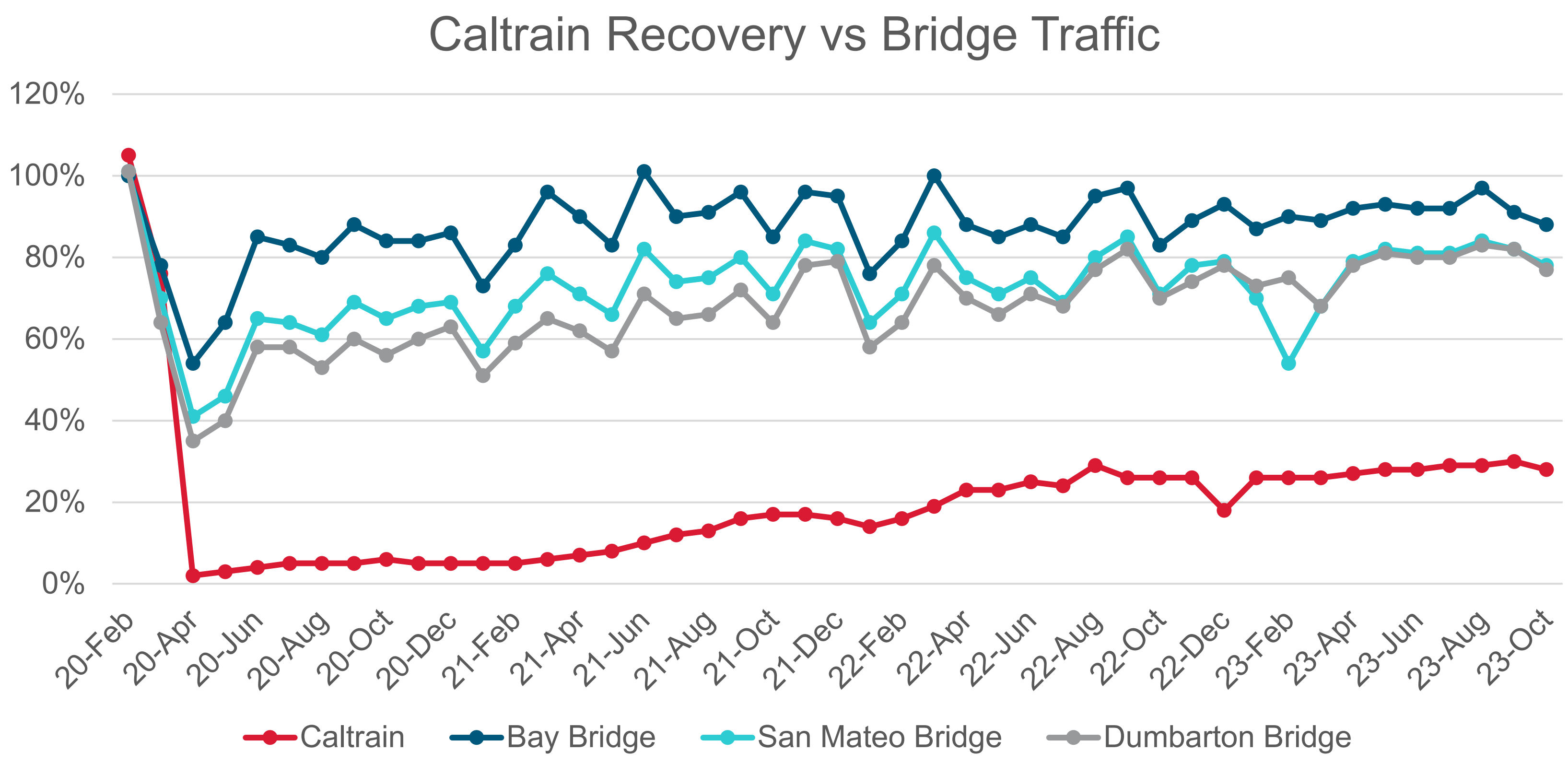


Caltrain has also faced some of the slowest relative recovery

Source: Executive Director Monthly Report January 2024.

Key Drivers – Ridership vs. Traffic

- **The relative recovery has remained about the same as last April.**



Volumes as of Oct. 2023

Bay Bridge = 88%

San Mateo = 78%

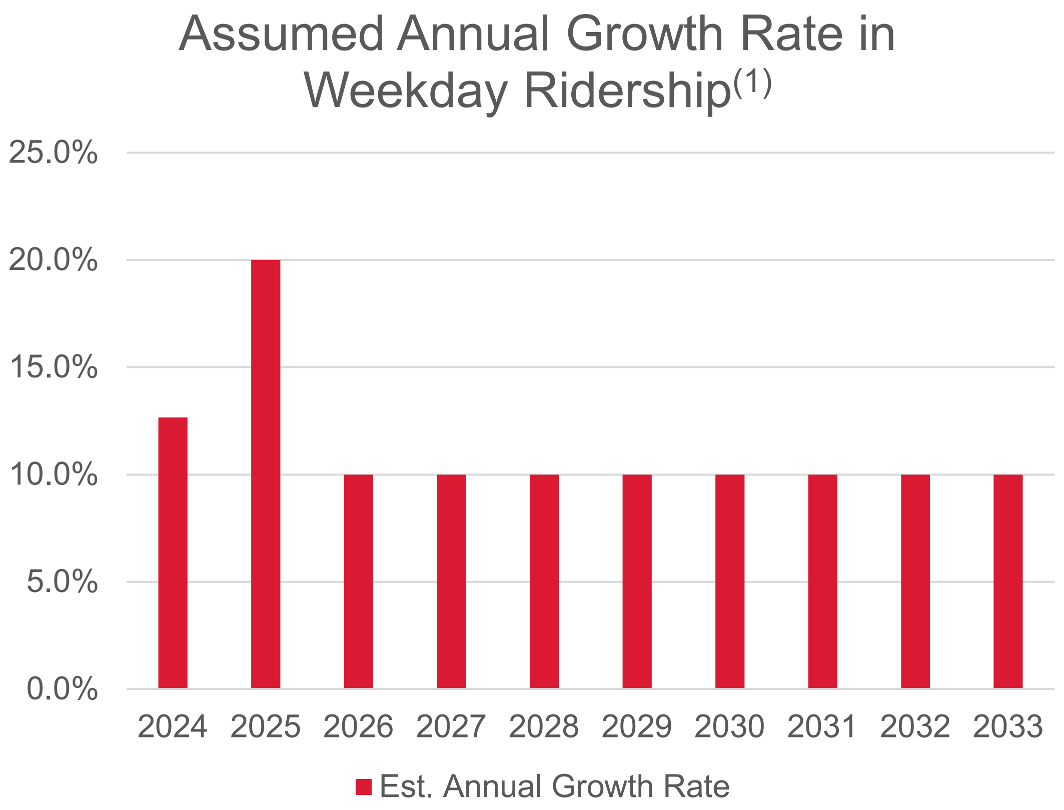
Dumbarton = 77%

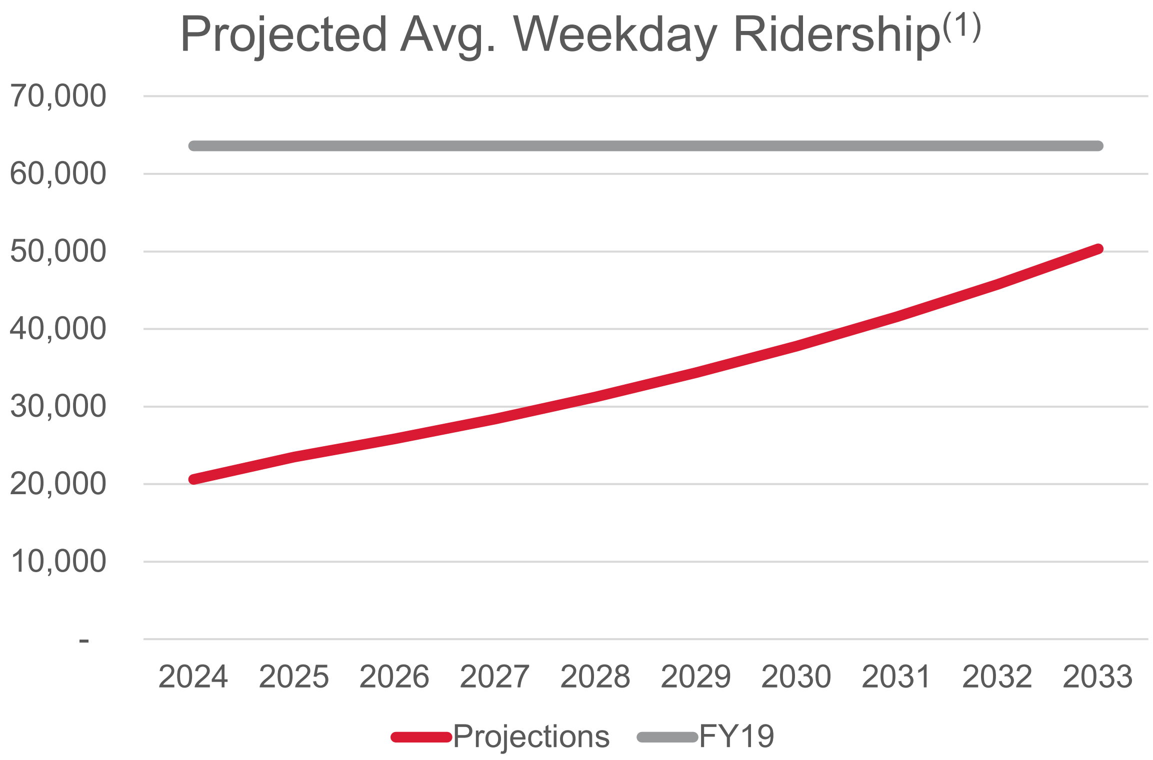
Caltrain = 28%

Source: Bay Area Council Economic Institute

Key Driver – Projected Ridership

- **Current assumption is 20% growth with electrification <u>and</u> 10% annual growth through FY33, resulting in avg. weekday ridership of 50,000 in FY33 or ~80% of 2019 levels (64K).**





