FY2025 Operating Budget and 10-Year Strategic Financial Plan (SFP) Update

Finance Committee Meeting
December 16, 2024

Topics to Focus On

- **FY2025 Operating Budget Update**
- **December 2024 Strategic Financial Plan (SFP) Update**

FY2025 Operating Budget Update

- **Original FY2025 Budget adopted June 2023 as part of FY2024-FY2025 2-Year Budget process**
- **Budgeted expense at $238M and balanced with $36M additional Measure RR contribution**
- **Major issues FY2025 Operating Budget was facing at the start of the fiscal year:**
    - Potential significant energy cost increase due to uncertainty of consumption
    - Timing and amount of the LCFS credit can be realized
    - Operating expense increase due to both labor and material costs
    - Forced utilization of more costly consultant support due to ongoing hiring challenge

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FY2025 Operating Budget Update

- **Cost containment/reduction measures taken with the goal to keep the FY2025 expense under the original adopted level:**
  - Negotiations with TASI to reduce FY2025 expense level

    - *Reduce the overall TASI operating proposal from the original $154.2M (Jan 2024) to $123.5M*

  - Several rounds of FTE review to reduce FY2025 FTE requests and delay prior year vacant FTEs

    - *Reduce the total FY2025 Wage and Benefit line from $21.0M to $20.7M with the absorption of the universal salary increase effective as of July 1, 2024.*

  - Reduction/delay of non-critical professional support and office operating needs:

    - *All issuance of new work directive for professional service support requires additional review*

    - *More careful review and approval of other expense requests, such as traveling, non-essential office spending, etc.*

FY2025 Operating Budget Update

- **Positive development that greatly reduce the FY2025 budget pressure:**
  - Based on the first full month of electrified service, staff was able to confirm that actual energy consumption of the EMUs are more than 20% lower than projected, resulting a reduction of $7.2M in electricity cost ($19.5M original vs $12.3M revised)
  - Expected cost for fuel and lubricants was reduced by $2M
- **Expected major cost increase areas since the FY2025 Operating Budget adoption**
  - Insurance premium, claims, payments and reserves cost up by $2.5M
  - Facilities & equipment Maintenace and utilities costs up by $2.3M
  - Professional service cost up by $2.2M
  - Managing agency overhead cost up by $0.8M
  - Security, communications & marketing and other office expenses and services up by $1.5M

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FY2025 Operating Budget Update

- **Staff has been able to maintain the FY2025 total expense at the original adopted level**

	FY2025 Original Operating Budget	FY2025 Current Operating Budget
Total Budgeted Revenue	**$ 208,728,162**	**$ 208,728,162**
Operating Revenue - Fare,Pass & Other Incomes	63,657,950	60,700,238
Contributed Revenue - Measure RR and Other	145,070,212	148,027,924
Total Budgeted Expense	**$ 238,138,000**	**$ 238,138,000**
Operating Expense - Rail Operator & Other	190,243,313	186,587,477
Administrative Expense - Wage, Benefits & Other	40,131,382	43,787,218
Debt Service Expense	7,763,305	7,763,305
Deficit	**(29,409,838)**	**(29,409,838)**
Budgeted Contribution to Reserve - Note 1	**(6,812,302)**	**-**
Draw from Measure RR Reserve for PCEP	**36,222,140**	**29,409,838**

Note 1: Reserve policy is at minimum of 10% for operating reserve, FY2024 ending balance is at $26.8M. Staff recommended to not contribute additional into reserve to preserve the Measure RR returned from PECP for future operating funding needs.

- **Staff will continue to monitor the FY2025 budget situation closely, implement additional cost saving measures and update the Board timely during monthly/quarter financial reports.**

FY2025 Operating Budget Update

- **Revenue generation strategies underway:**
  - Ridership and Fare Revenue Growth task force is underway
  - New Go Pass pricing structure and marketing sounding effort started
  - Non-Fare Revenue Strategy Study expected to be completed early 2025 with the following focus areas

    - Leasing of real estate estates for commercial, retail, solar, cell towers, and/or EV charging infrastructure etc.

    - Jointed development of JPB real estates assets including over right-of-way

    - Monetizing JPB's fiber optic assets

    - Increase advertisement/marketing revenue, ads and/naming rights for stations/trains

- **Staff will provide the Board with timely updates on those revenue generation strategies throughout the year.**

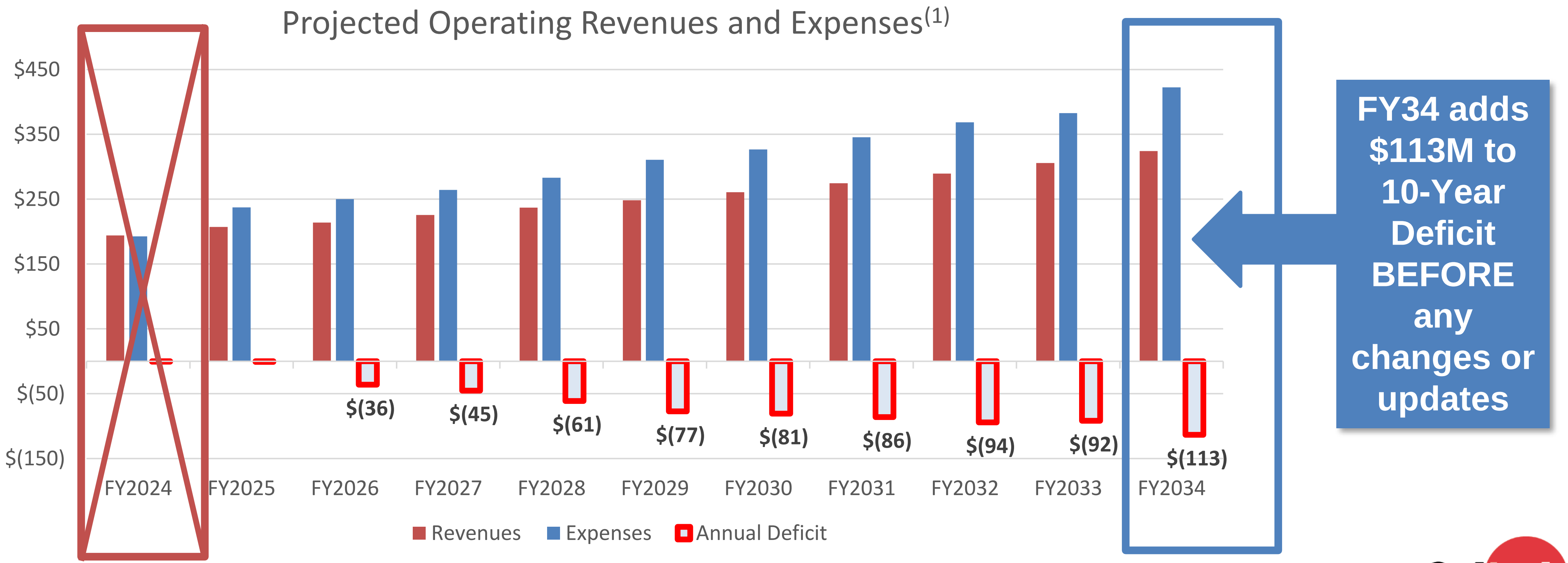
Strategic Financial Plan (SFP)

Strategic Financial Plan (SFP) Overview

- **In January 2024, Strategic Financial Plan identified key priorities:**
  - Deliver PCEP successfully.
  - Assess impact of launch and grow ridership meaningfully.
  - Focus on long-term cost containment and reduction.
  - Develop multi-faceted funding strategy
- **Key take-aways from December 2024 SFP include:**
  - Use of one-time funds continues to address most short-term funding needs in FY25 and FY26.
  - Growing ridership, cost containment, and non-fare revenue strategies remain top priorities.
  - Growth in ridership and Measure RR will not be enough and prioritizing long-term funding is critical.
  - Cutting service alone will not address the funding shortfall.

