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

Citizens Advisory Committee

January 15, 2025
Agenda Item 7

FY2025 Operating Budget Update

Staff is committed to maintaining the FY2025 total expense level at $238M as adopted in June 2023:

- Positive developments that reduced the FY2025 expenditure level pressure:
  - Significantly less actual EMU energy consumption
  - CARB designation to maximize LCFS credit
- Cost reduction measurements implemented:
  - Reduction of FY2025 new FTE requests and delayed recruitment of vacant FTEs
  - Reduction/delay of non-critical professional support and office operating need

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

FY2025 Operating Budget Update

Ridership growth and non-revenue generation efforts underway:

- Ridership and Fare Revenue Growth task force
- New Go Pass pricing structure and marketing sounding
- Non-Fare Revenue Strategy Study (early 2025) focus areas:

  - *Leasing of real estate for commercial, retail, solar, cell towers, and/or EV charging infrastructure etc.*
  - *Joint development of JPB real estate assets including air rights*
  - *fiber optic assets*
  - *advertisement/marketing revenue, ads and/naming rights for stations/trains*

Staff will provide the Board with timely updates on the ridership growth, Go Pass, and potential non-fare revenue generation strategy implementation throughout the year

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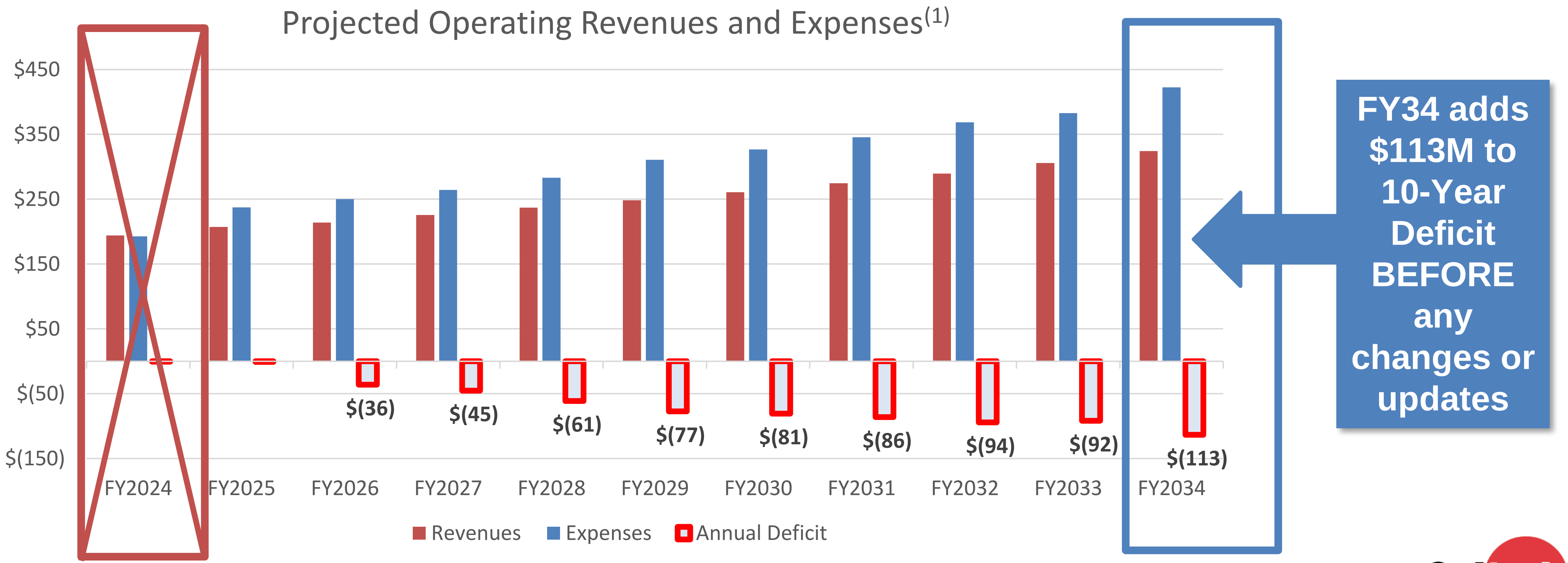
Strategic Financial Plan (SFP)