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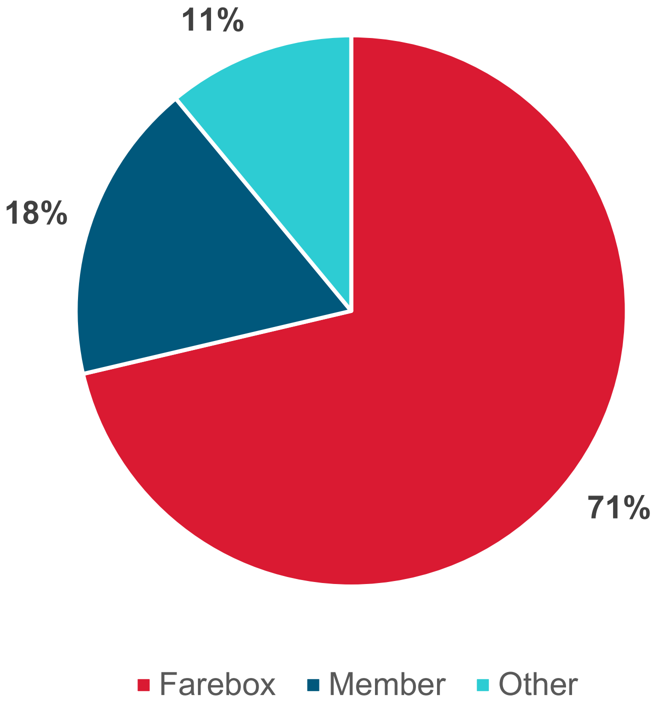
Key Driver – Farebox Revenues

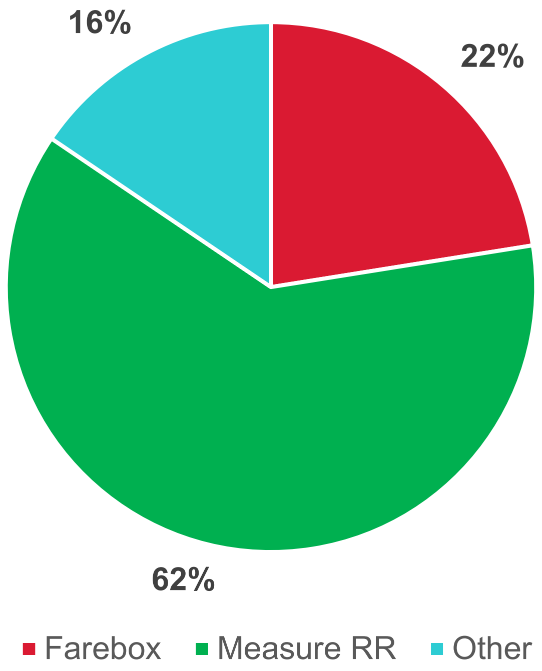
In FY19, total operating revenues were $142M with farebox (including GoPass) accounting for over 71%.

2019 Operating Revenues[1]



$225M Federal Aid (FY20 – FY22)

FY24 Operating Revenues (Budget)[1]

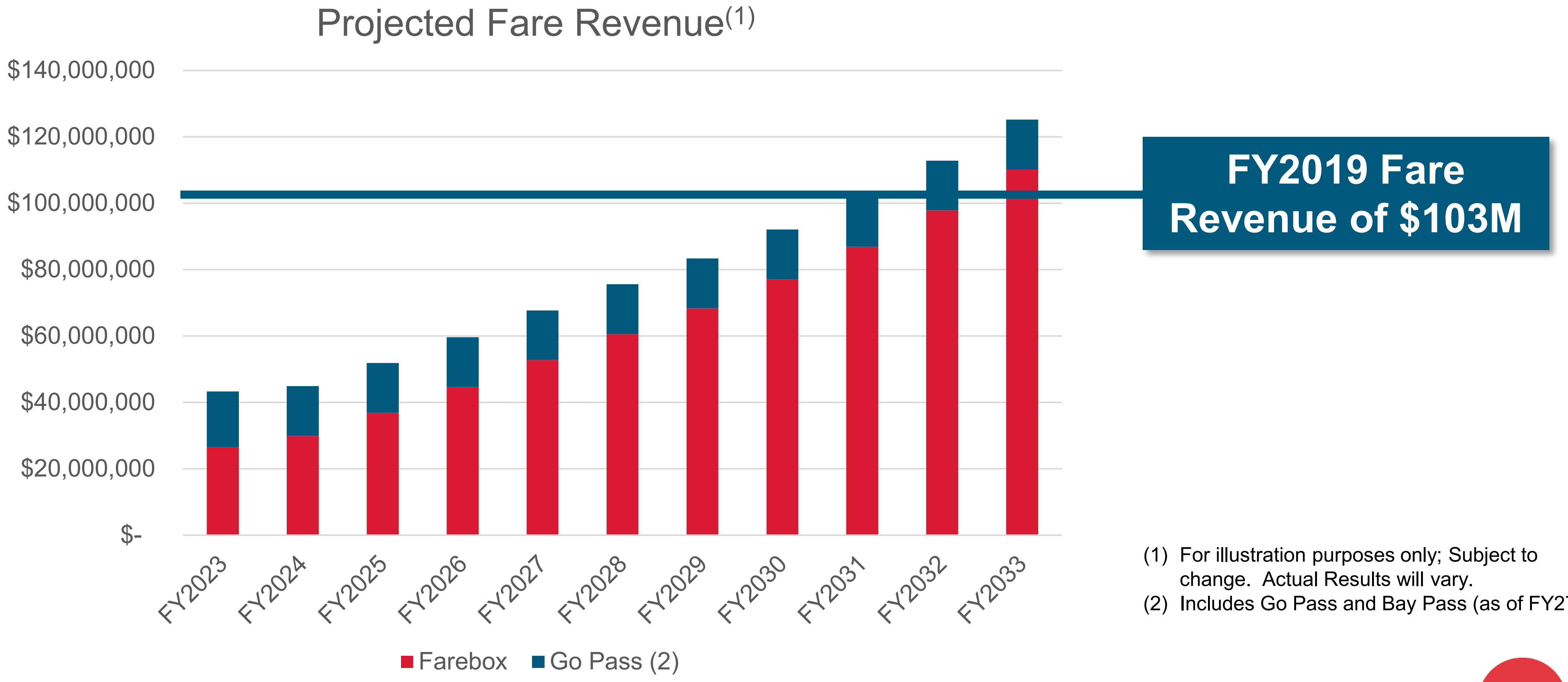


In FY24, projected operating revenues are $193M with farebox accounting for 22%.

(1) Other includes parking, shuttles, rental, operating grants, and SRA/LCTOP.

Key Driver – Farebox Revenues[1]

- **Fare related revenue is not projected to return to 2019 levels until ~FY31 or beyond[1].**



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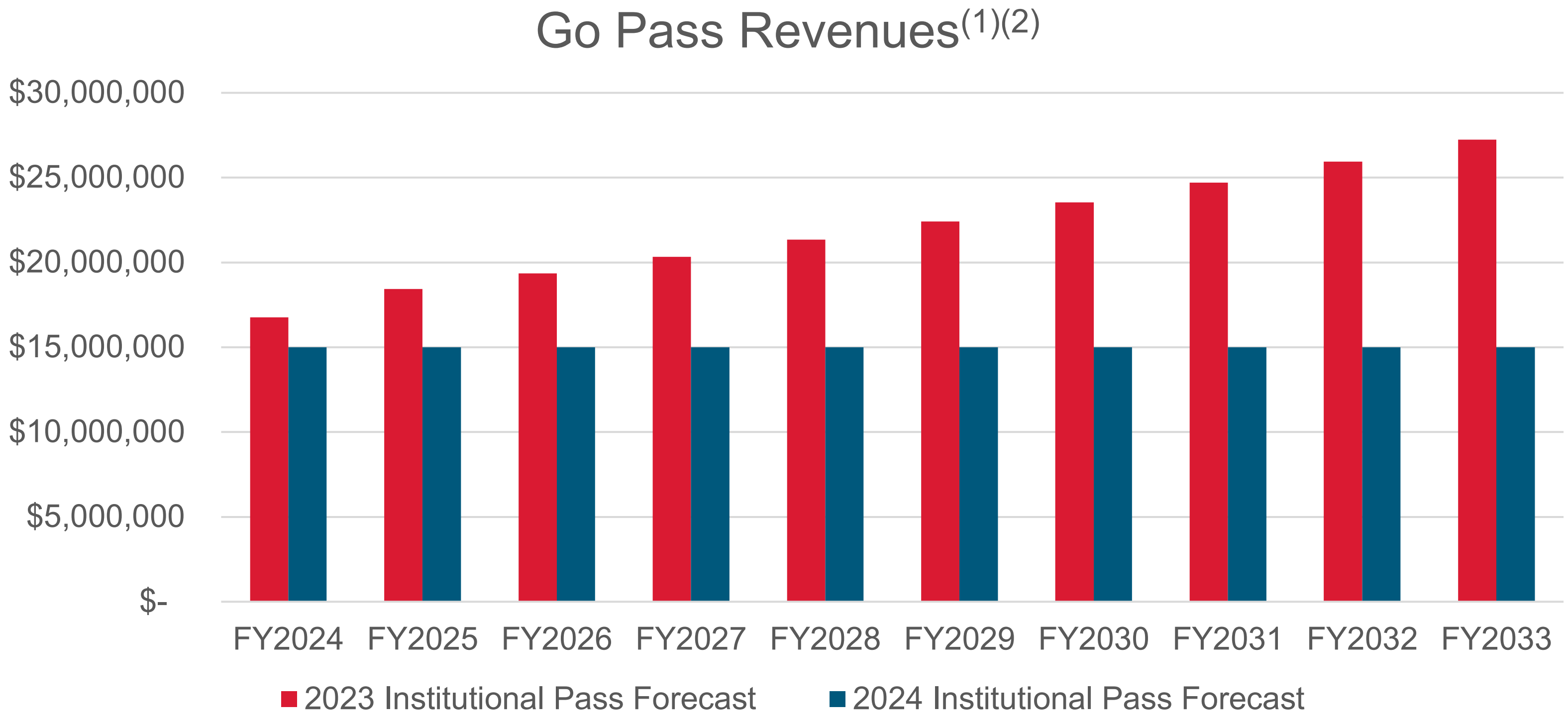
(2) Includes Go Pass and Bay Pass (as of FY27).

Key Driver – Go Pass Revenues(1)

- **Go Pass revenues are projected to decline by $70M from $220M to $150M over the next 10 years, putting significant pressure on the operating deficit.**
  - Significant downside risk exists for Go Pass given the economic environment.
  - Does not include Bay Pass which also presents significant risk to future Go Pass revenues.
  - A targeted and near-term strategy to preserve and grow Go Pass revenues is critical.