10 Year Operating Deficit

- **<u>Last January</u>, projected 10-Year operating deficit was $575M, ranging from $36M to $92M.**
- **Before any updates, altering 10-year period through FY34 <u>increases the deficit to $690M.</u>**

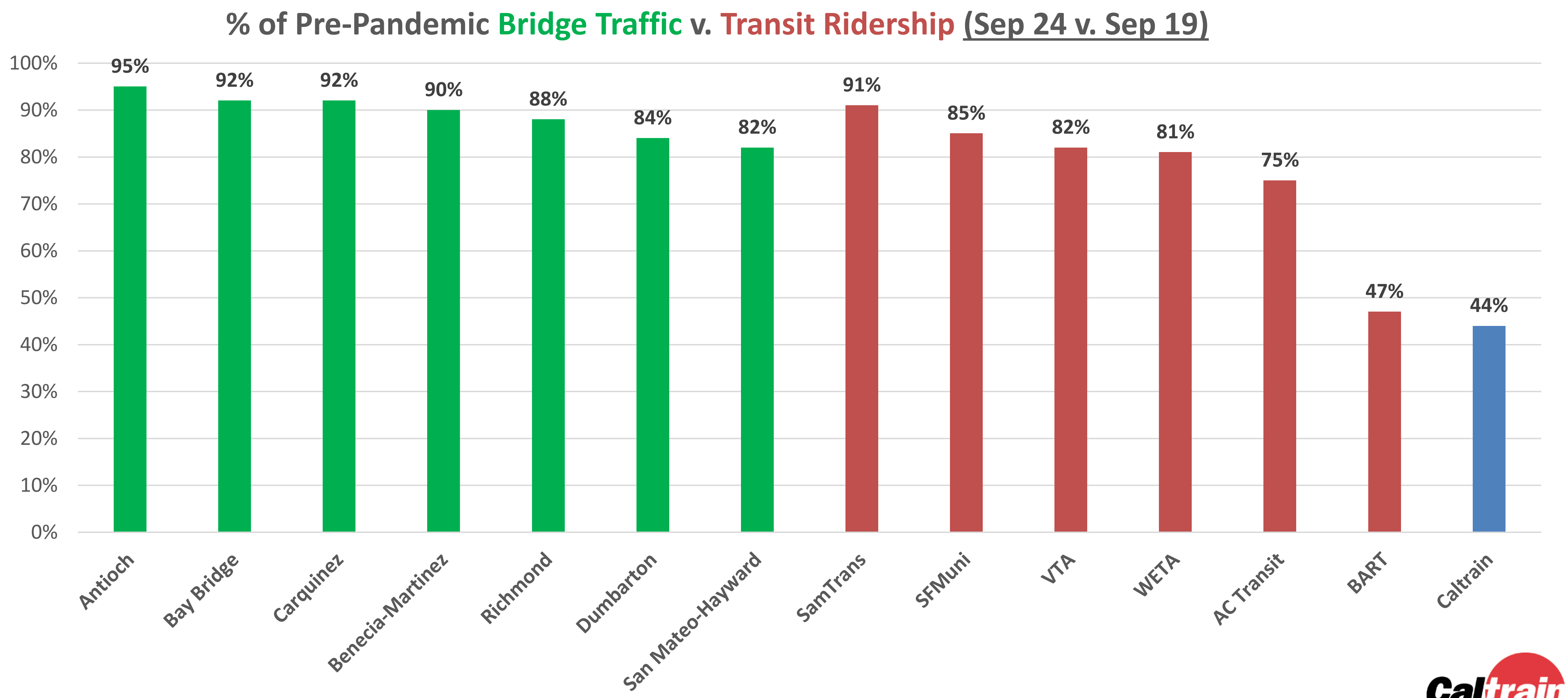


(1) For illustration purposes only; Subject to change. Actual Results will vary.

Recent Ridership Trends

MONTHLY Performance	Oct 2024	Pre-Pandemic Oct 2019	Oct 2024 as % of Oct 2019	Oct 2023	Oct 2024 v. Oct 2023
Avg. Weekday	27,583	70,360	39.2%	19,939	+38.3%
YTD Performance	**Oct 2024**	**Pre-Pandemic Oct 2019**	**Oct 2024 as % of Oct 2019**	**Oct 2023**	**Oct 2024 v. Oct 2023**
Total Ridership	2,703,256	6,687,275	40.4%	2,001,054	+35.1%
Avg. Weekday	25,538	71,162	35.9%	20,506	+24.5%
Avg. Saturday	14,381	16,201	88.8%	7,334	+96.1%
Avg. Sunday	13,006	11,611	112.0%	5,967	+118.0%

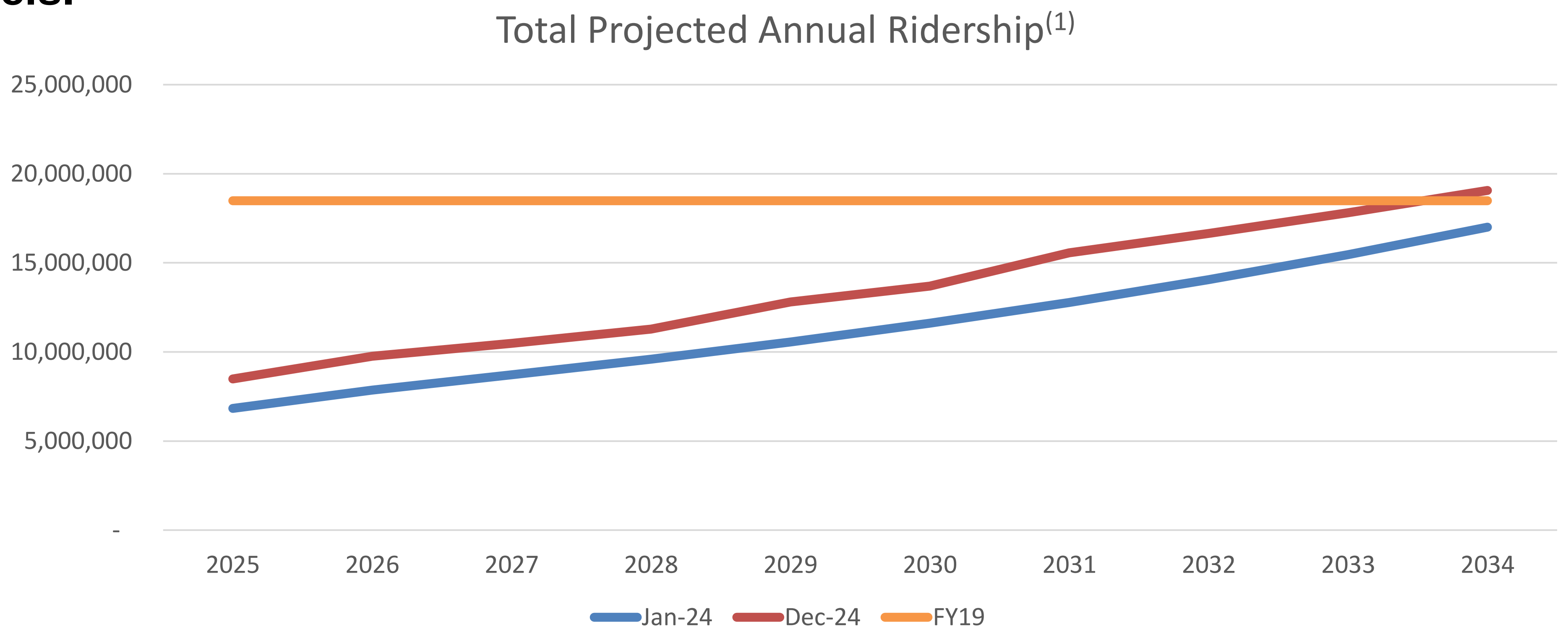
Recent Bridge Traffic v. Transit Ridership



Source: Caltrain, Bay Area Council Economic Institute and National Transit Database.

TOTAL Ridership(1) - Jan. ‘24 vs. Dec. ‘24

- **Assumes 8.5M passengers(3) in FY25 growing to 19M by FY34, exceeding pre-pandemic levels.**



(1) For illustration purposes only; Subject to change. Actual Results will vary.
(2) Based on Actual Ridership for Month of Oct. 2024.
(3) Includes GoPass.

Growth Assumptions(1) – Jan. '24 vs. Dec. '24

- **December 2024 assumptions are based on actual ridership in October 2024 and include:**
  - Continued growth over FY26, spikes in weekday ridership with increased service in FY29 and FY31, and more measured long-term growth.