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%

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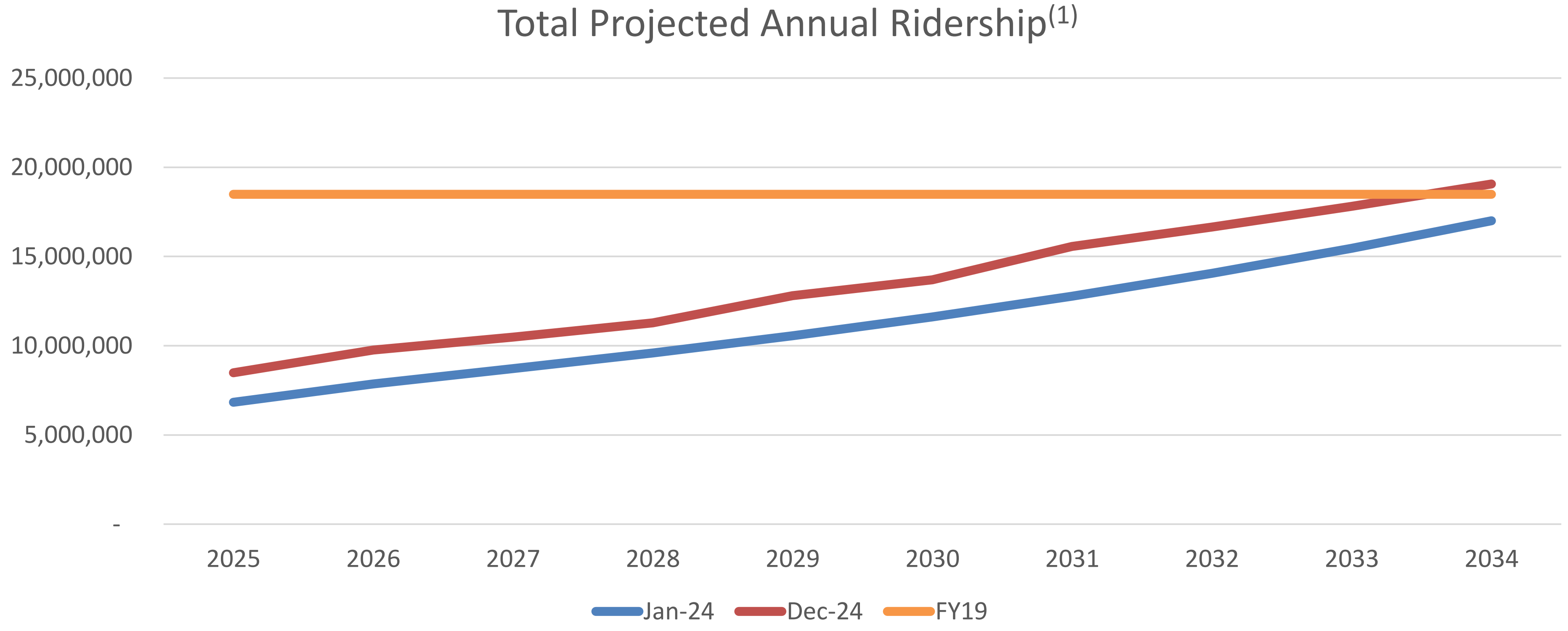
TOTAL Ridership(1) - Jan. ‘24 vs. Dec. ‘24

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



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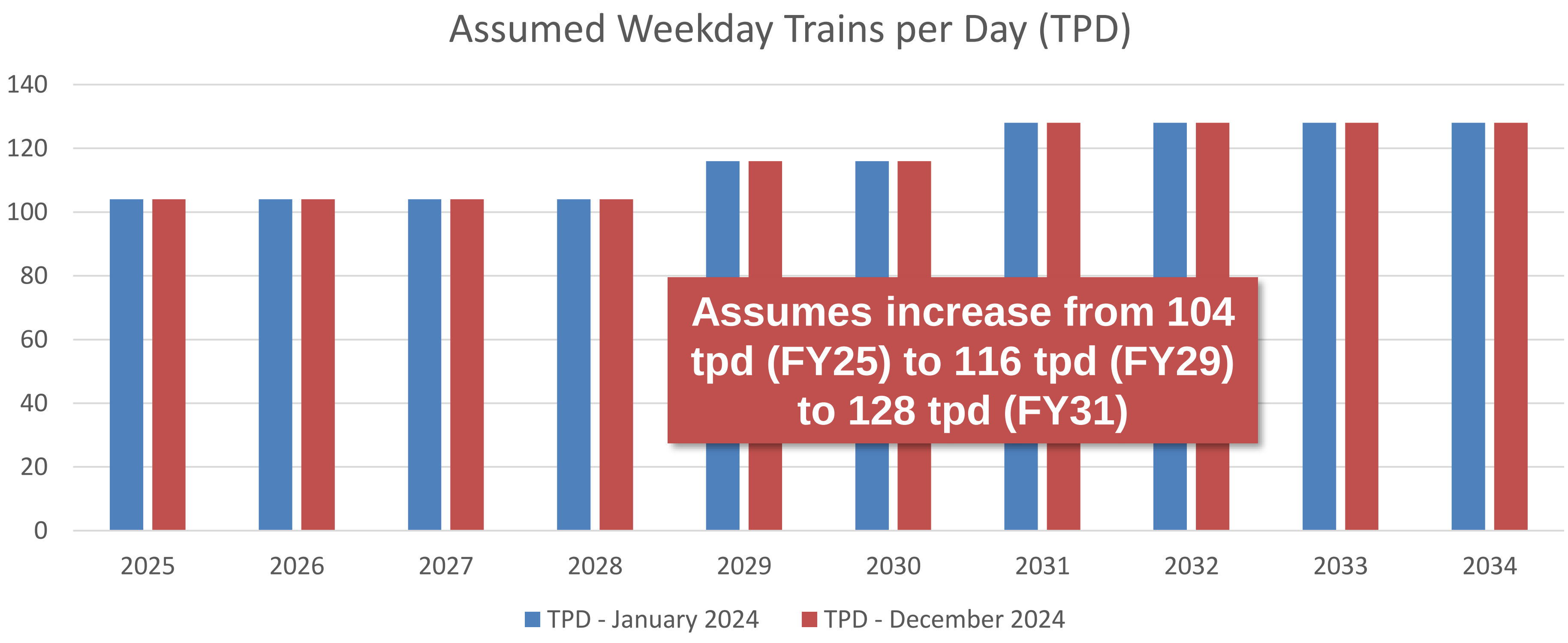
Service Assumptions – Jan. ‘24 vs. Dec. ‘24