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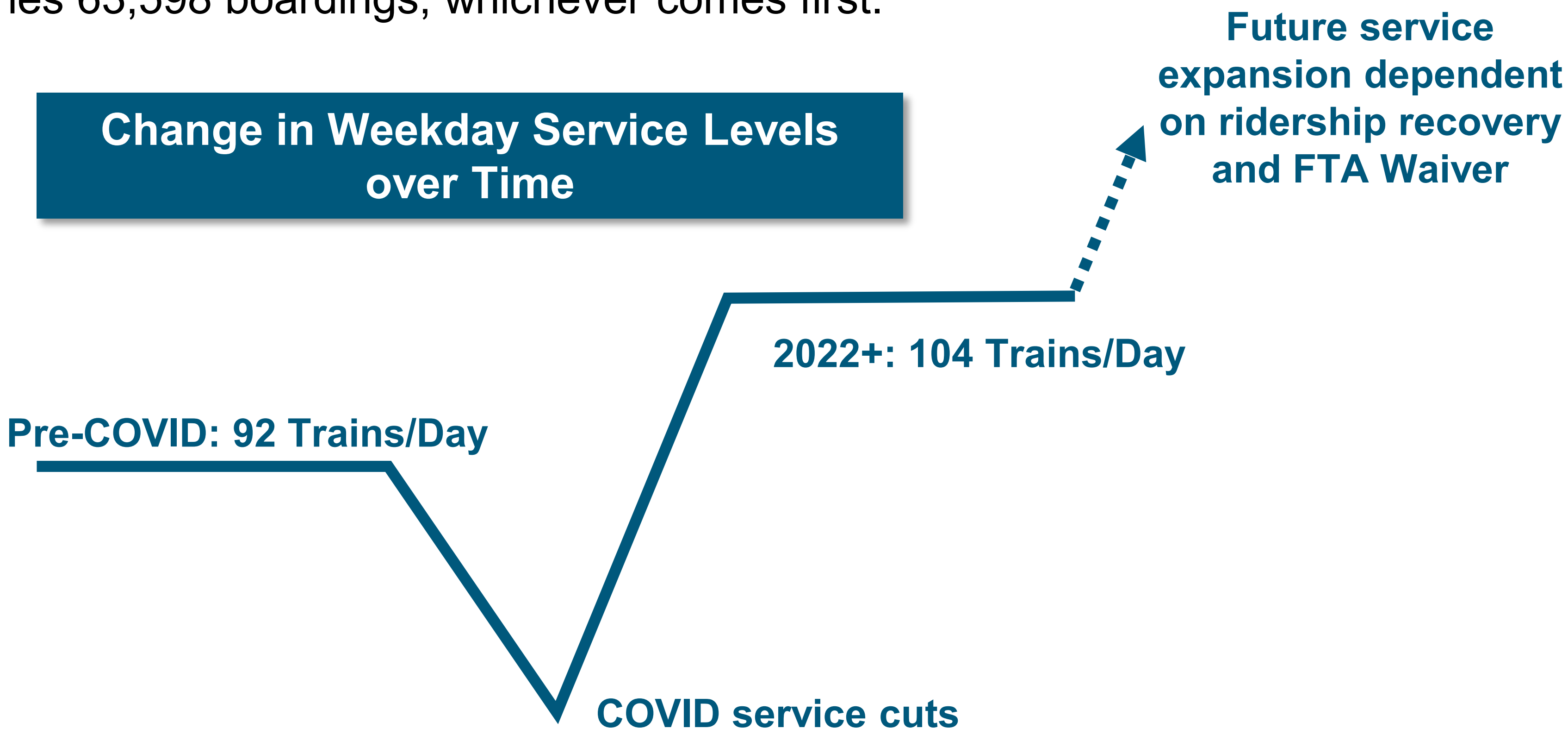
Key Driver – Service Levels

- **Consistent with the FY24 and FY25 Budget, Caltrain is currently expecting to run 104 tpd with 4 trains per peak hour while expanding weekend service to 66 tpd.**
  - On November 27, 2023, FTA approved a temporary waiver for three years or when average weekday ridership reaches 63,598 boardings, whichever comes first.



Key Driver – Assumed Service Levels

- **The Strategic Financial Plan assumed a gradual increase in service levels from 104 tpd (FY24) to 128 tpd (FY31) with the potential return of ridership.**
  - However, the ability to increase service is directly tied to Caltrain's financial wherewithal to do so.

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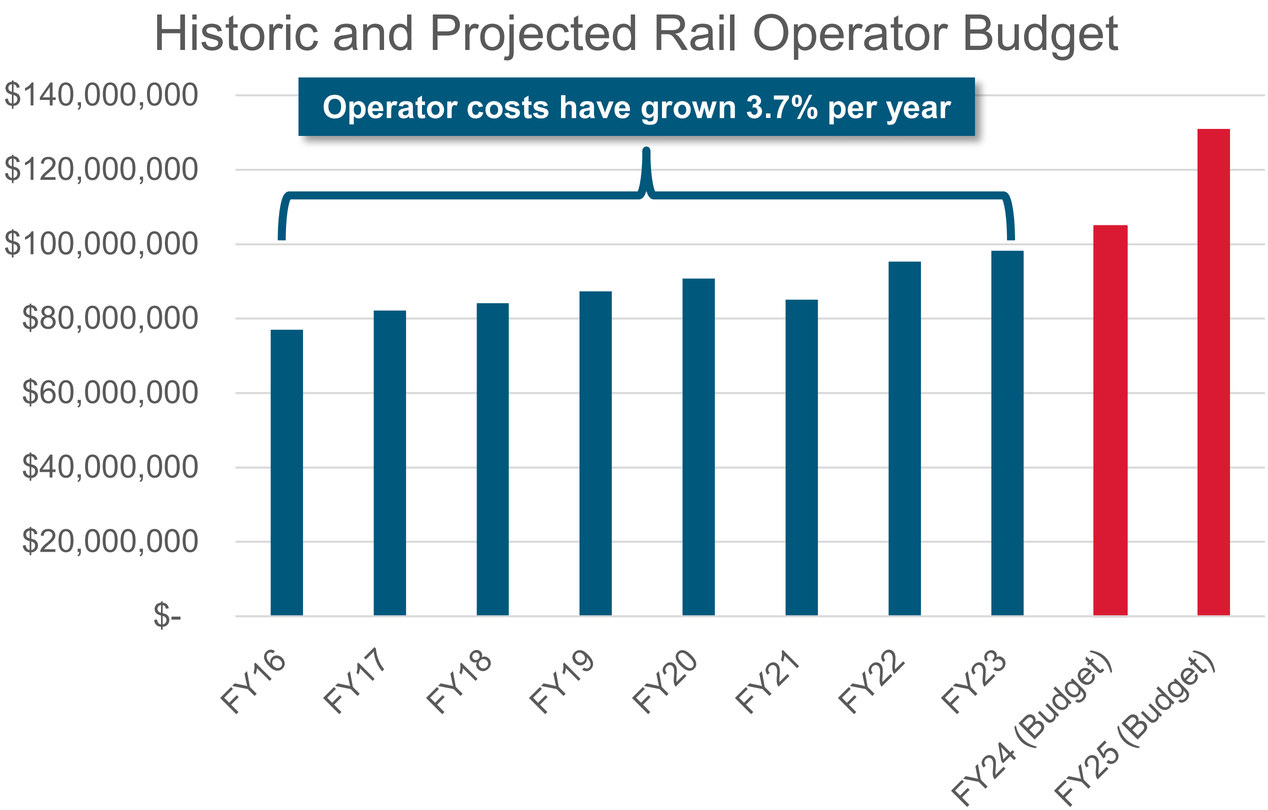
Key Driver - Rail Operator Budget

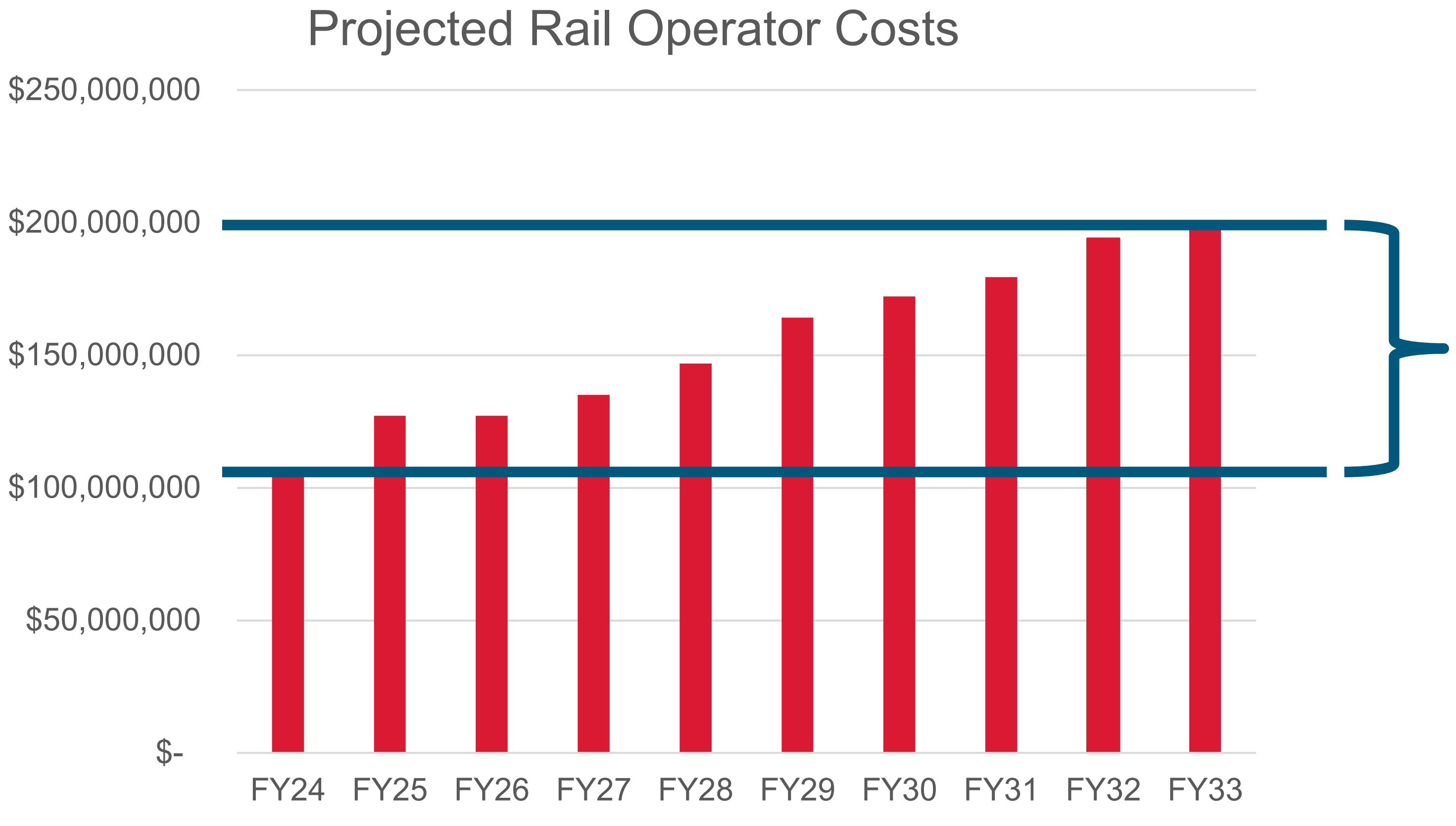
- **Rail operating costs were budgeted to increase from ~$105M (FY24) to ~$130M (FY25) due to electrification and Traction Electrification System maintenance.**



Significant increase in FY25 due to increased costs for electricity, Traction Electrification System maintenance, and Maintenance of Equipment (MoE).