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Jan. 2024 TOTAL	**20%**	**10%**	**10%**	**10%**	**10%**	**10%**	**10%**	**10%**	**10%**	**10%**
Dec. Weekday	30%	15%	7.5%	7.5%	15%	7%	15%	7%	7%	7%
Dec. Weekend	80%	15%	7.5%	7.5%	7%	7%	7%	7%	7%	7%
DEC. TOTAL	**35%**	**15%**	**7.5%**	**7.5%**	**13%**	**7%**	**13%**	**7%**	**7%**	**7%**

January 2024 **December 2024**

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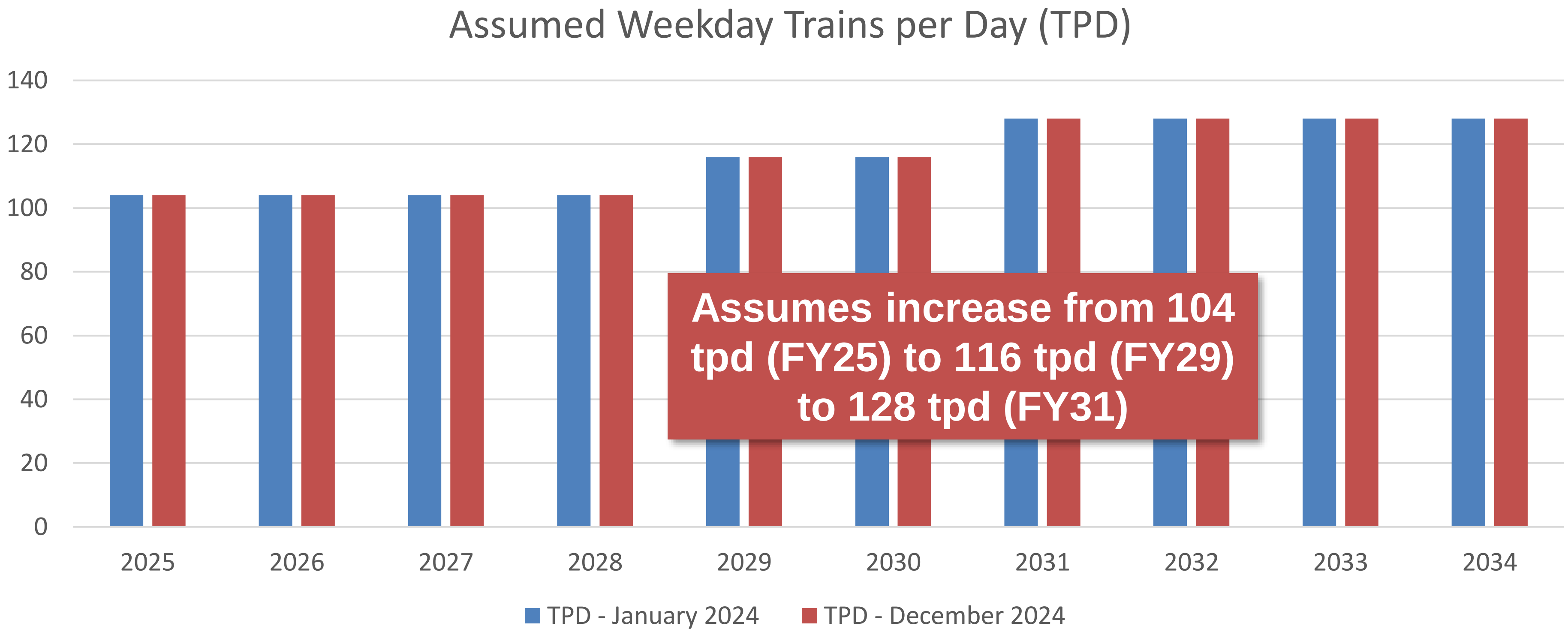
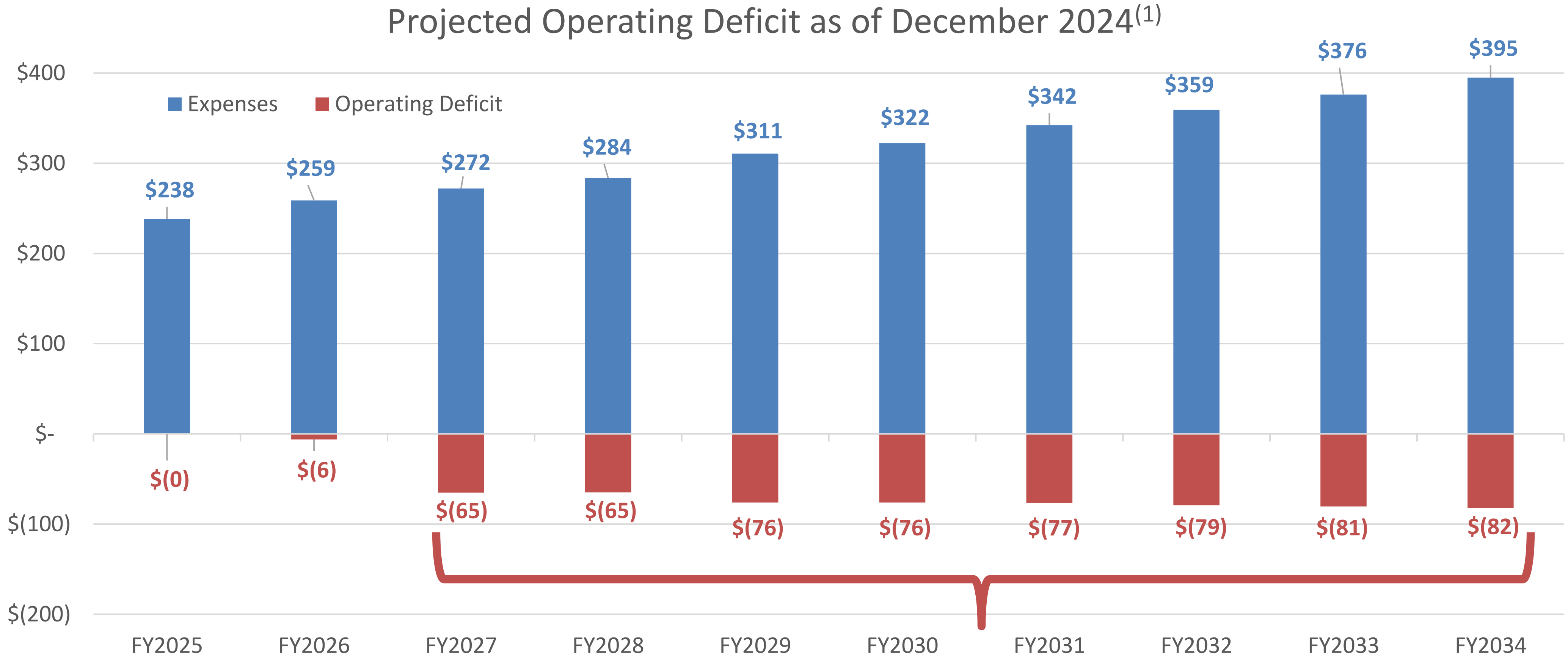
Service Assumptions – Jan. ‘24 vs. Dec. ‘24

- **December 2024 SFP assumes the same service level increases as last January.**
  - Requires extension of FFGA waiver beyond December 31, 2027.



Projected Operating Deficit – December 2024[1]

- **December 2024 Projected 10 Year Operating Deficit is ~$605M**



Average Annual Deficit = $75M/yr

(1) For illustration purposes only; Subject to change. Actual Results will vary.