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



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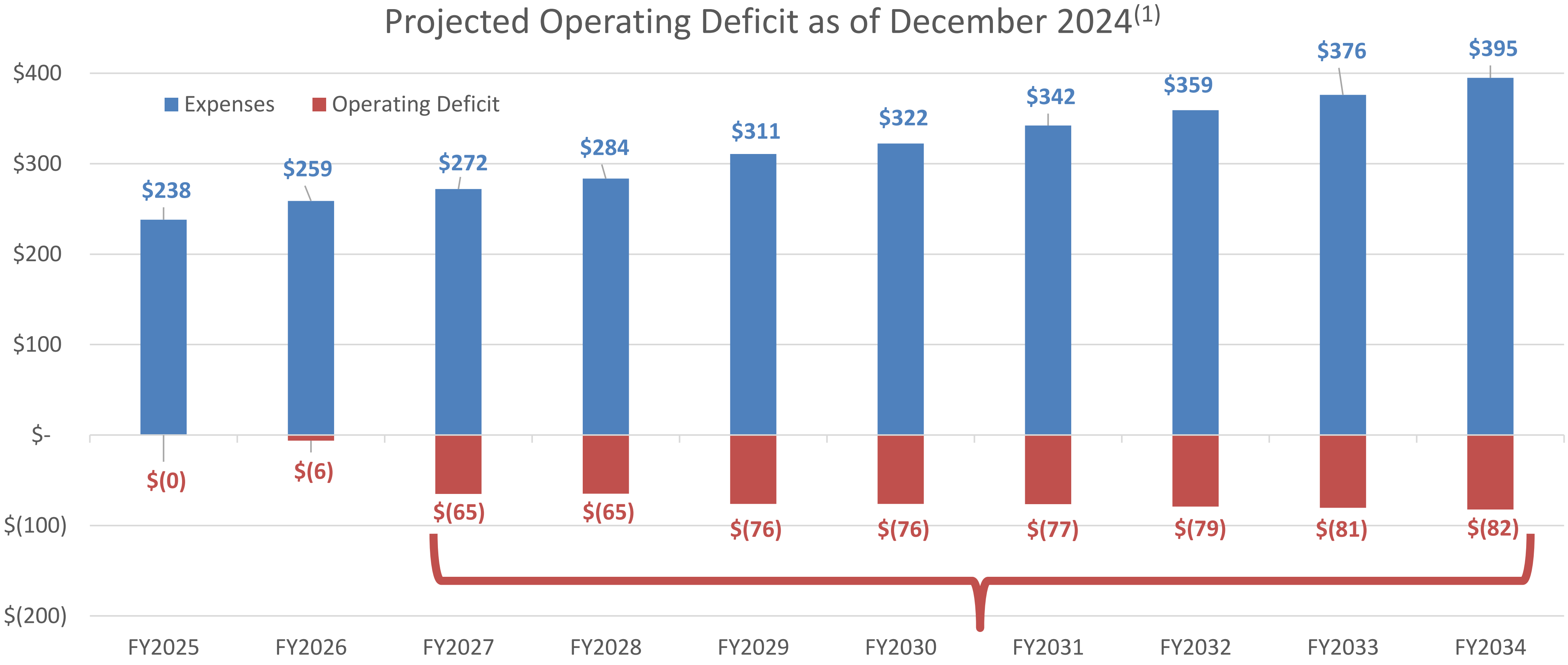
Projected Operating Deficit – December 2024[(1)]