Key Driver - Rail Operator Costs

- **Potential expansion of service and electrification operating costs will continue to put significant pressure on forecasted rail operating costs.**
  - Caltrain continues to review and optimize crewing based on projected electric service.



With the assumed expansion of service to 116 tpd in FY29 and 128 tpd in FY31, rail operator costs are projected to almost double over the next ten years.

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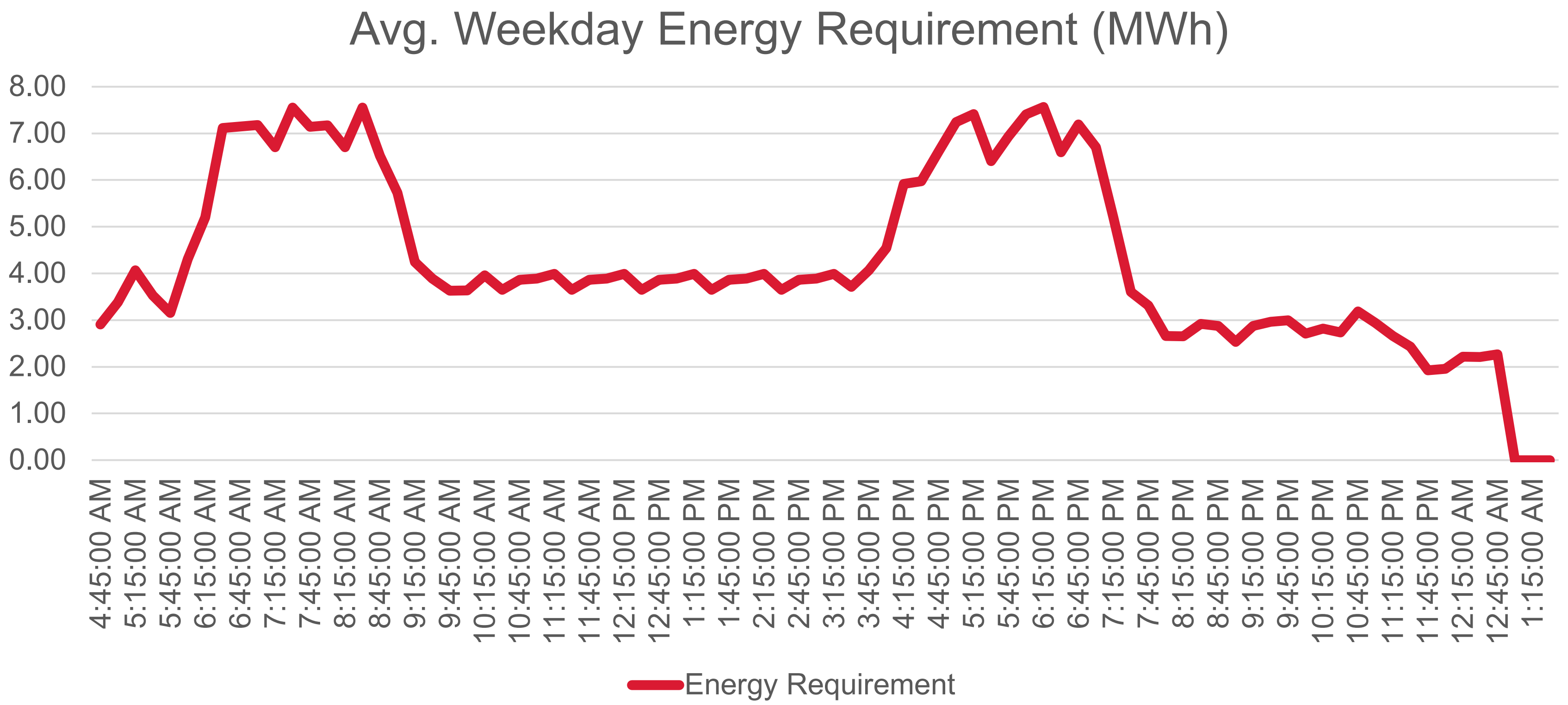
Key Driver - Electric Usage

- **Caltrain has significant exposure to the power market, and past volatility in electric rates creates substantial financial risk for Caltrain moving forward.**
- **Total electric costs include <u>both</u> power supply (CCA’s) and cost of delivery (PG&E).**
    - Regenerative braking will both be used the train system <u>and</u> go back to the utility.



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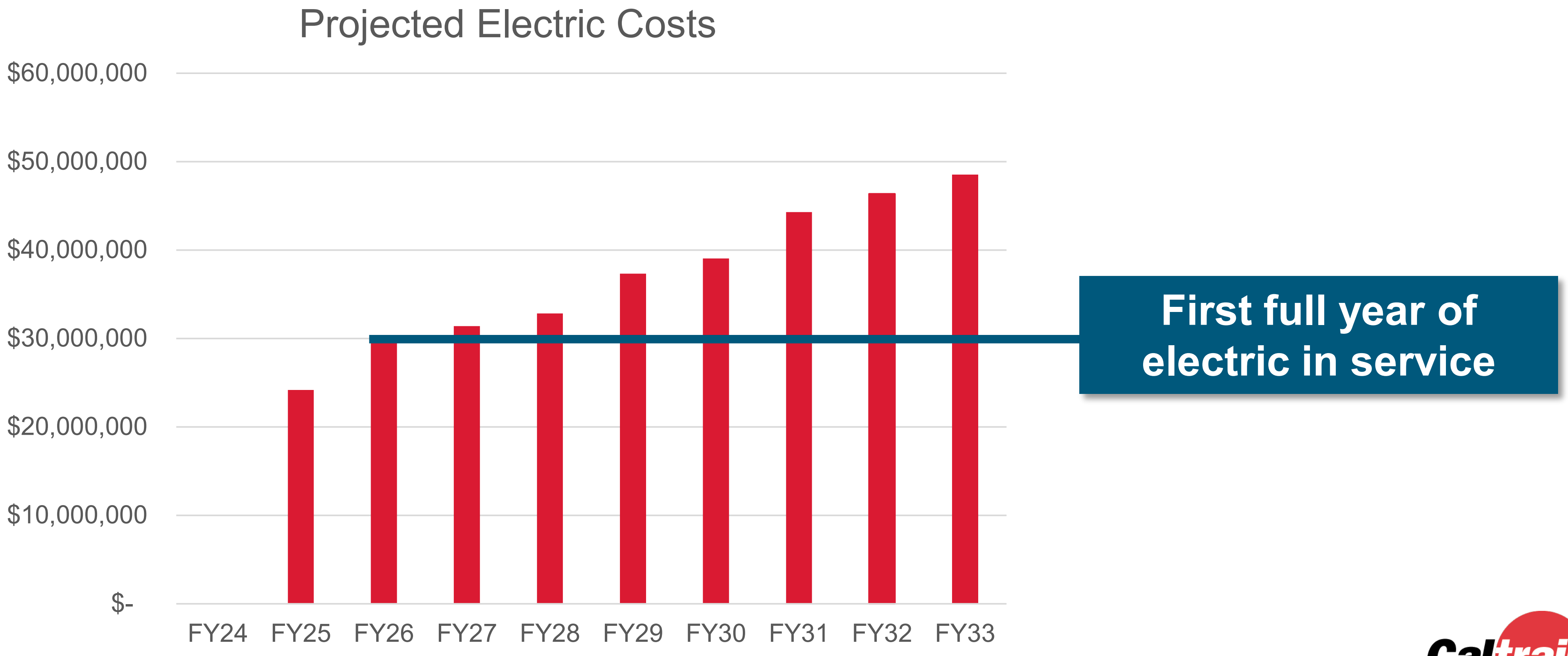
Key Driver – Electric Costs[1]

- **Annual electric costs could eclipse $30M[1] by FY26, the first full year of electric service, and will become Caltrain's largest operating expense after the Rail Operator.**
  - Caltrain will not know the full extent of projected electric costs until the trains are fully in service.