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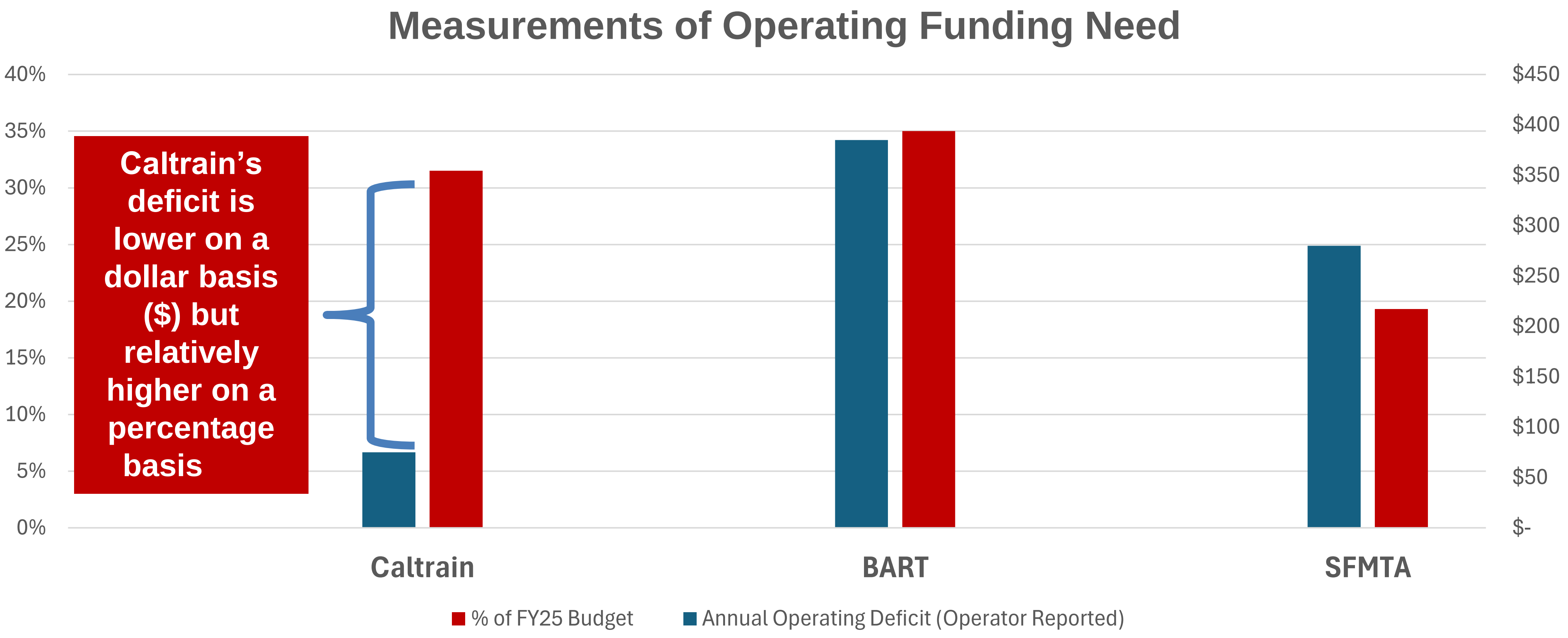
Projected Deficit Comparisons(1)



(1) For illustration purposes only; Source: Caltrain Annual Deficit based on average projection from FY27 to FY34 December 2024; Operator deficits from MTC Transportation Revenue Measure 12/9/24; Percentage of FY25 Budget assumptions: BART $1.1B and SFMTA $1.45B.

Projected Deficit – Dec. '24 Key Assumptions

- **There are several key revenue and expense assumptions that drive the projected deficit.**
  - The forecast includes:
    - $25.4M from State in FY26 (SB125)
    - $28.7M in one-time funds applied to FY26 (Measure RR)
    - Fare increase of ~4% to 5% annually over next 3 years and 3% annually thereafter(1)
    - $4.7M in LCFS revenues in FY25 and $6.6M annually thereafter (subject to actual consumption)
    - $65M in increased insurance costs through FY34
    - Managing Agency Overhead costs at 2.5% total annual costs (less JPB Debt Service and Overhead)
    - Projected annual lease costs for HQ of $1M FY27 growing to $2.8M in FY34
    - Annual contribution of $15M in Measure RR funds toward Capital/SOGR beginning in FY26
  - Cost control/reduction measures include:
    - No new operating FTE's from FY26 to FY34, unless projections materially change
    - Professional services held flat beginning FY29
    - $105M reduction in electric costs through FY34(2)
  - The forecast excludes:
    - $55M in capitalized electric vehicle maintenance costs.

(1) Last Base Fare increase was February 2016.
(2) For illustration purposes only; Subject to change. Actual Results will vary.

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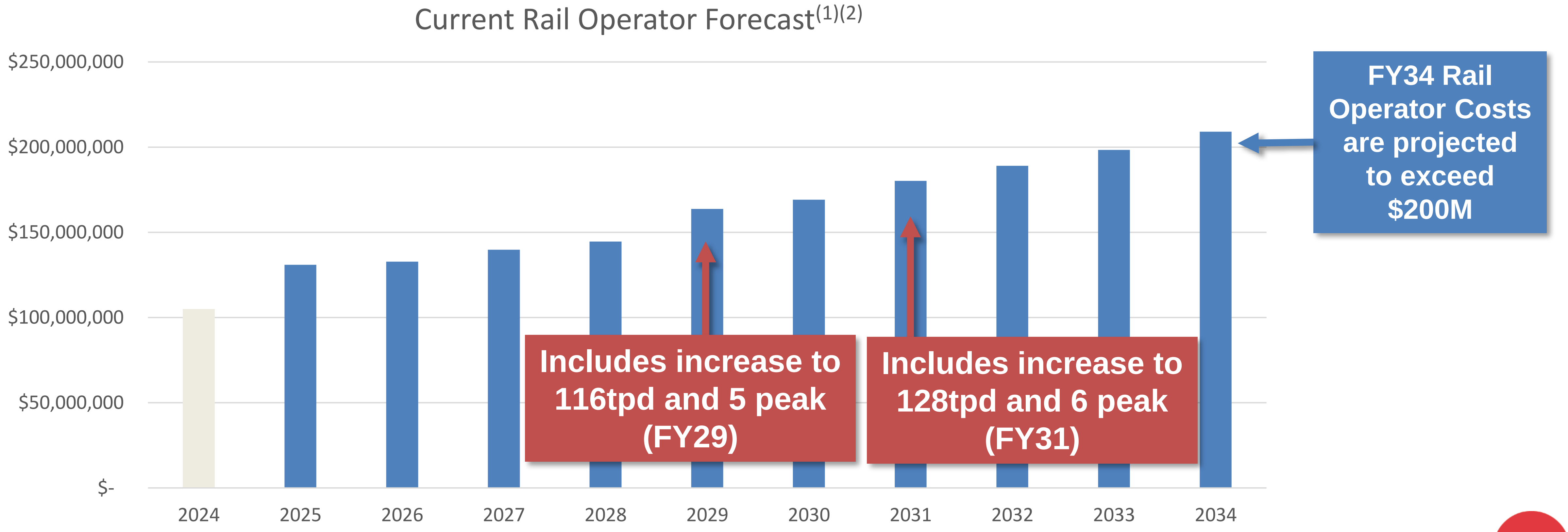
Key Drivers – Dec. '24 Rail Operator Projections

- **Assumes 5% annual growth in costs with 10% in FY29 and FY31 due to increase in service.**
  - Requires extension of FFGA waiver beyond December 31, 2027.



