



Peninsula Corridor Joint Powers Board

**Citizens Advisory Committee**

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

Fiscal Year 2023 (July 2022 – June 2023)

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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 2023, from July 1, 2022, through June 30, 2023. With regards 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, 2023, 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 20, 2024. 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.

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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, roughly 72% of its total revenue base. This marked 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 Fiscal Year 2023 was \$43 million, less than 30% of total expenses. Pandemic-era federal funding for transit operations ceased after Fiscal Year 2022, leaving a significant financial gap. For Caltrain, the 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 focuses on Fiscal Year 2023, the ongoing trend of reduced farebox revenue underscores the necessity of continued reliance on Measure RR funding to sustain Caltrain's operations in the coming years.

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### Section 3. Fiscal Year 2023 Revenues and Expenses

#### A. Measure RR Revenues

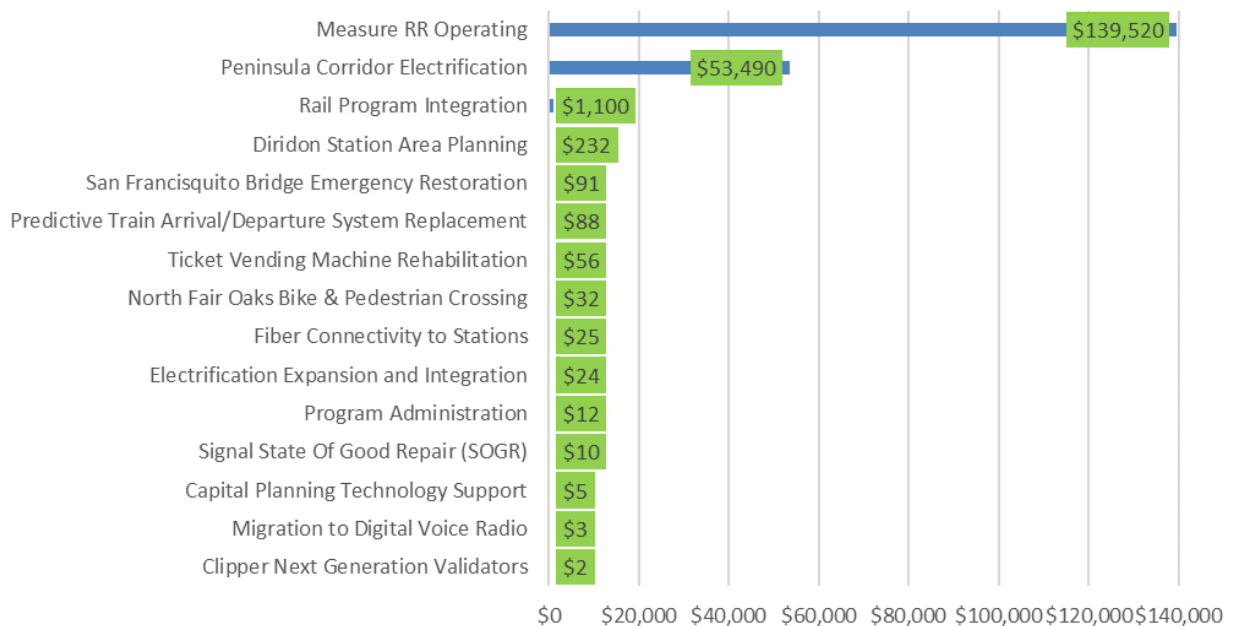
A total of \$121.6 million in Measure RR transaction and use tax was realized and recorded in Fiscal Year 2023. Of that, \$100.7 million was received prior to June 30, 2023, and \$20.9 million was received in July and August of 2023.

#### B. Measure RR Allocations and Expenses

A total of \$194.7 million was spent primarily on the operating expenses and critical agency initiatives, as shown in figure 1. The excess (\$73.1 million) of the FY23 expenses (\$194.7 million) over the FY23 revenue (\$121.6 million) was funded by the FY22 unused reserves. The Measure RR funds recorded in Fiscal Year 2023 were used as follows:

1. No new funds were allocated in FY23 for capital programs. All FY23 capital programs expenses were funded by FY22 unused reserves.
2. \$139.5 million was spent on operating expenses.
3. \$53.5 million was spent for the Peninsula Corridor Electrification Project (PCEP).
4. \$1.1 million was spent for Rail Program Integration activities.
5. \$0.6 million was spent for various capital programs as shown in figure 1 below.