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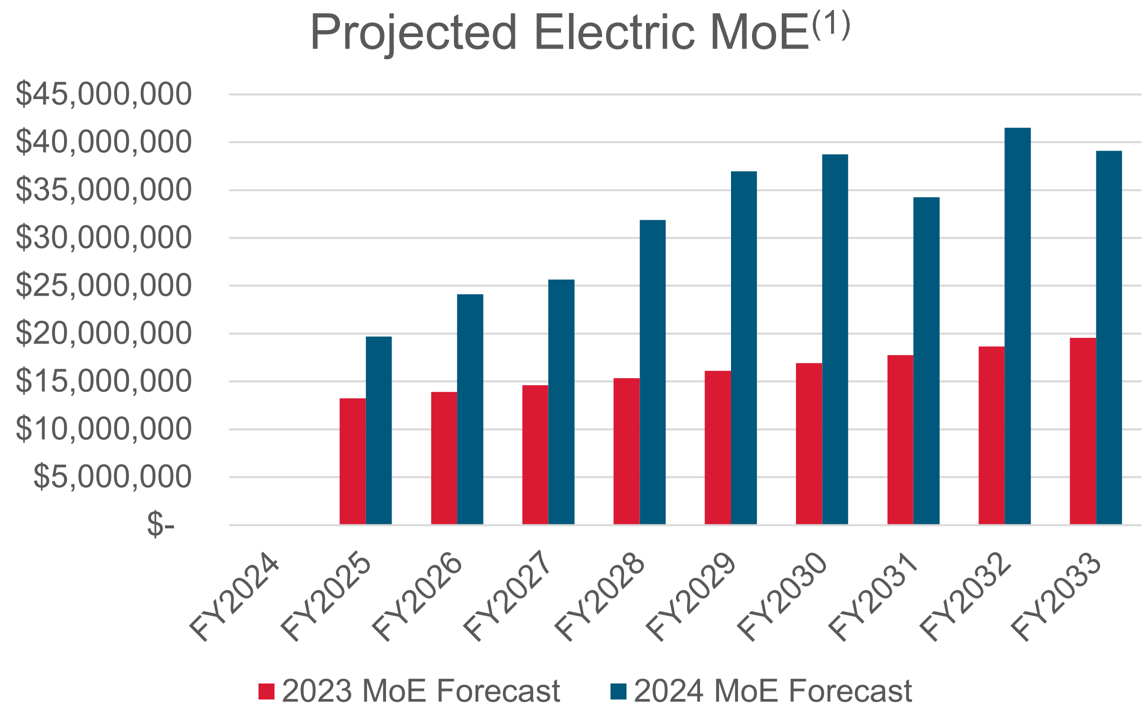
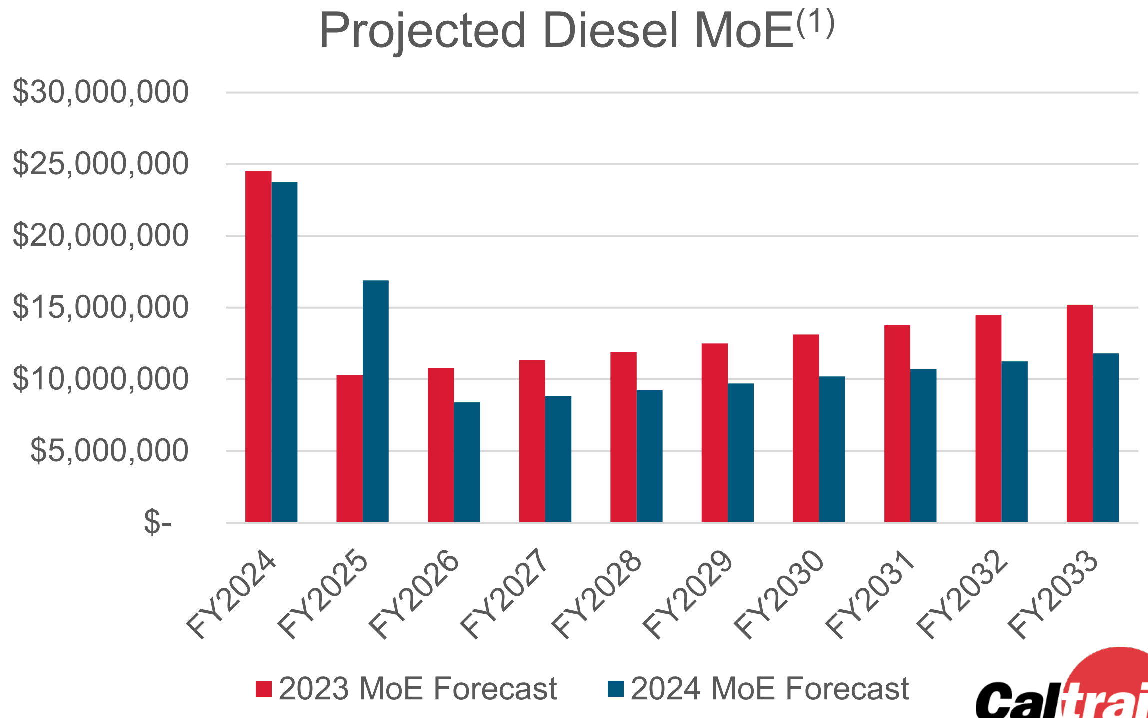
Key Driver – Energy Procurement Strategy (EPS)

- **Caltrain has made good progress on the EPS, but much work remains to be done.**
  - **Active dialogue with local Community Choice Aggregators (Peninsula Clean Energy and San Jose Clean Energy) as default energy suppliers.**
    - Caltrain has received positive preliminary feedback regarding energy content, costs/discounts, and CARB certification
  - **California Air Resources Board (CARB) administers the Low Carbon Fuel Standards (LCFS) program.**
    - Goal is to generate $10M annually in tax credits but final value is TBD
    - Value tied to power content and energy efficiency ratio
    - Currently evaluating the trade-off of existing products and confirming designation as “Heavy Rail”
  - **Pacific Gas & Electric (PG&E) is responsible for metering and delivery of power.**
    - Caltrain is seeking PG&E’s input on net energy consumption for billing purposes

Key Driver – Maintenance of Equipment[1]

- **Another large cost driver since April is Maintenance of Equipment (MoE).**
  - Significant increase in Electric MoE ($140M) based on YOY maintenance cost analysis on per train basis and an additional 4 trainsets in FY 2028.
  - @$1.2M to $1.5M per trainset (FY23$'s), maintenance on 23 trainsets is $27M to $34M annually plus major maintenance in years10, 20 and 30.





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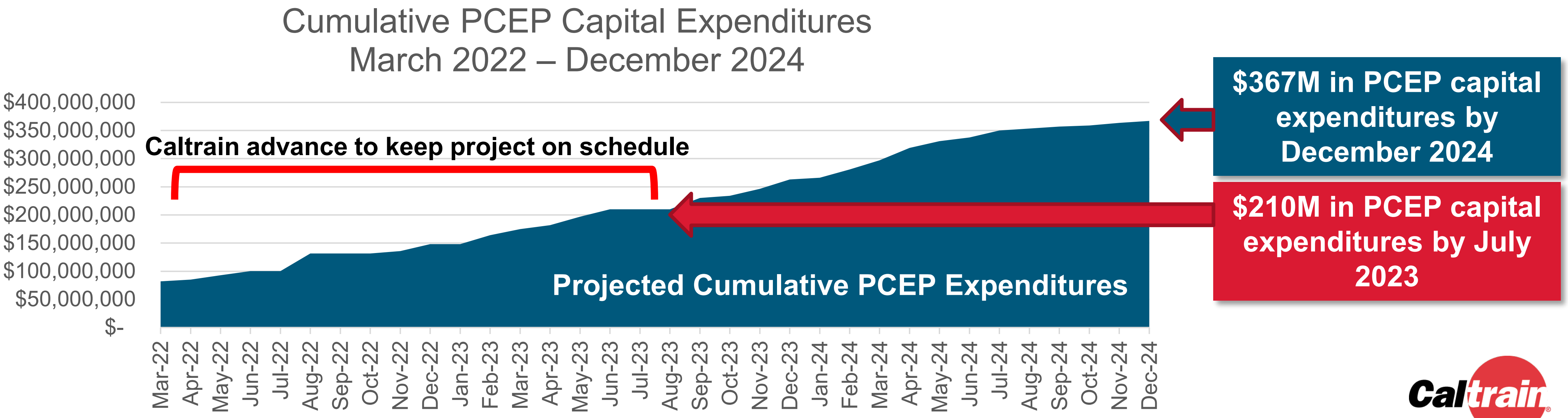
Key Driver - TIRCP Reimbursement

- **On January 31, 2023, Caltrain was awarded $367M by the State under the Transit and Intercity Rail Capital Program (TIRCP) to fund PCEP capital costs.**
  - TIRCP funds will 100% go to the PCEP project – there are no excess funds.
  - 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
  - The balance of $157M are expected to be spent on PCEP from August 2023 to December 2024.