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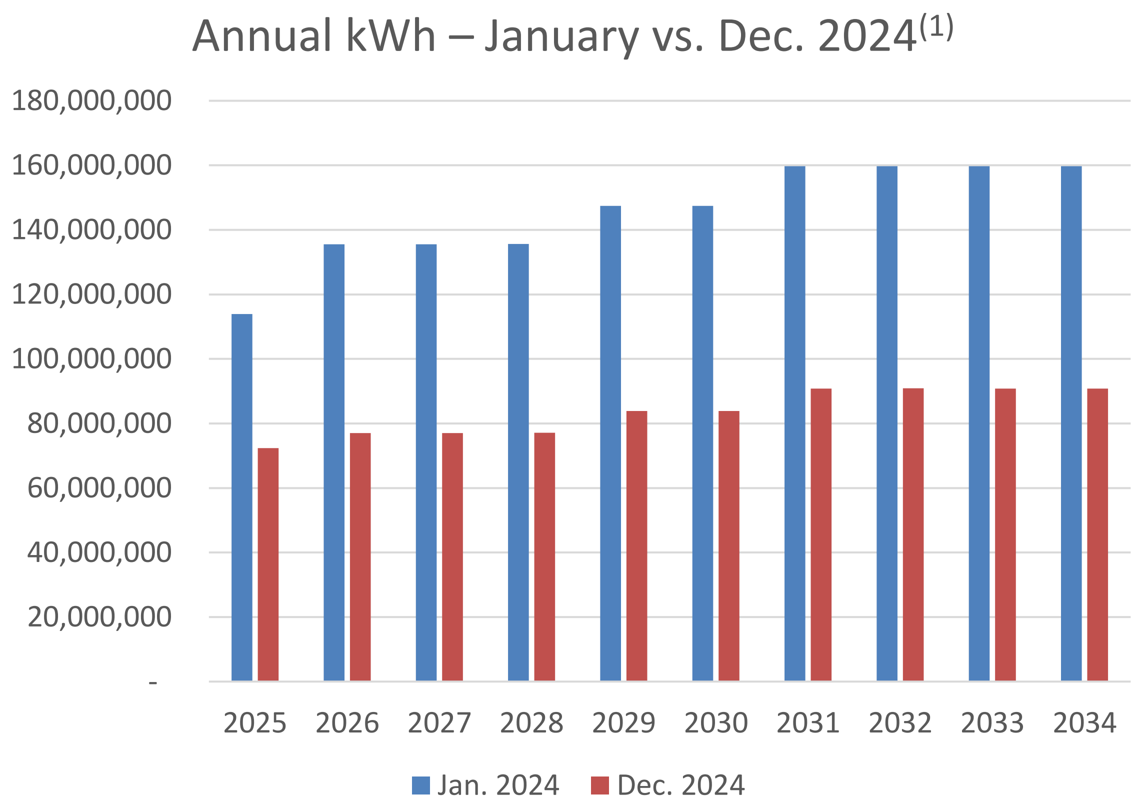
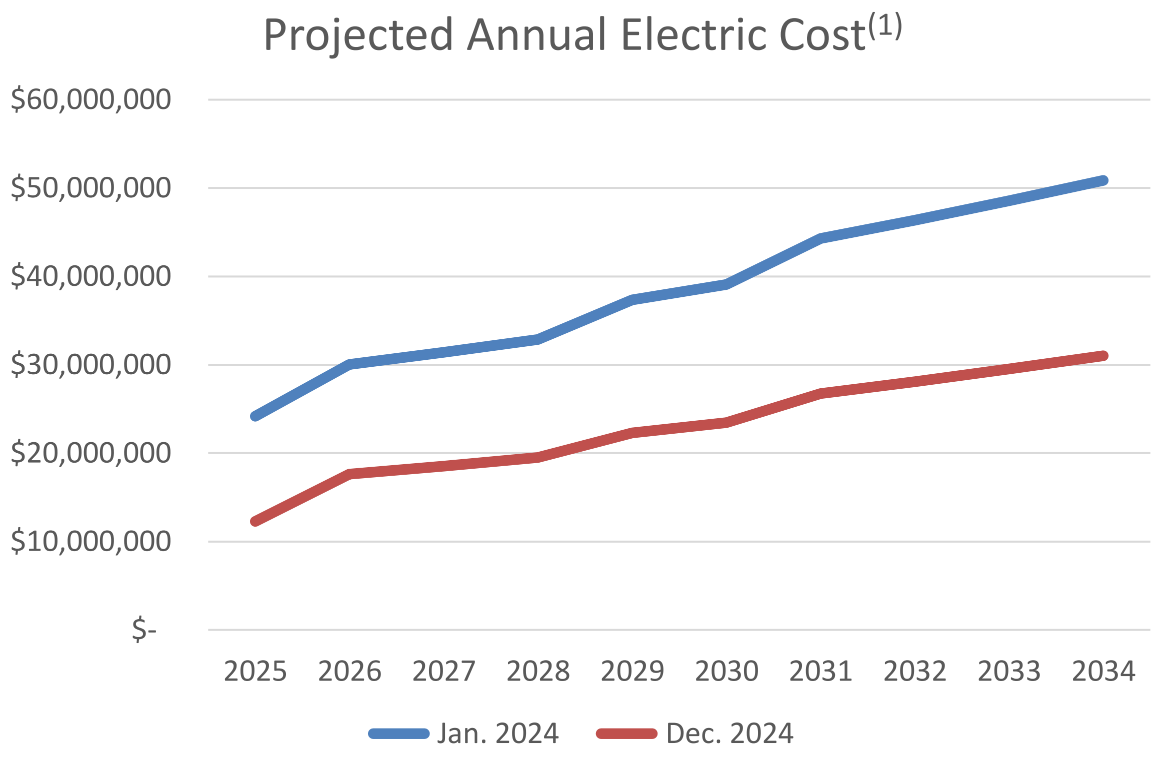
(2) Includes TSSSA.

Key Drivers – Dec. ‘24 Electricity Projections

- **Actual results from October reduced the projected electric consumption forecast by 25%.**





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Actual Results will vary.

Key Drivers – Electric Procurement Strategy

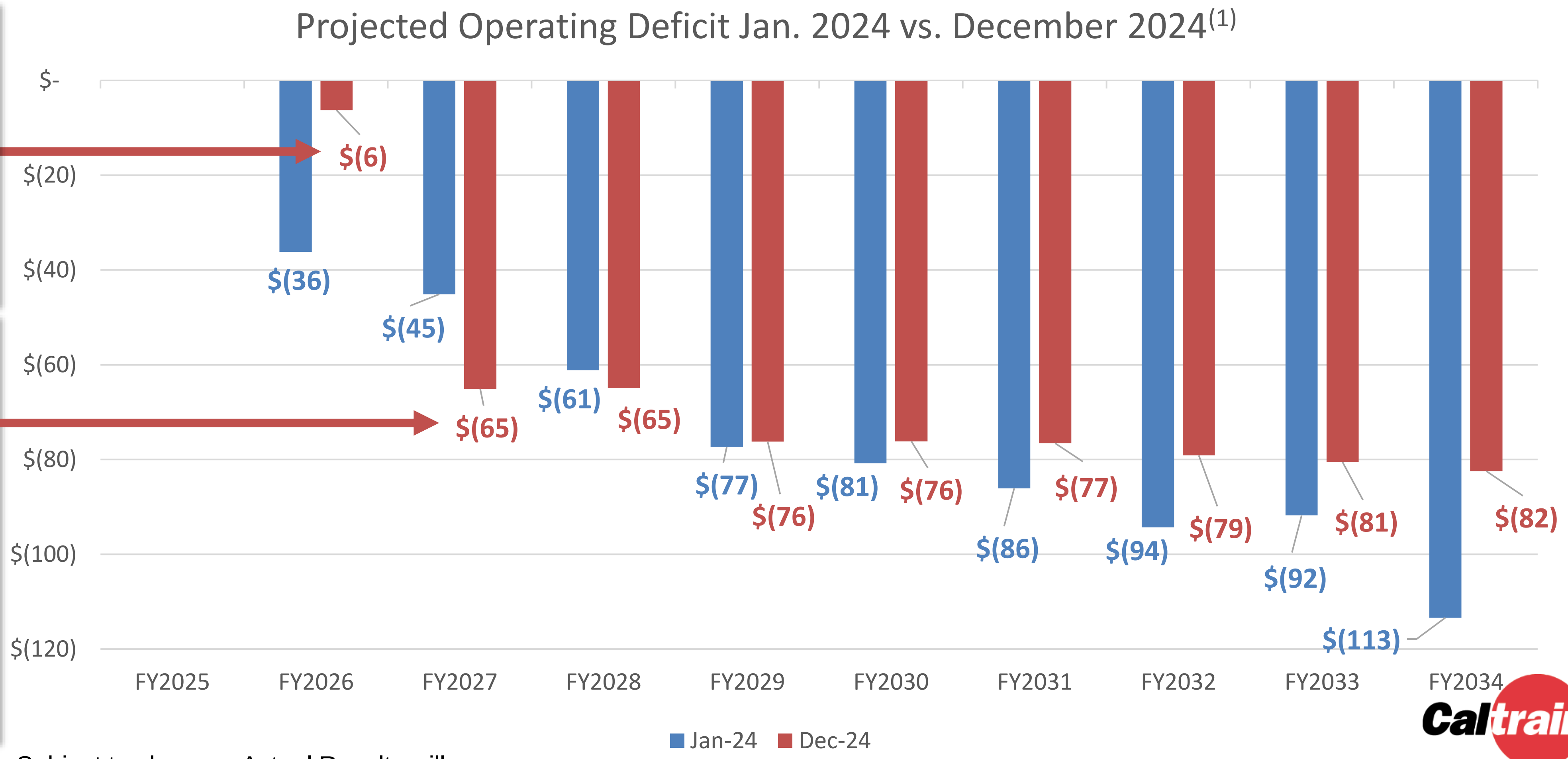
- **Caltrain continues to implement proactively its Energy Procurement Strategy (EPS).**
  - Successfully purchasing **100% renewable energy with 0% carbon** from Peninsula Clean Energy (PCE) and San Jose Clean Energy (SJCE).
  - Successfully registered with CARB for the Low Carbon Fuel Standards (LCFS) program **with “Fixed Guideway/Heavy Rail” designation**.
  - Finalizing Interconnection and Totalization Agreements with PG&E, who has completed their technical assessment **with no findings for additional remediation**.
    - Totalization has an estimated value of ~$3.5M annually
  - Continuing to explore strategies for capturing benefit of regenerative braking being exported to the grid.
    - Ongoing conversations with PCE/SJCE/PG&E for some financial return
    - Seek potential legislation
    - Develop and evaluate long-term Battery Storage Plan
  - Each of these regenerative braking strategies have **different trade-offs in costs, timing and returns to Caltrain.**