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



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Average Annual Deficit = $75M/yr

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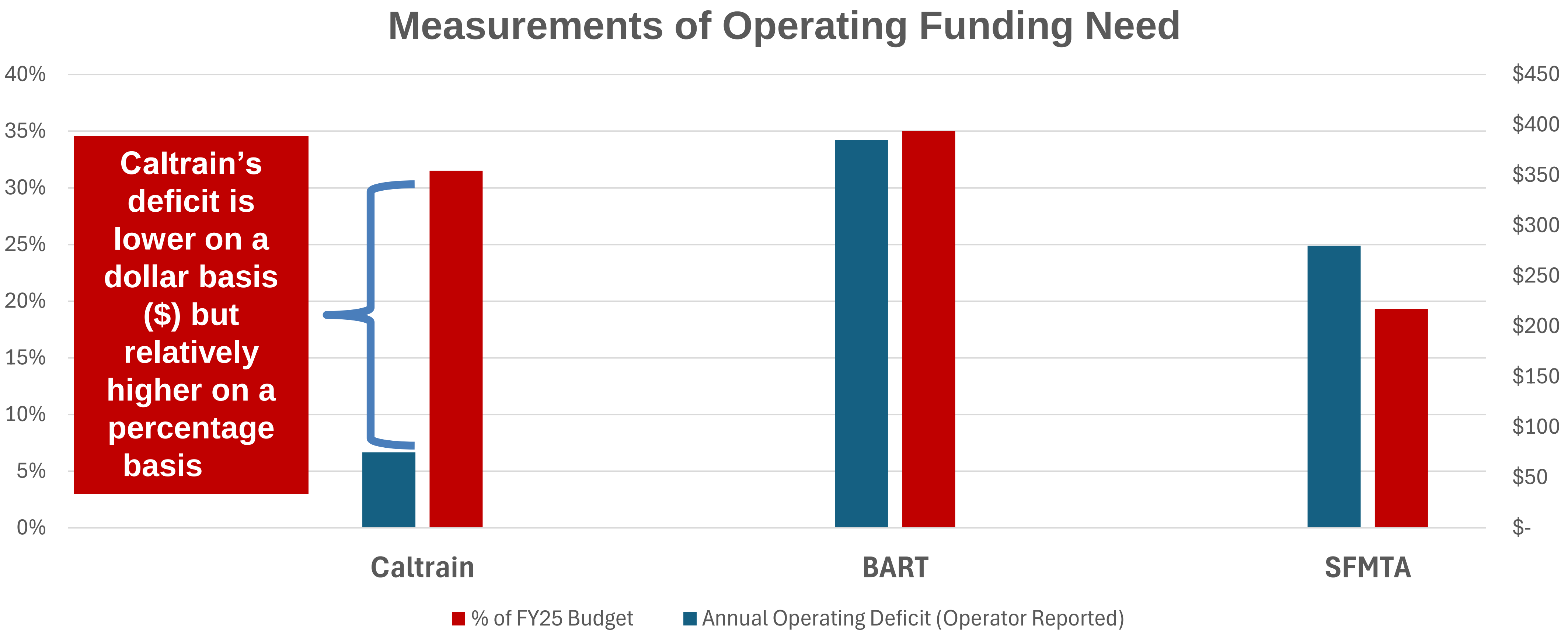
Projected Deficit Comparisons(1)



(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 FTEs from FY26 to FY34, unless projections materially change
    - Professional services held flat beginning FY29
    - $105M reduction in electric costs through FY34 with assumed annual growth of 5%(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 – Electric Procurement Strategy