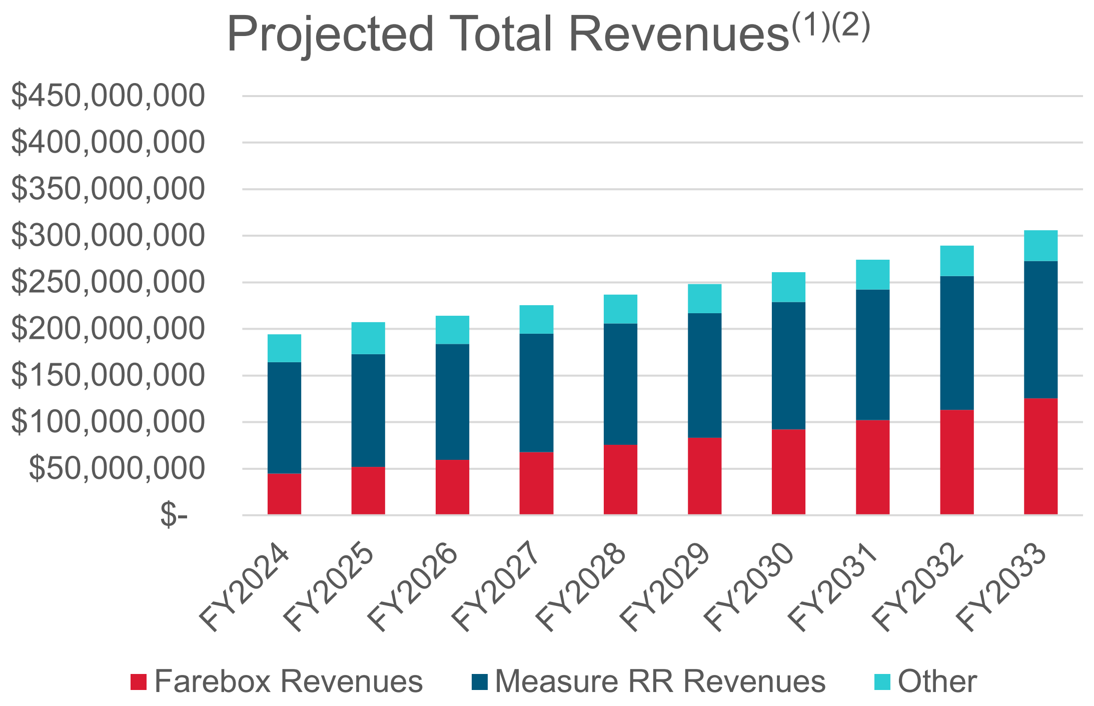


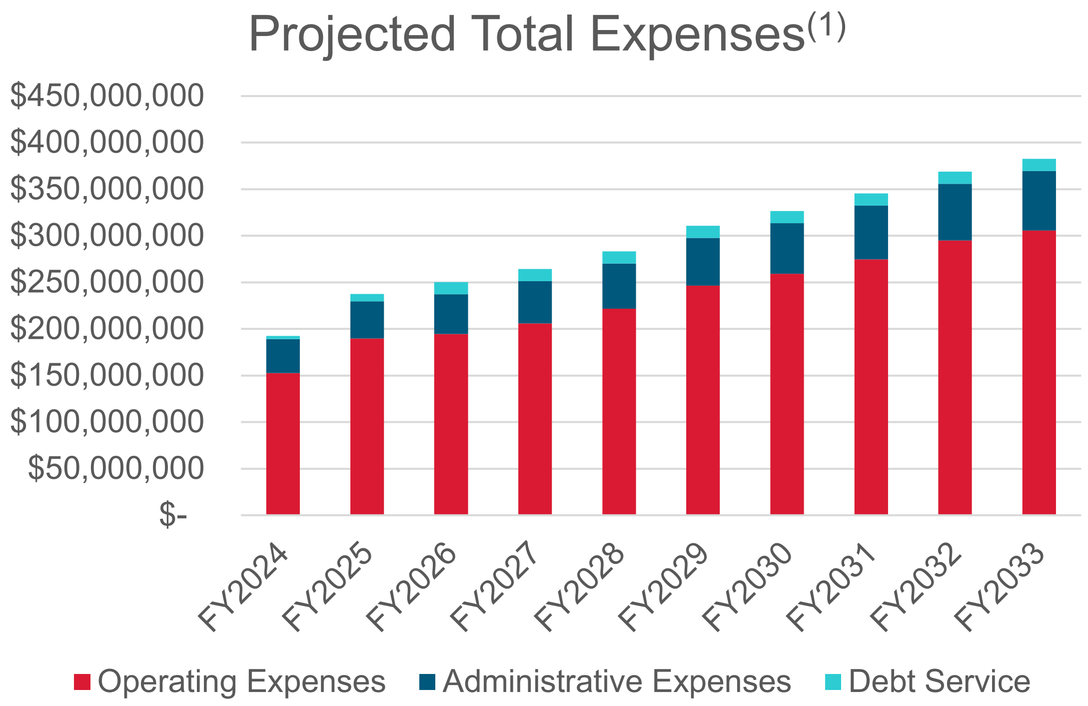
Key Driver – TIRCP Reimbursement

- **Caltrain has submitted its initial invoices for TIRCP reimbursement.**
  - **$52M of the $60M advanced from Measure RR operating funds has been submitted to the State with expected reimbursement by April 2024.**
    - $36.2M of the $60M operating funds are included in the FY25 Budget, leaving $23.8M for future operations.
  - **Reimbursement of the $150M advanced from bond proceeds has not been submitted yet.**
    - Caltrain's bond and tax counsel, in connection with the financial advisors, will have to review the restrictions on investment and potential use but likely restricted to capital uses.
  - **Reimbursement of $157M of expenditures beginning in August 2023 has begun.**
    - $37.3M of invoices have been submitted with expected reimbursement by April 2024.

Projected Total Revenues and Expenses(1)

- **Total revenues are projected to increase from ~$195M to ~$305M, but total expenses are projected to almost double from ~$193M to ~$380M due to the increased cost of operations(1).**





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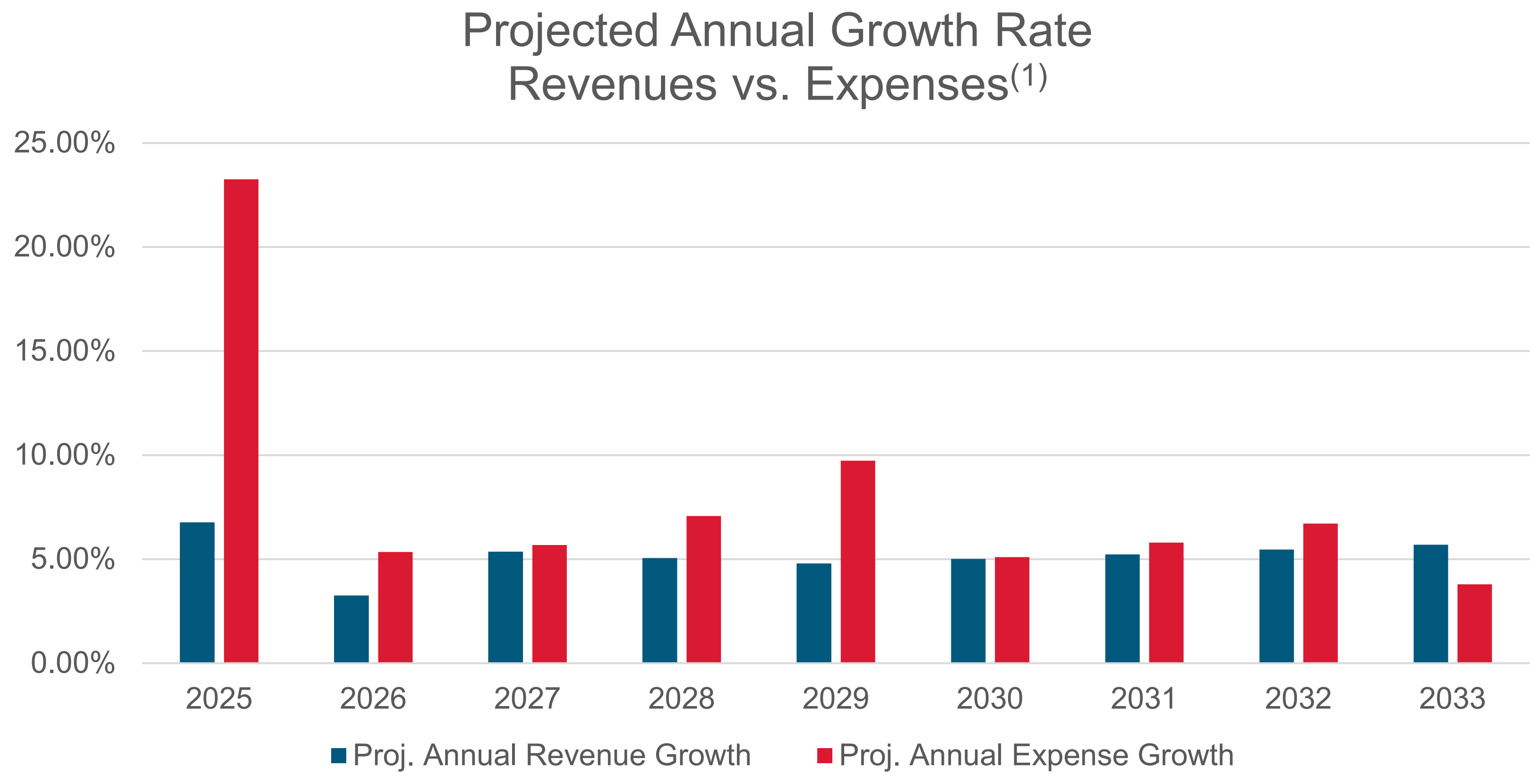
(2) Other includes: Parking, Shuttles, Rental, Operating Grants and LCFS.

Projected Revenues vs. Expenses

- **On average, annual revenues are projected to grow by ~5%, inclusive of 10% assumed growth in ridership FY26 to FY33, while expenses grow in excess of ~8%.**



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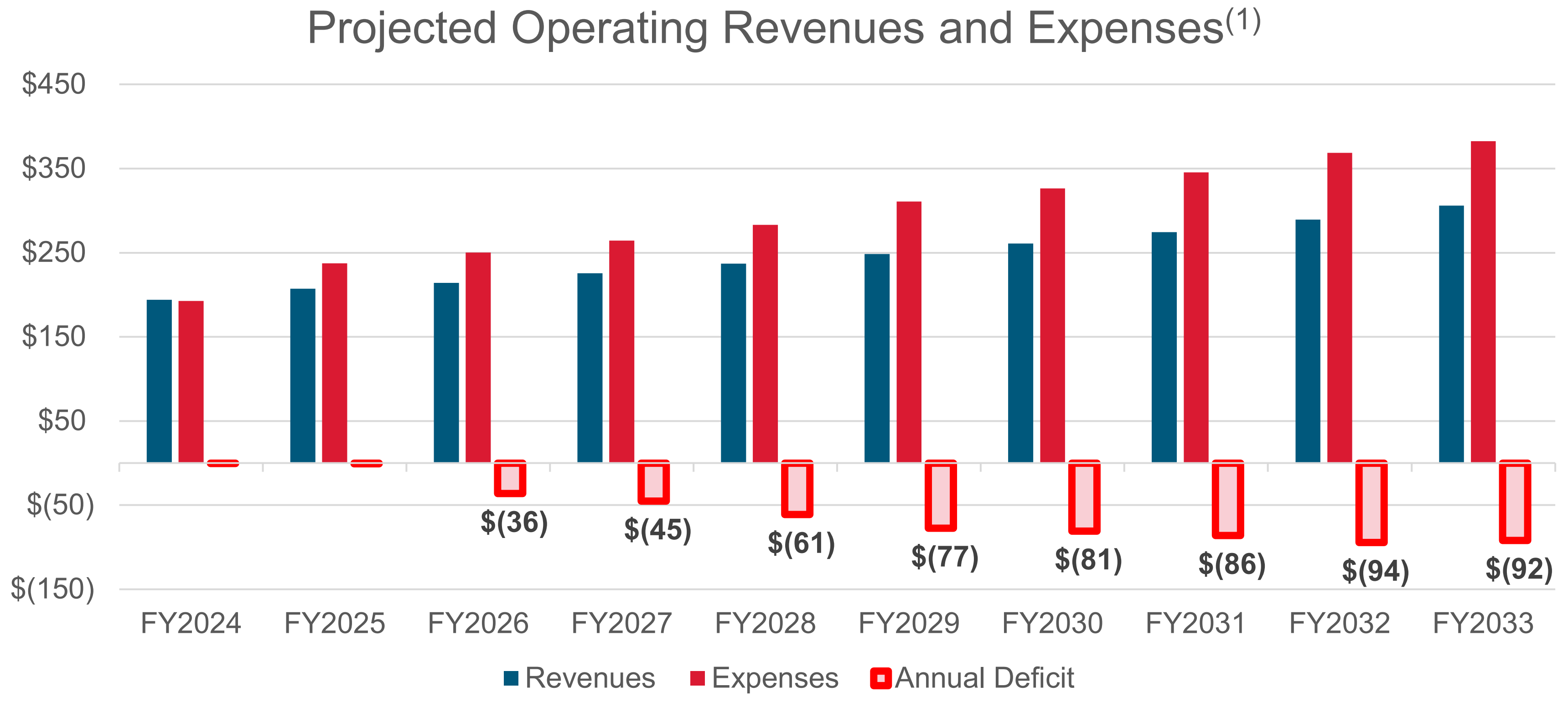
2024 SFP - Projected Operating Deficit

- **Projected Annual Operating Deficit ranges from $36M (FY26) to $91M (FY33).**
  - One-time revenues are offsetting short-term deficit (FY24/25) and does not include $25M in State funds from MTC in FY26.
  - Includes Measure RR allocation for SOGR/capital of $15M annually beginning in FY26.