Projected Deficit - Jan. '24 vs. Dec. '24[1]

- **December 2024 Forecast reflects a significant reduction of the adjusted January forecast of $690M, due to increased revenue and lower cost projections.**

Increased ridership, decreased electric costs and one-time funds are projected to nearly cover FY26

$65M projected deficit as soon as FY27 due to increased costs in insurance, shared services and HQ lease with no remaining one-time Measure RR or State Funds



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Jan. '24 vs. Dec. '24(1)

Total Revenues are projected to increase by ~$170M

Total Expenses are projected to increase by ~$200M

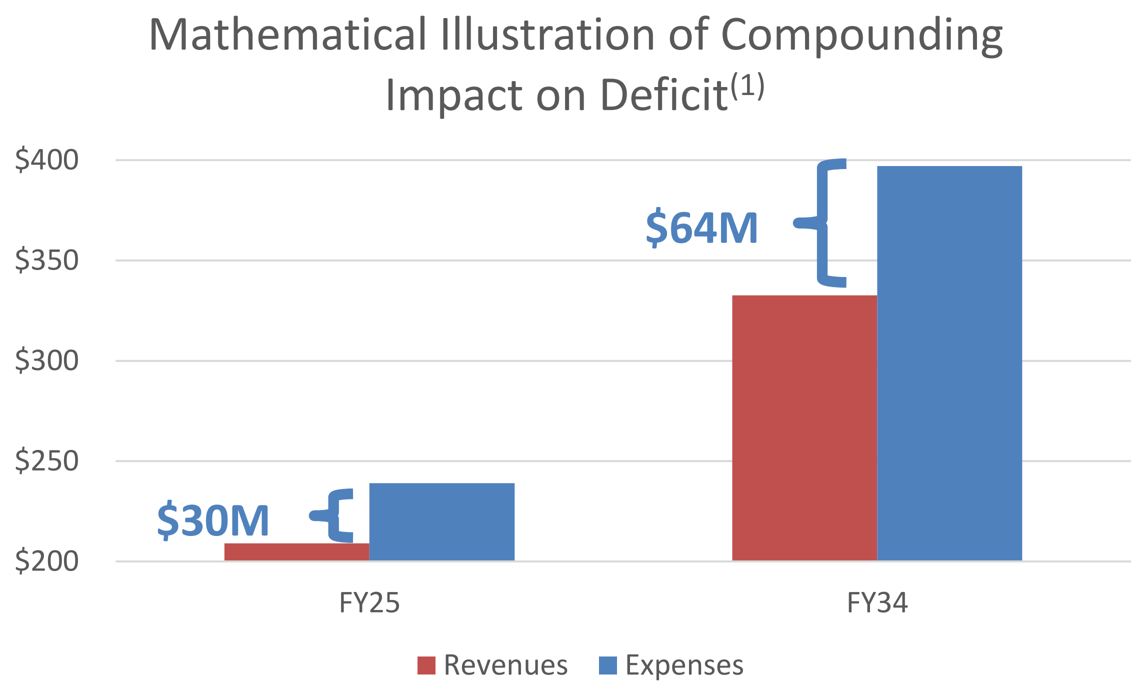
Forecasted net increase of $30M is considerably below the projected increase of $115M

Largest Drivers	Change from Jan.(1)
Farebox	$130M
Operating Grants	$35M
Measure RR	$30M
LCFS	($20M)
Other(2)	($5M)
Sub-Total Rev's	$170M
Rail Ops	$110M
Insurance	$65M
Coms/Engineering/Ops(3)	$55M
Overhead	$20M
Prof. Services	$20M
Other Admin (HQ/Office)	$30M
Additional Exp's(4)	$25M
Wages and Benefits	($20M)
Electricity	($105M)
Sub-Total Exp's	$200M

(1) For illustration purposes only; Subject to change. Actual Results will vary.
(2) Includes parking, shuttle, rental.
(3) Includes marketing, Clipper operating charges, ticket vending machines, system engineering, broadband, and warehouse leasing.
(4) Additional expenses include security, timetable, tix, utilities, transfers, and debt service.

Projected Operating Deficit Moving Forward[1]

- **The Projected Operating Deficit is structural**
  - Already exists with $30M in one-time funds applied to FY25 (Measure RR)
  - Annual Operating Deficit will continue to grow as long as expenses grow at a faster rate than revenues, especially if operating expenses are meaningfully higher than annual revenues already.
  - Forecasted Annual Growth Rate FY26 to FY34
    - Expenses = 5.80%
    - Revenues = 5.30%

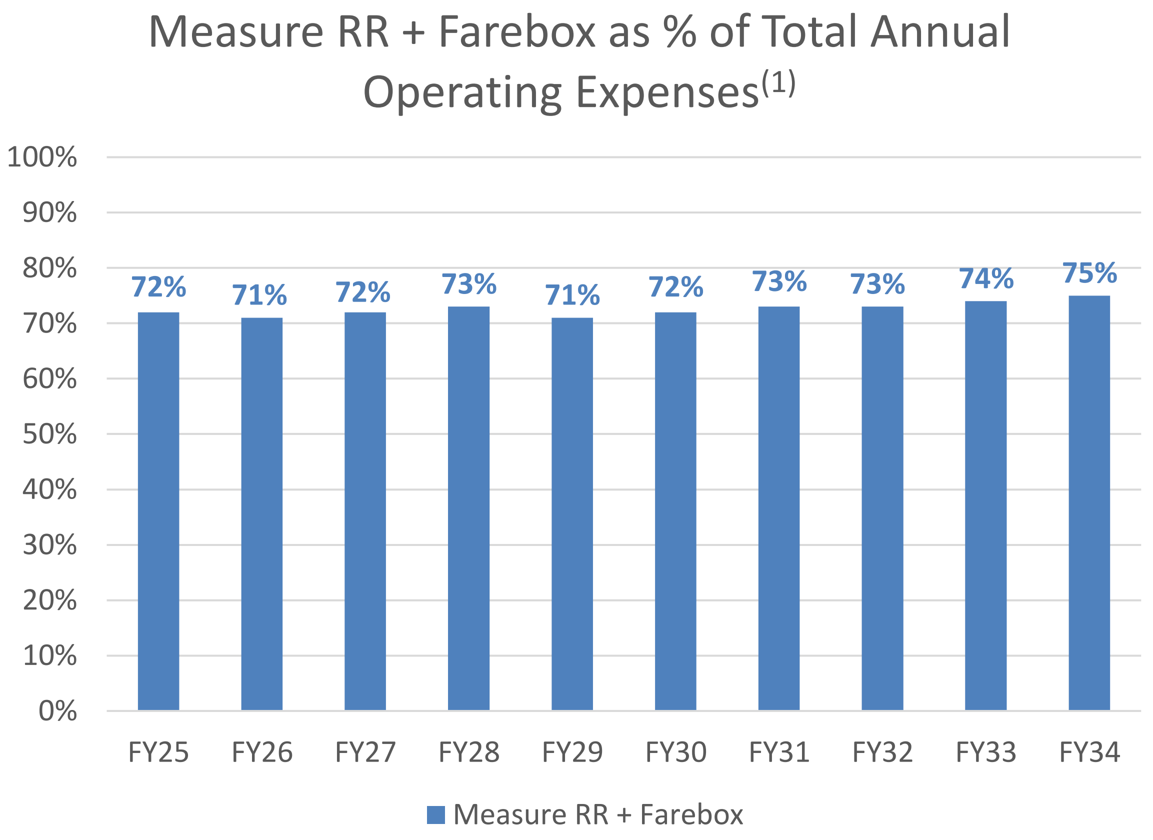


- **Before any jumps in expenses in any given year attributable to increasing service, major maintenance and/or other new costs, growing expenses at 5.80% v. revenues at 5.30% more than doubles the annual operating deficit within 10 years.**

(1) For illustration purposes only; Subject to change. Actual Results will vary.