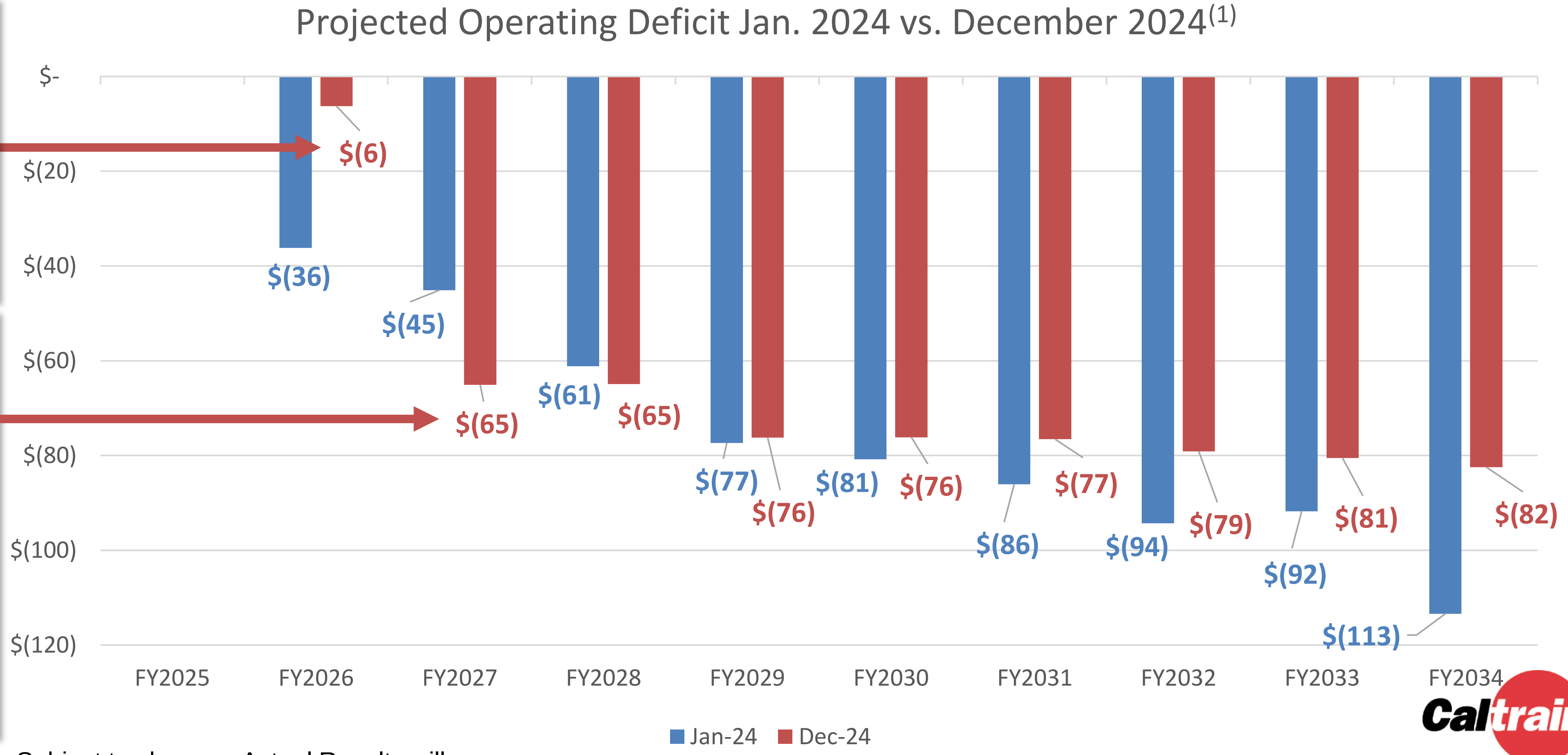
- **Caltrain continues to implement proactively its Energy Procurement Strategy (EPS).**
  - Successfully purchasing **100% renewable energy with 0% carbon** from Peninsula Clean Energy (PCE) and San Jose Clean Energy (SJCE).