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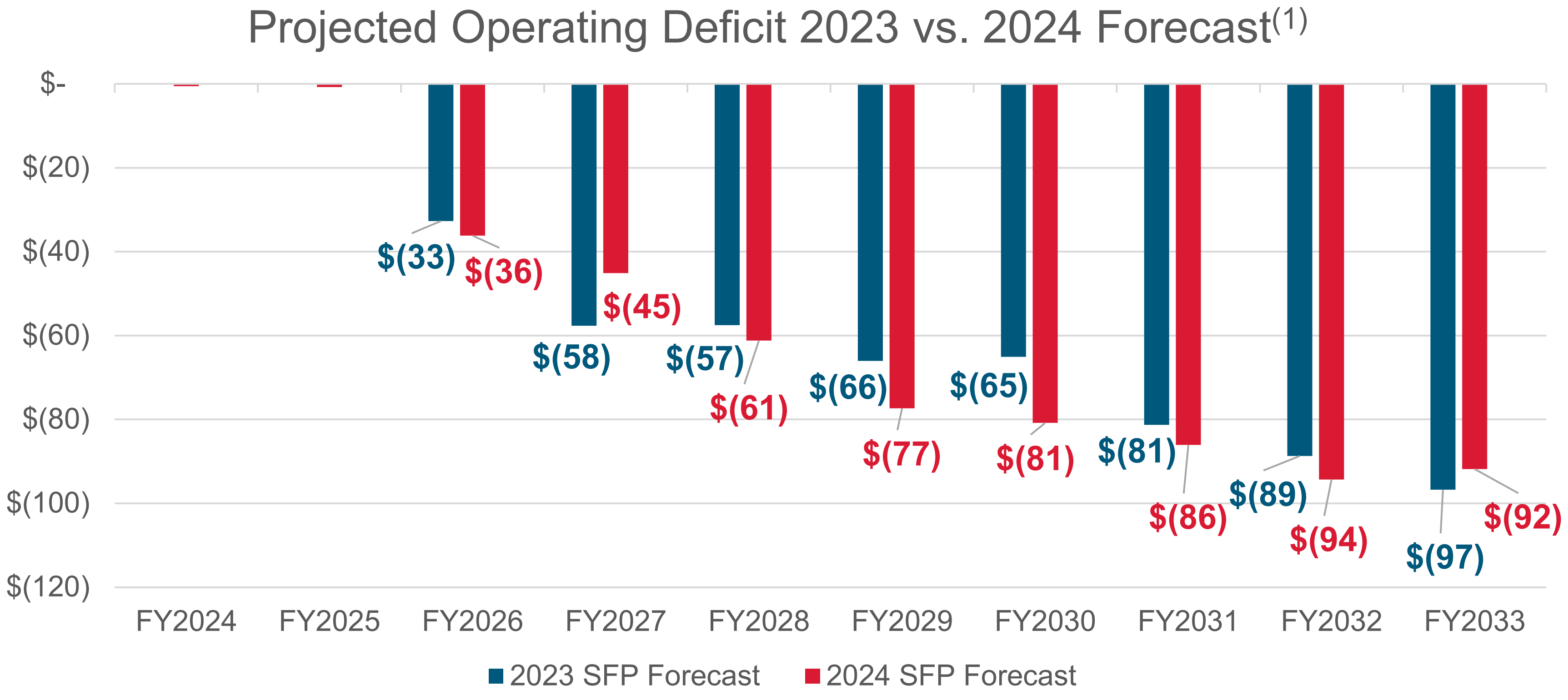
2023 vs. 2024 - Projected Operating Deficit

- **While the annual operating deficits are in line with last April, the total projected Operating Deficit of $575M through FY33 has increased by ~$30M.**



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Summary - Key Revenue and Expense Drivers[1]

- **While certain individual line items on revenues and costs have been adjusted to reflect more recent estimates, overall impact on the projected deficit is an increase of ~$30M from $545M to $575M or roughly 5.5% of the 2023 SFP results [1].**
  - Assumed incremental increase in farebox is being offset by decrease in institutional pass revenues.
    - Farebox and Pass forecasts may still be high.
  - Decrease in projected Measure RR is due to lower long-term growth assumption (2.5% vs 3.0%).
  - More granular estimate of the PCEP operating costs.
  - While Caltrain used a conservative forecast for the Overhead Catenary System (OCS) Maintenance cost last April, much of those savings are now being used to defray higher forecasts in Maintenance of Equipment (MoE) for the new vehicles and the cost of electricity.

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SUMMARY OF KEY FINANCIAL DRIVERS FY24 TO FY33			
CUMULATIVE REVENUES AND EXPENSES - APRIL 2023 VS. JANUARY 2024			
Cum. Revenues ($M)	2023 Forecast	2024 Forecast	Difference
Farebox	$ 620	$ 665	$ 45
Pass Revenues	$ 220	$ 150	$ (70)
Measure RR	$ 1,340	$ 1,325	$ (15)
Sub-Total of Revenues			$ (40)
Cum. Expenses ($M)			
Crewing/Admin/Mgmt	$ 540	$ 540	$ -
Electricity	$ 285	$ 335	$ 50
MoE Electric	$ 150	$ 290	$ 140
MoE Diesel	$ 140	$ 120	$ (20)
OCS Maintenance	$ 275	$ 100	$ (175)
Sub-Total of Expenses			$ (5)

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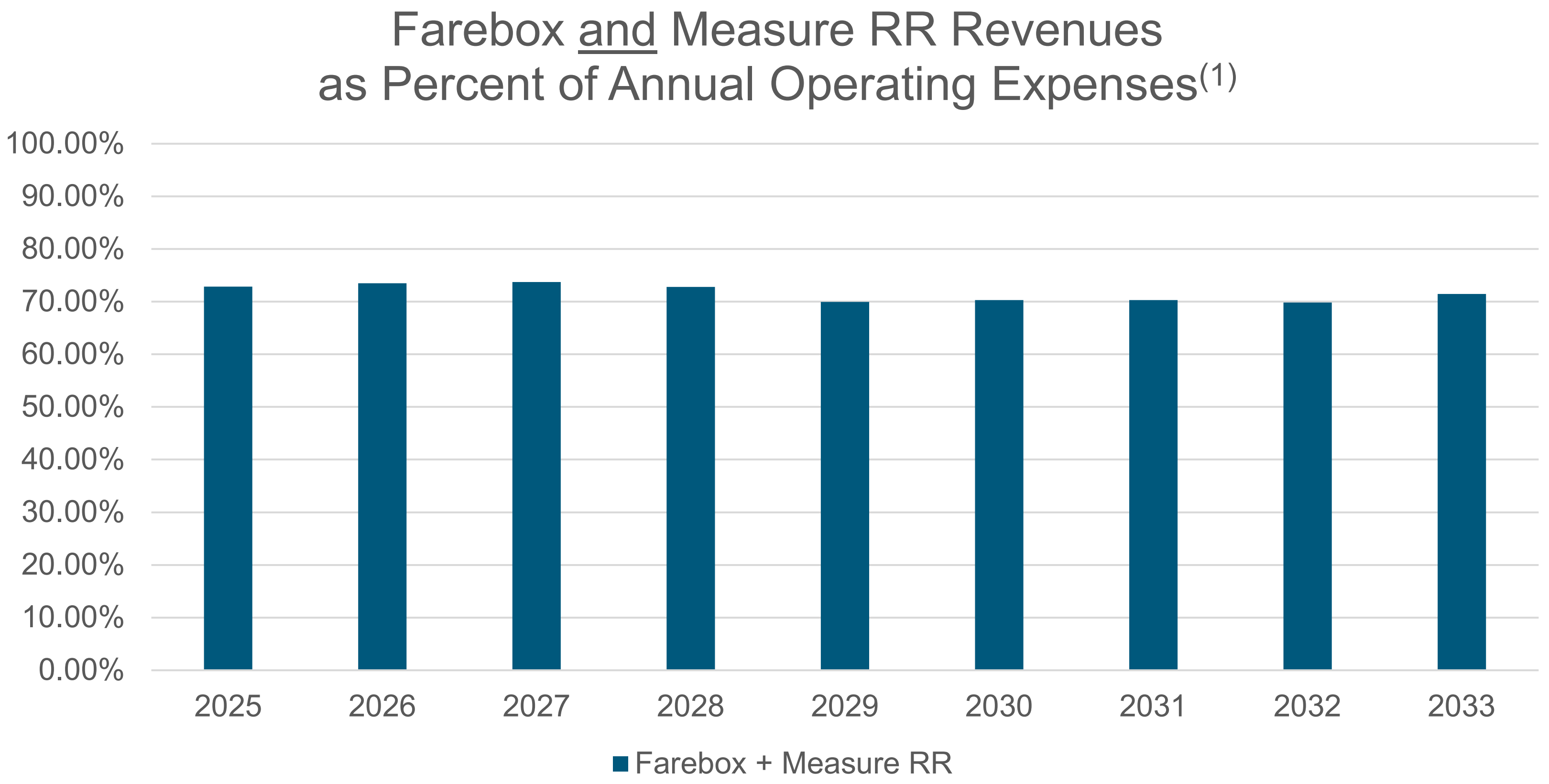
Farebox + Measure RR Revenues vs. Expenses

- **Farebox and Measure RR are projected to cover ~70% of annual operating expenses.**