Projected Operating Deficit Moving Forward[1]

- **Measure RR and Farebox Revenues do not cover the projected expenses of Caltrain.**
  - Measure RR revenues account for **50% to 60% of total revenues** and are only projected to grow at 2.5% annually.
  - Measure RR revenues + Farebox only **account for 70% to 75% of projected operating expenses**.
  - Puts significant pressure and risk on future ridership growth and/or additional funding.



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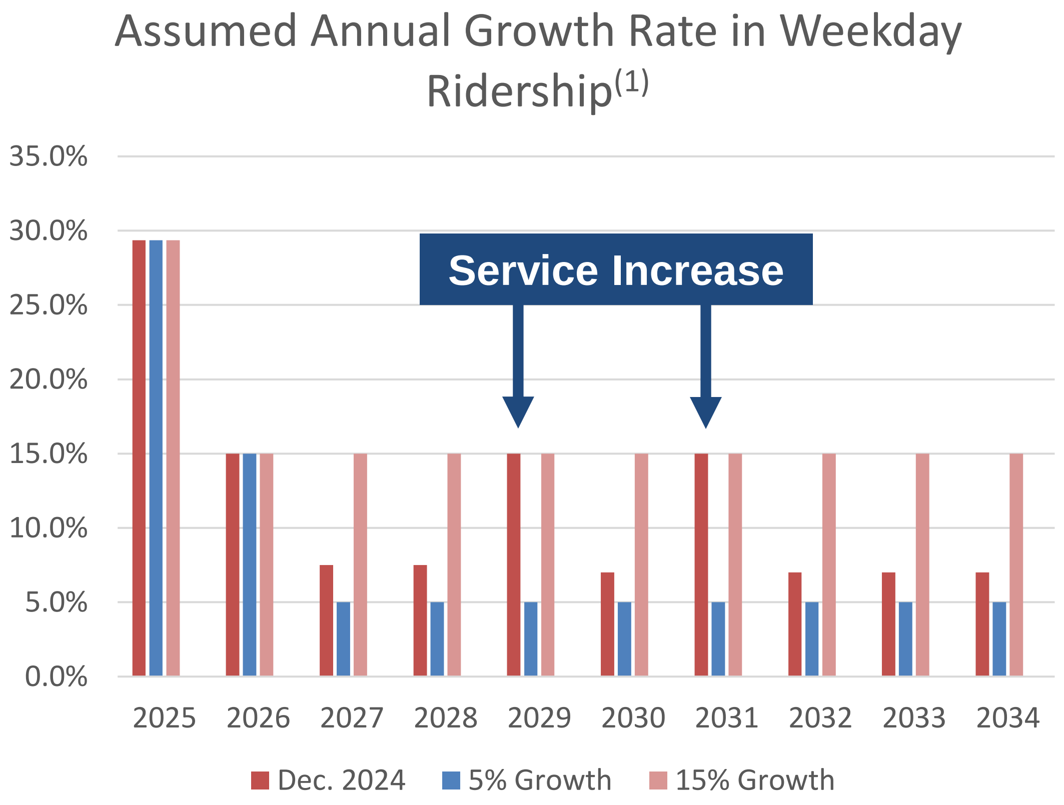
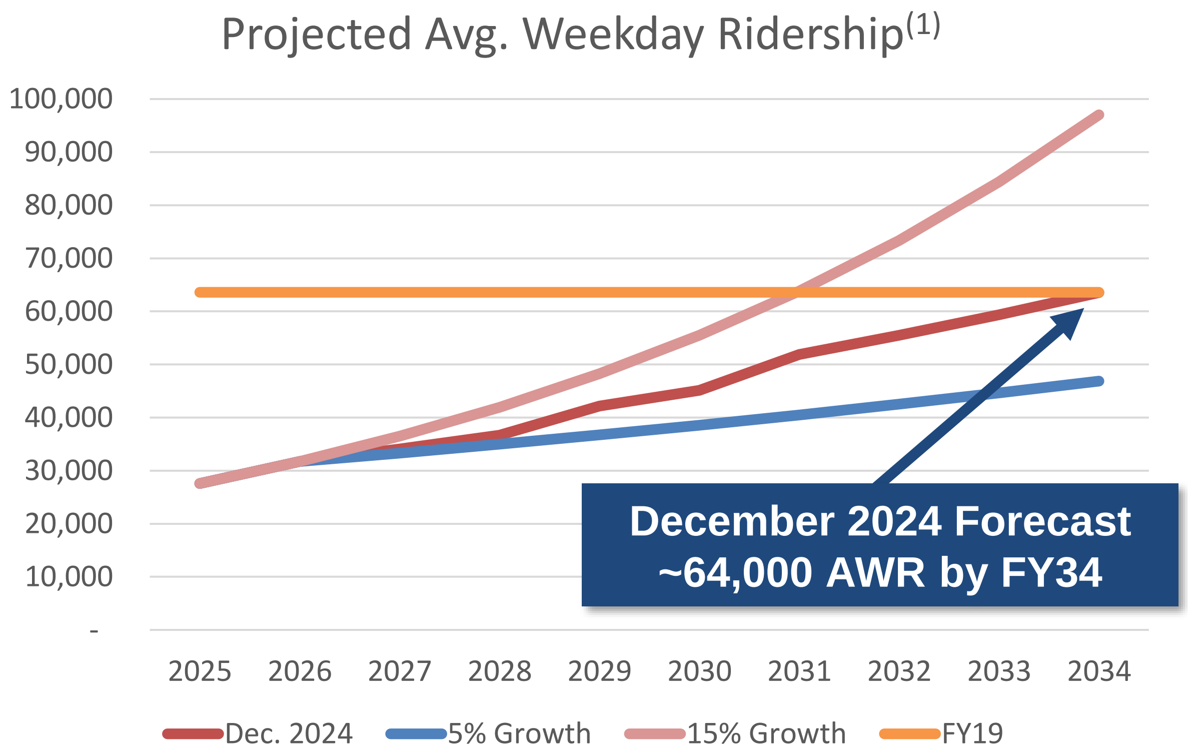
Ridership Sensitivity - Closing the Gap(1)

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





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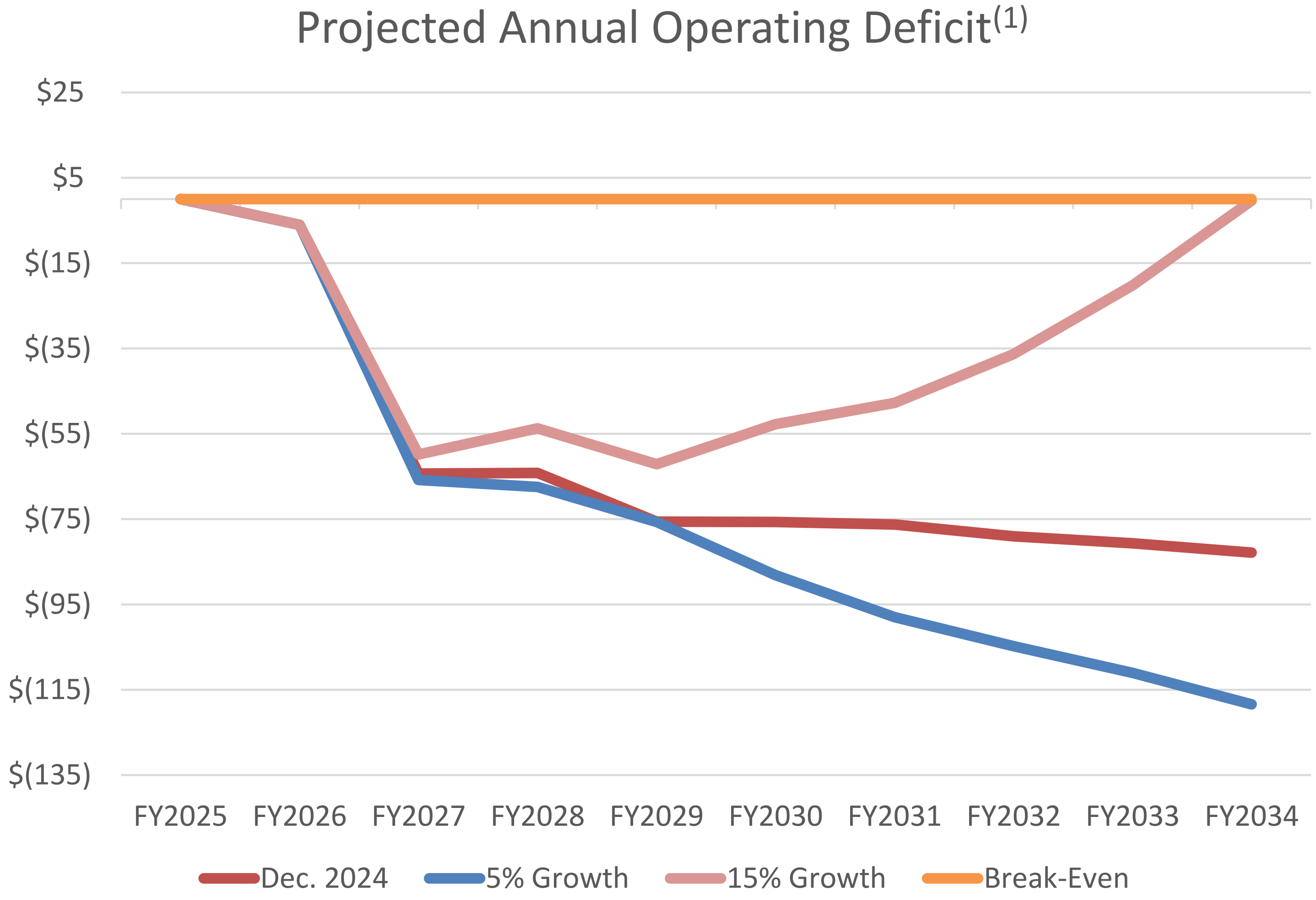
Operating Deficit Sensitivity[1]