  - Successfully registered with CARB for the Low Carbon Fuel Standards (LCFS) 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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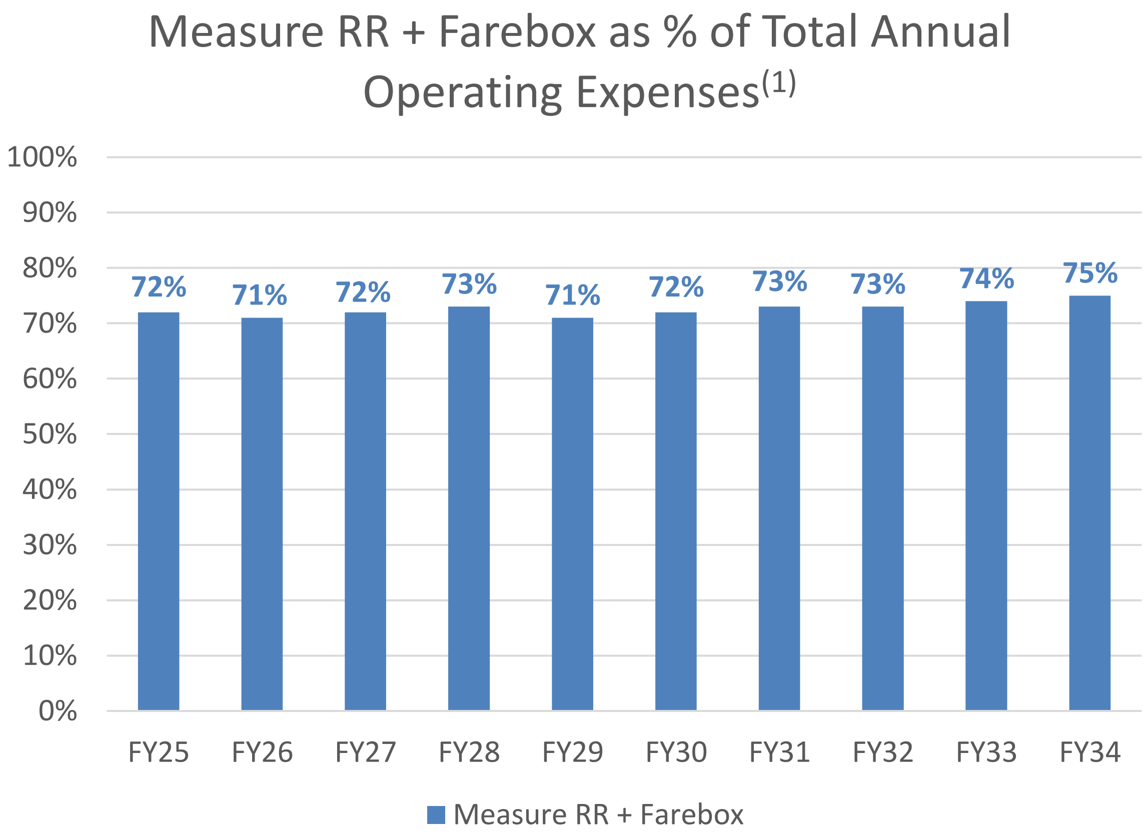
Projected Operating Deficit Moving Forward[1]