**Figure 1: Measure RR Expenditures (in thousand)**



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

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

1. Operating Expenses (\$139.5 million). These funds allowed Caltrain to continue to run its highest ever level of service, with 104 trains operating every weekday.
2. Peninsula Corridor Electrification (\$53.5 million). These funds were applied to the Peninsula Corridor Electrification Project (PCEP), while waiting for the state to allocate additional funding to complete the project. On January 31, 2023, Caltrain received \$367 million from the state's Transit and Intercity Rail Capital Program (TIRCP) which, together with \$43 million from the federal omnibus spending bill signed in December 2022, fully covered the \$410 million PCEP funding shortfall identified in late 2021.
3. Rail Program Integration and Transition (\$1.1 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.
4. Diridon Station Area Planning (\$0.2 million). This funding supported efforts to advance planning for future transit-oriented development (TOD) on Caltrain property adjacent to Diridon Station, which will help to expand access to Caltrain service and generate funding to support ongoing operations.
5. San Francisquito Bridge Emergency Restoration (\$91k). The project will stabilize the north bank of the San Francisquito Creek and prevent scour and erosion from undermining Caltrain's San Francisquito Creek Rail Bridge. The project includes a temporary phase (implemented in November 2023) and a permanent phase to be implemented upon receipt of applicable approvals from resource agencies.
6. PADS Gap Coverage (\$88k). The objectives of this project are to: 1) create functional requirement for PADS (Predictive Arrival and Departure System) phase 2 request for proposals; 2) add Stadler EMU into existing PADS; and 3) modernize and visualize Xgate virtual server to provide server redundancy between San Jose Control Center and Menlo Park Control Center.
7. Ticket Vending Machine Rehabilitation (\$56k). This project upgraded all the Caltrain Ticket Vending Machines (TVM) at all the stations to include Clipper functionalities such as buying a new Clipper card and adding value and products to existing Clipper cards.

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The project also replaced components of the TVM which are obsolete and no longer supported by the manufacturer.

8. North Fair Oaks Bike & Pedestrian Crossing Planning Support (\$32k). Caltrain entered into a service agreement with the County of San Mateo to perform a technical review of the County's conceptual design for a bicycle and pedestrian connection across the Caltrain corridor in the priority equity community of North Fair Oaks. As part of the adopted Framework for Equity, Connectivity, Recovery and Growth, it has been agreed that Caltrain will use its own funds to pay for this service agreement. Caltrain provided technical support for the review of three alternatives and developed a preliminary constructability analysis for the two overcrossings.
9. Fiber Connectivity to Stations (\$25k). The project planned to build design to connect the JPB fiber backbone to the stations from 4th and King to Tamien, Caltrain digital voice radio base stations located at Positive Train Control (PTC) sites, existing Very High Frequency (VHF) Sites at tunnel and the Central Control Facility/Back-Up Central Control Facility. The project has been closed with 95% design, and the design gap to 100% has been recorded. The project has been shelved due to insufficient funding, and its scope will be now covered under a separate project. Unused Measure RR funds allocated to this item will instead be used for other projects.
10. Electrification Expansion and Integration (\$24k). In preparation for the Fall 2024 launch of electrified service, Caltrain undertook a comprehensive service analysis and public engagement process with the primary purpose of developing an electrified service schedule with faster trips, improved frequency, and enhanced comfort.
11. Program Administration (\$12k) - A small amount of funds was spent for the Measure RR annual audit fees.
12. Signal State of Good Repair (\$10k). This project supports the purchase of Dual Tone Module Frequency (DTMF) for grade crossings throughout the Caltrain corridor. This is a radio activated crossing system that allows a hyrail operator to send a signal to the crossing gates which activates the gates and allows the hyrail operator to cross busy intersections. These were installed at nine (9) grade crossing on Caltrain's right of way.
13. Capital Planning Technical Support (\$5k). This program supports technical expertise necessary to advance individual capital projects in the conceptual planning phase in collaboration with partner agencies, local jurisdictions, and internal stakeholders.
14. Migration to Digital Voice Radio (\$3k). This project will update existing VHF voice communication system by co-locating VHF sites with PTC sites that already have JPB fiber backhaul services.

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15. Clipper Next Generation Validators (2k). This project prepared all the Caltrain stations to have the Next Generation Clipper Validators installed by the Metropolitan Transportation Commission (MTC). Caltrain installed electrical wires to the locations where the wire will be terminated inside the new validators. Caltrain also installed mounting bolts in the platform so MTC can mount and bolt down the validators. The new validators were tested by MTC and Caltrain. The old Clipper validators were removed after successfully testing the new validators.

#### Section 4. Future Measure RR Allocations

As mentioned previously, for the next two fiscal years, likely through FY25, Caltrain anticipates that nearly 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 its current service levels or transition to electrification in Fall 2024, given the increased costs associated with procuring electricity and maintaining the new traction electrification system. 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 essential workers, and to meet the changing needs of commuters who come back to the service as in-person work policies evolve and commute traffic increases. It will also enable Caltrain to offer half hourly weekend frequency under the new electrified service schedule, further strengthening the growth of weekend ridership, which has recovered at a faster rate than weekday ridership. Like other Bay Area operators, Caltrain staff continues to advocate for external funding from the state and to consider other potential regional solutions.

#### Attachments:

1. FY23 Measure RR Funds Financial Statements (Appendix A)
2. JPB Resolution No. 2020-40 (Appendix B) – *see Section 16 for Ballot Measure language*