- **Ridership return alone will not solve all of Caltrain's financial challenges.**



AVG. Ridership Growth FY27 to FY34	Est. FY34 Avg. Weekday Ridership[1]	Est. FY34 Annual Deficit[1]	Est. Cumulative Deficit FY25 to FY34[1]
15%	95K	$0M	$340M
9%	64K	$83M	$605M
5%	45K	$120M	$750M

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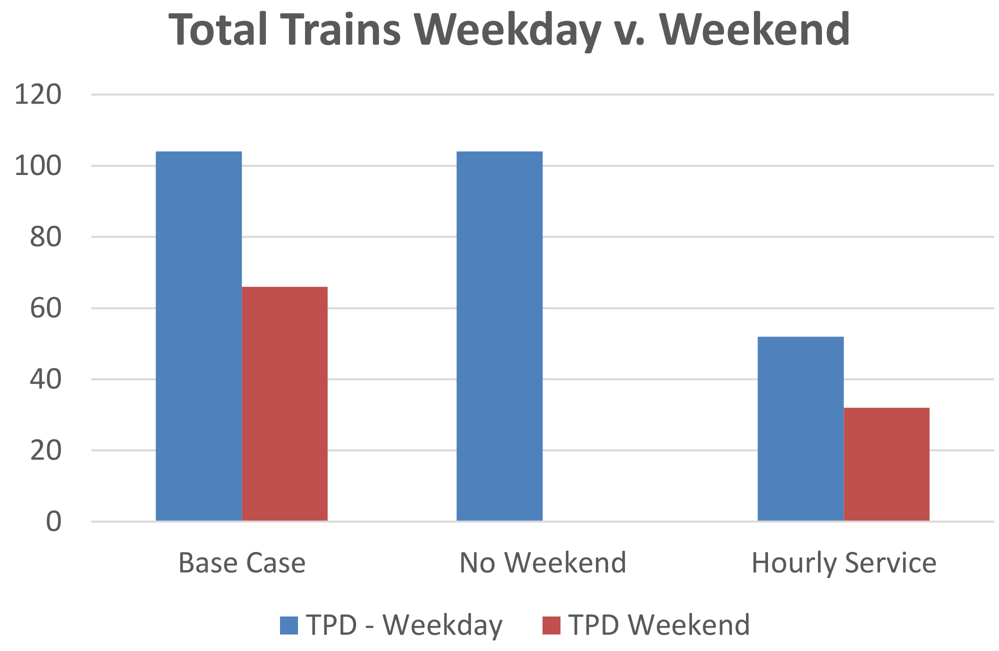
Service Level Sensitivity[1]

- **Base Case includes service increases in FY29 and FY31.**
- **Sensitivity test indicates that maintaining current service levels 104 tpd, 4 peak per hour, reduces the projected deficit by ~$30M to $40M over 10 years[1].**
  - Net Cost/Benefit is highly farebox dependent and ridership projections that far in the future are challenging and uncertain.
  - Over the next 10 years, maintaining current service levels has projected results of[1]:
    - ~$90M decrease in expenses ($70M Rail/$20M Electricity)
    - ~$50M to $60M loss in farebox revenues
- **The financial decision on increasing service is tied to how much incremental fare revenue offsets any incremental cost increase or reduction.**
  - Depending on timing of any service increase, requires extension of FFGA waiver beyond December 31, 2027.

(1) For illustration purposes only; Subject to change. Actual Results will vary.

Further Service Reductions[1]

- **Additional service cut alternatives evaluated:**
  - Eliminating Weekend Service
  - Providing Hourly Service 7 days a week (no peak).
- **Ultimate financial impact driven by potential cost savings v. lost fare revenue[1]**
  - Total Cost forecast FY25 to FY34 = **~$3.2B**
  - Total Farebox forecast FY25 to FY34 = **~$1.0B**[2]
- **For No Weekend, if Caltrain saved ~5% of total costs, could only lose ~16% of farebox to break-even[1]**
  - If Caltrain lost a greater percentage of farebox, there would be no savings and a potential net cost increase
- **For Hourly Service, if Caltrain saved ~10% of total costs, could only lose ~32% of farebox to break-even[1]**
  - Seems challenging if we are cutting service by 50%



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(2) Includes GoPass revenues.

Potential Operating Cost Reductions

- **If no additional funding is realized, will require very difficult decisions and some combination of:**
  - FTE reductions
  - Deferred maintenance
  - Member contributions
  - Service cuts
  - Mothball portions of fleet
- **Presents significant uncertainty and challenges to Caltrain's long-term business and service model.**
  - Impact on ridership could be dramatic <u>and long-term</u>
  - High fixed costs and low variable costs
  - Inability to ramp labor up and down easily
  - Asset disposition has long-term implications

2024 - A Year to Remember!

- **There has been a lot of success over the past year!**
  - Launch of electrified service!
  - Great customer reception and growth in ridership!
  - Procurement of 100% renewable energy with 0% carbon!
  - Registration at CARB for LCFS revenues!
  - Forecasted reduction of electric consumption by 25%!

Key Take-Aways (December 2024)

- **Use one-time funds continues to address most short-term funding needs in FY25 and FY26.**
  - $25M SB125 funds and $29M in Measure RR in FY26.
  - With exhaustion of one-time funds, FY27 deficit forecast of $65M.
- **Growing ridership, cost containment and non-fare revenue strategies remain top priorities**.
  - Optimizing crewing and rail operating costs and managing electric costs.
  - Seeking incremental funding from Caltrain’s assets.
- **Growth in ridership and Measure RR will not be enough; critical prioritize long-term funding**
  - Even with large increases in ridership, there will be an operating funding gap.
  - Systemic deficit forecast of an average of ~$75M from FY27 to FY34.
- **Cutting service alone will not address the funding shortfall.**
  - Eliminating weekends or providing hourly service would not balance the budget and would still require additional stable and ongoing funding.

Next Steps and Recommendations

- **Recommendation #1: Riders, Riders, Riders**
  - Every strategy that can be used to grow ridership is critical.
  - Need to reinvent Go Pass program and evaluate how best to market the service.
  - Public engagement on any potential changes to the fare structure, including analysis of demand response
- **Recommendation #2: Continue to focus on cost containment and capturing incremental revenues.**
  - Continue to optimize crewing and operations given electric service.
  - Capture financial benefit of regenerative braking and develop, evaluate, and present a Battery Storage Plan.
  - Aggressively pursue non-fare revenue opportunities.
- **Recommendation #3: Implement long-term funding strategy because FY27 is right around the corner.**
  - Continue to participate in Regional Measure discussion.
  - Pursue proactively potential local funding options.
  - Consider impacts of no new funding.
- **Recommendation #4: Align future SFP updates with budget process.**
  - Continue to update SFP annually but alter timing to reduce risk of differences with budget.
- **Staff will continue to monitor and update key revenue and expense drivers and provide periodic updates to the Board, funding partners, and the public.**