- **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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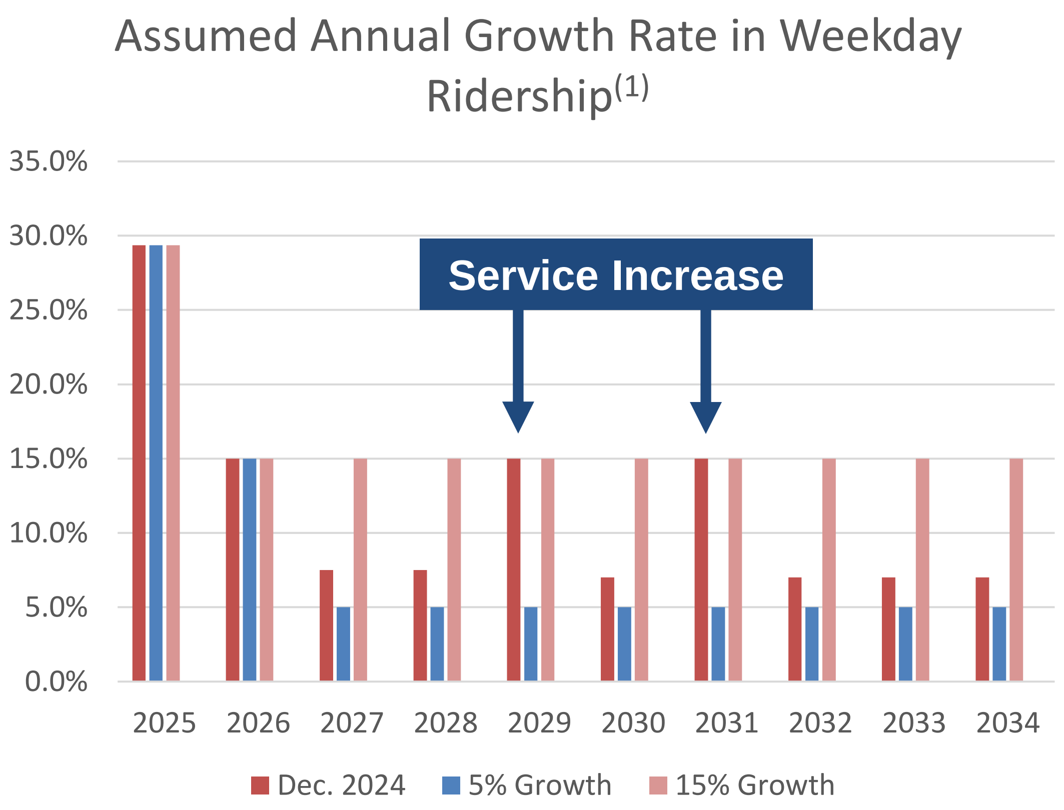
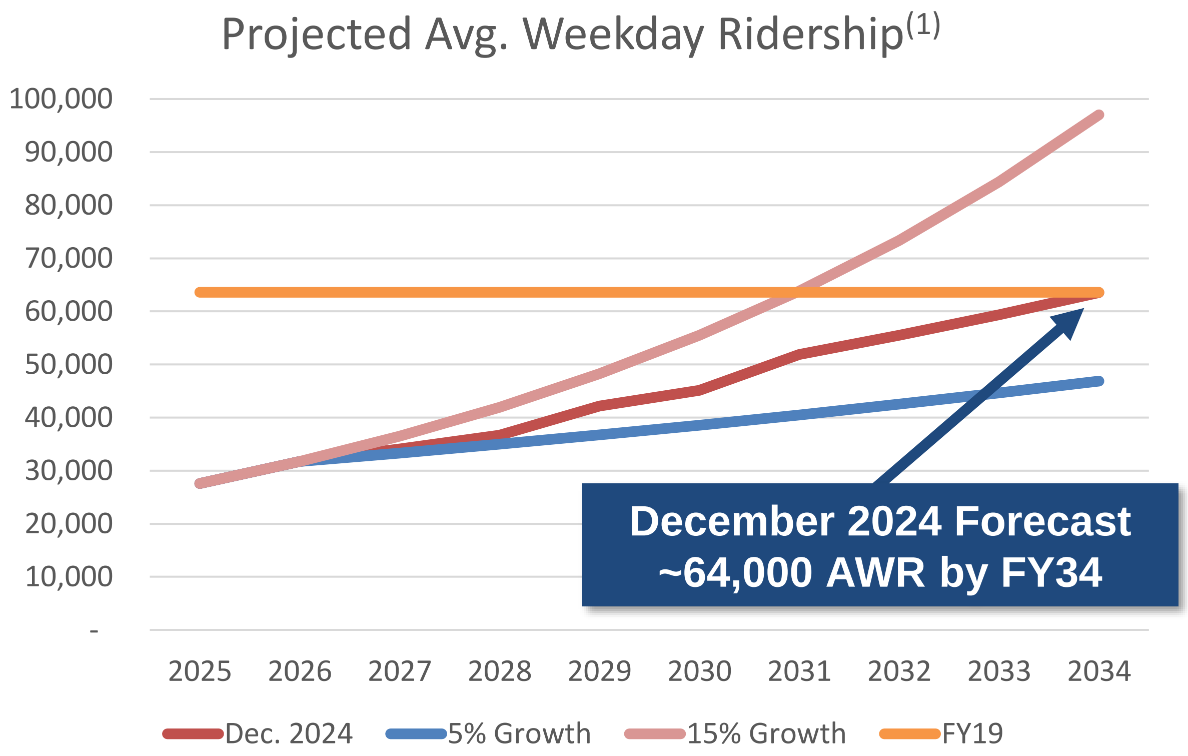
Ridership Sensitivity - Closing the Gap(1)