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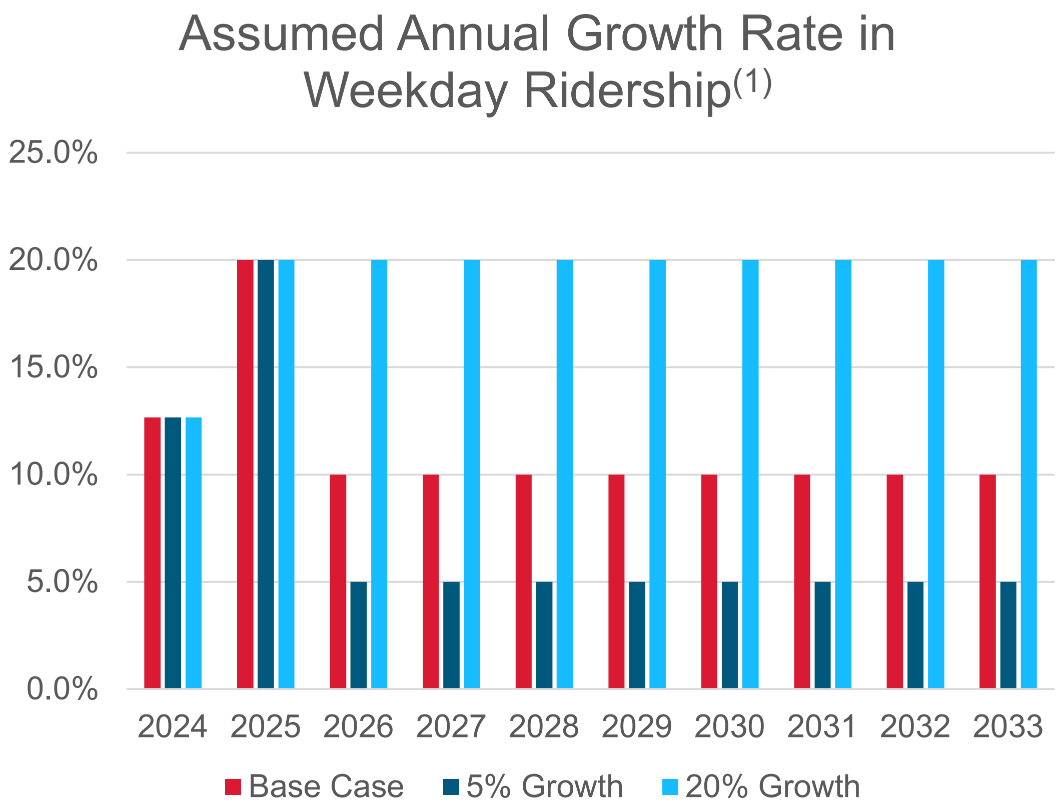
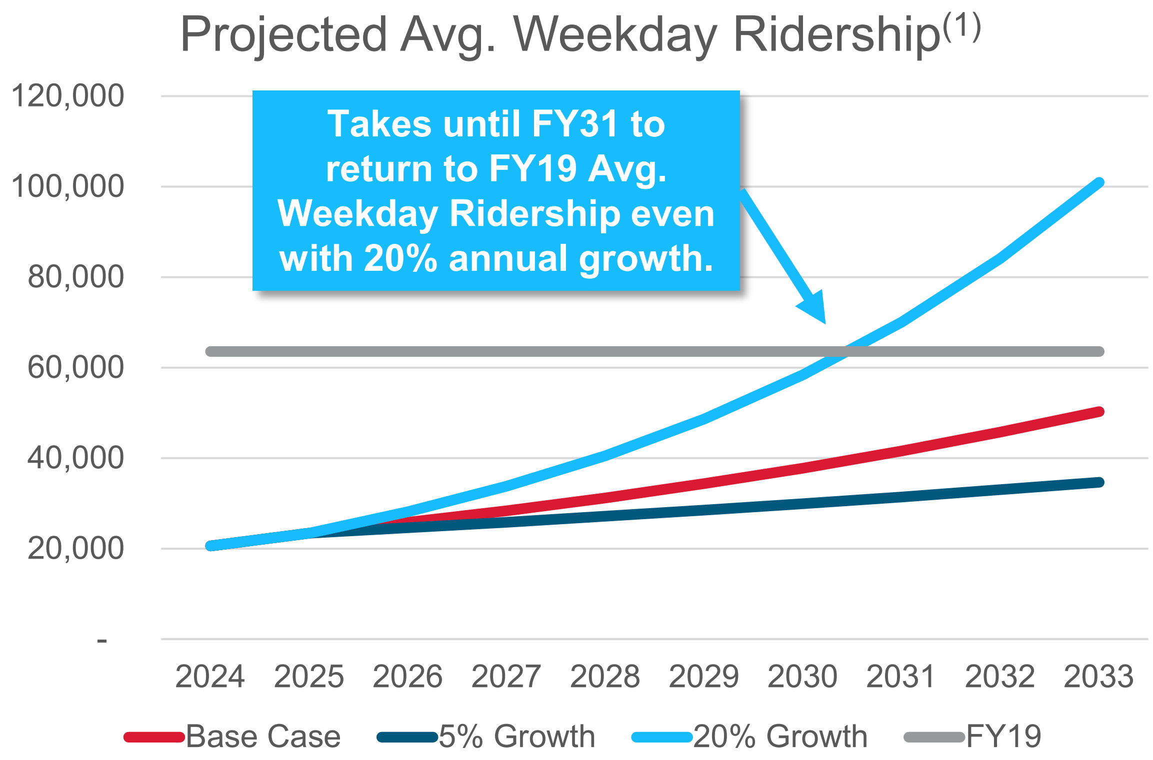
Ridership is Important

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





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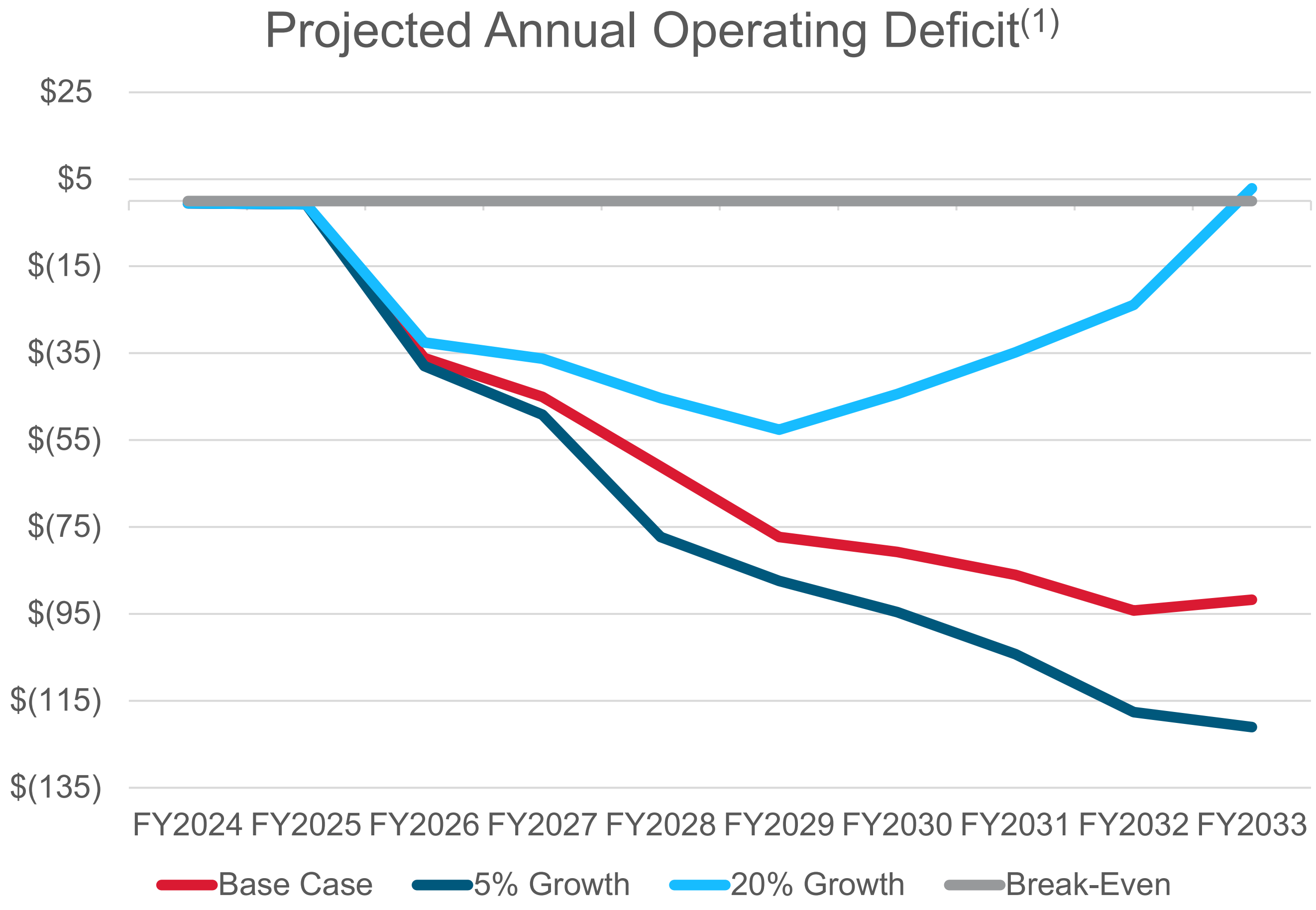
Impact on Projected Operating Deficit[1]

- **Ridership return alone is not likely to solve all of Caltrain's financial challenges.**



Assumed Ridership Growth FY26 to FY33	Est. FY33 Avg. Weekday Ridership[1]	Est. FY33 Annual Deficit[1]	Est. Cumulative Deficit FY24 to FY33[1]
20%	100K	$0M	$270M
10%	50K	$91M	$575M
5%	35K	$120M	$680M

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Key Take-Aways

- **Caltrain is facing continuing operating deficits, which will ultimately be dependent on actual in-service operating costs, farebox revenues, and any external funding support.**
- **Over the next ten years, the cumulative operating deficit could eclipse $575M, putting significant pressure on the provision of service.**
  - Assumes 20% growth in ridership in FY25 with electrification <u>and</u> 10% annually through FY33.
  - Assumes 50,000 avg. weekday ridership or 80% of 2019 levels of 64,000 by FY33.
  - Farebox and Measure RR revenues combine to cover 70% of projected annual costs.
- **Several key drivers will impact the future operating deficit, including:**
  - ***Revenue drivers:*** ridership and farebox, including declining Go Pass revenues.
  - ***Cost drivers:*** rail operator costs, service levels, maintenance costs, and electricity.

Key Take-Aways

- **Additional short-term funding and cost containment will both be necessary.**
  - Ensuring receipt of $25M State funds in FY26.
  - Managing electric costs and optimizing crewing and rail operating costs.
  - Advancing reimbursement through TIRCP.
- **Growth in ridership and Measure RR may not be enough and prioritizing long-term funding strategy is critical.**
  - With depletion of one-time monies, projected meaningful operating shortfalls by FY27.
  - Even with a return in ridership, there will be an operating funding gap given the potential pace of the return.
  - Any funding strategy will likely have a long lead time.
  - Caltrain may want to consider both local, if any, and regional solutions.

Next Steps and Recommendations

- **First and foremost, complete and successfully deliver PCEP!**
- **Manage short-term costs as best as possible to buy time as circumstances evolve:**
  - **Recommendation #1: Proactive priority on growing ridership.**
    - Explore service and customer experience enhancements to focus on growing ridership.
    - Near-term assessment of Go Pass program, including review of objectives, pricing, and strategies to expand base of core users.
    - Proactive participation in the development of permanent Bay Pass program.
  - **Recommendation #2: Continue to focus on cost containment and reduction.**
    - Implement energy procurement strategy.
    - Continue to optimize crewing and operations given electric service.
  - **Recommendation #3: Develop and implement multi-faceted funding strategy.**
    - Continue to pursue incremental additional funding from the State and other external stakeholders and participate in and advocate for larger regional solution.
    - Identify and pursue potential local funding options, including maximizing revenues from non-operating assets and new external funding sources.

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Next Steps and Recommendations

- **While this presentation focuses on the operating budget, there are ample additional funding needs on the capital side.**
  - Much of the capital projects are <u>not</u> discretionary.
  - Caltrain is currently working on the CIP, including the identification of projects and prioritization framework.
  - Currently anticipated to return with a CIP update in the Spring.
- **The SFP is part of an ongoing dialogue, so the Board has the greatest information to make informed decisions and provide policy direction moving forward.**
- **We will continue to update the Strategic Financial Plan as new information is available and PCEP goes in service.**

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