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





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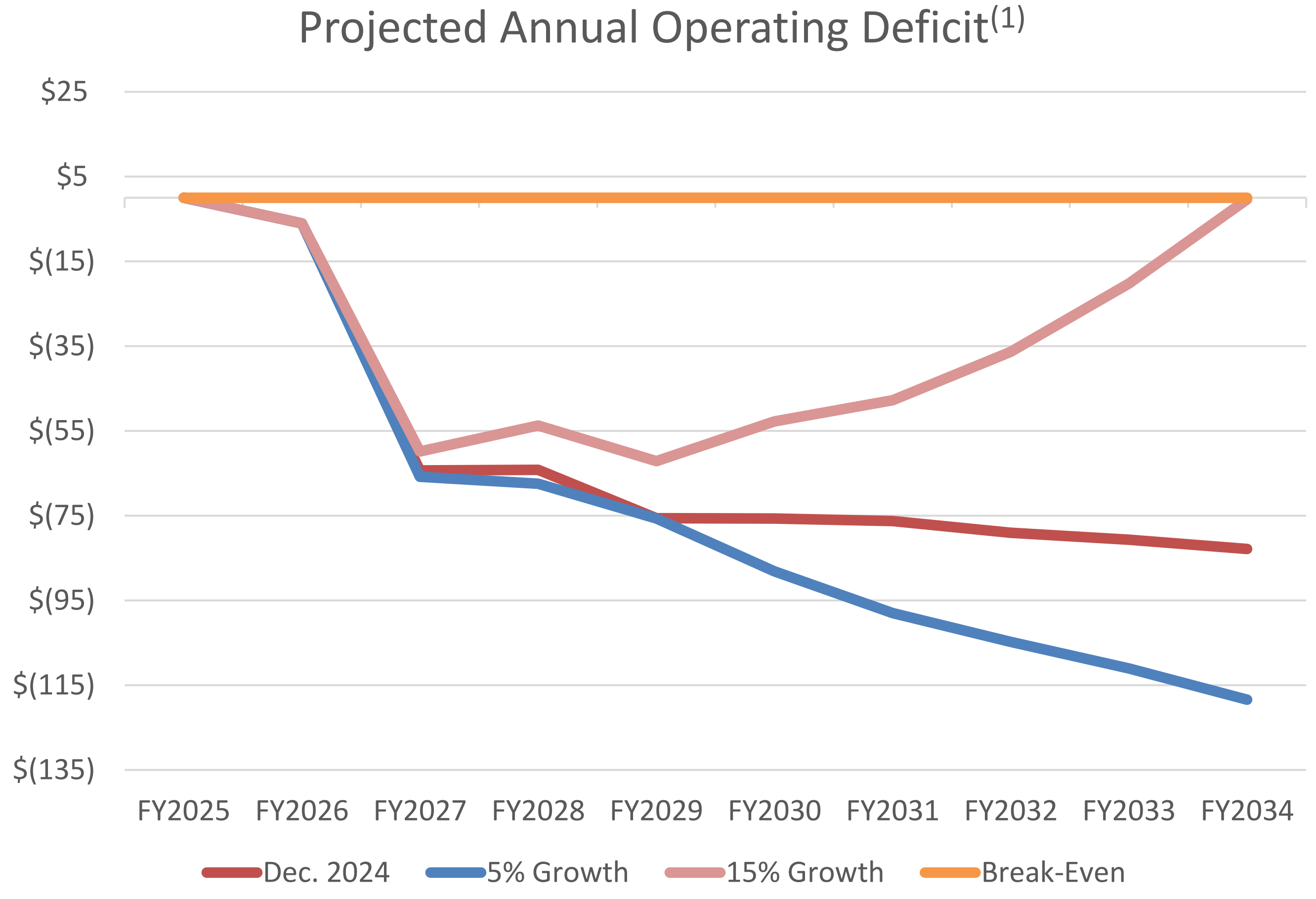
Ridership Sensitivity[1] - Operating Deficit

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

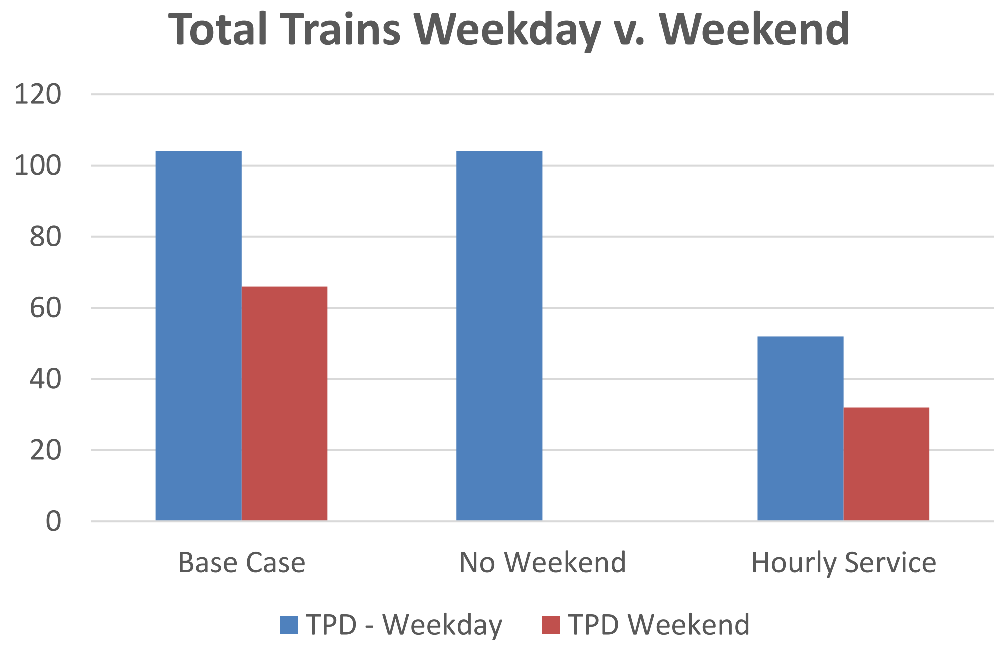


AVG. Ridership Growth FY27 to FY34	Est. FY34 Avg. Weekday Ridership[1]	Est. FY34 Annual Deficit[1]	Est. Cumulative Deficit FY25 to FY34[1]
15%	95K	$0M	$340M
9%	64K	$83M	$605M
5%	45K	$120M	$750M

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

Additional Operating Cost Reductions

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

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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.**