

20-Year Financial Plan and Downtown Rail Extension Project Capital Cost Estimate & Funding Plan Update

Citizens Advisory Committee

February 7, 2023



Outline

- 20-Year Financial Plan
 - Components and Requirements
- TJPA's Operating and Capital Projection
 - 20-Year Operating Projection
 - 20-Year Capital Projection, excluding Downtown Rail Extension (DTX)
- DTX Project Capital Cost Estimate
 - Developing the estimate: elements, process, and cost drivers
 - DRAFT Feb 2023 DTX Project Cost Estimate
- DTX Capital Funding Plan
 - Federal Transit Administration (FTA) Funding Grant Milestone 1
 - Strategic Considerations
- DTX Incremental Operating Costs and Funding Approach
 - DTX Incremental Operating and Maintenance (O&M) Costs
 - Incremental O&M Funding Approach

20-Year Financial Plan Components & Requirements

■ Capital Plan

- Describes sources/use of capital funding for TJPA and Caltrain
- Demonstrates approach to deliver existing capital programs as well as implement DTX
- For February: demonstrate commitment of 30% of non-Capital Investment Grants (CIG) funding

■ O&M Plan

- 20-year forecast of O&M costs/funding for TJPA and Caltrain
- Demonstrates the approach of the agencies to fund the incremental cost of expanded system/facilities
- For February: present "reasonable plan to secure funding commitments" to fund operation of the expanded system

TJPA's 20-Year Financial Plan

Operating Revenue Assumptions

- Regional Measure (RM) 2 and 3
 - RM 2 allocations continue to grow at 2.1% per year
 - RM 2 supplemental allocation ends after Fiscal Year (FY) 2024/25. Additional support assumed in FY 2031/32
 - RM 3 allocations reach \$5 million per year, no escalation
- Community Benefit District (CBD)
 - CBD is renewed beyond its initial term (June 30, 2030) and continues to cover 79.18% of Salesforce Park's operating and maintenance costs
- Retail and Advertising Revenue
 - Delays in tenant openings, downtown recovery and adjusted rents continue impacting near term revenue. Full recovery by FY 2029/30
- Lease and Use Payments
 - Lease and Use payments decrease from \$5M in FY 2023/24 to \$2.7M in FY 2031/32. TJPA continues to seek alternative funding as gradual loss of purchasing power by RM 3 results in an increase of Lease and Use payments over time.

Operating Expenditure Assumptions

- Salesforce Transit Center

- Consistent with adopted FY 2023/24 Preliminary Operating Budget
- Meets existing staffing and service levels and supports full operation of the Transit Center
- Projections assume a long-term 3% growth in costs

- Salesforce Park

- Park expenses continue to be a prorated share of the Transit Center's expenses
- Public Programming, landscaping, and park management fee continue at current service levels

Operating Reserve Assumptions

- Emergency Reserve

- Funded at Reserve Policy level of \$500,000

- O&M Reserve

- Reaches Reserve Policy level of 25% by FY 2024/25 with transfers from RM 3 reimbursements

- Transfers to Capital Replacement Reserve

- Transfer unspent AC Transit Capital Contribution to Capital Replacement Reserve
- Transfer additional anticipated RM 3 reimbursements to Capital Replacement Reserve

Capital Revenue Assumptions

- AC Transit Capital Contribution
 - Assumes annual capital maintenance contribution continues at \$500,000 per year
- Community Benefit District (CBD)
 - CBD is renewed beyond its initial term (June 30, 2030) and continues to cover 79.18% of Salesforce Park's capital improvements and maintenance costs
- Net Tax Increment
 - Excess net tax increment after repayment of existing and planned financings would be available to fund the Capital Replacement Reserve
- Capital Replacement Reserve
 - Increases over time with transfer of excess net tax increment. Transfer additional anticipated RM 3 reimbursements to Capital Replacement Reserve

Capital Expenditure Assumptions

- Capital Improvement Plan (CIP) is consistent with Board approved policy, subject to further refinement during the CIP development process
- Near-term estimates based on staff and asset manager estimates
- Out years are based on average near-term needs, a 3.5% annual escalation rate, and lifecycle replacement schedules
- Cost categories include:
 - Closeout of Phase 1
 - Facility Maintenance, Information Technology and Security
 - Park Maintenance
 - Wayfinding Enhancements
 - Tenant Improvements, among others

DTX Project Initial 20-Year Financial Plan

DTX Capital Cost Elements

- Construction (measured) Design (2022 \$s) – line item focused: yards of concrete, pounds of steel, feet of wire, systems elements, excavation, etc.
- Design Contingency – allowance for known unknowns at 30% design
- Escalation – to Year of Expenditure by construction package
- Construction Contingency – allowance for unknown unknowns
- Right of Way – estimated cost for acquisitions, easements, and relocations
- Program-wide Costs – agency staff, design, program support, construction management, insurance, legal, etc.
- Program Reserve – TJPA allowance should escalation, change orders, claims exceed limits of contingency

DTX Cost Review Process

- 30% Design Estimate - prepared by General Engineering Consultant
- Staff review - staff and Program Management/Program Controls in-depth reasonableness and completeness review
- Independent Peer Review - conducted by an independent estimating firm
- Escalation Evaluation – informed by retained economic forecast consultant and compared with various transit agencies
- Risk Register - Quarterly Integrated Program Management Team (IPMT) risk assessments for likelihood and severity of cost and schedule impact, and monitoring of mitigations actions
- Quantitative Risk Analysis - Simulation of potential cost and schedule impacts of project risks identified in the Risk Register, used to inform budgeted project contingency dollars
- IPMT Engagement - participated in risk identification and assessment, provided guidance on escalation and contingency approach

Key Assumptions for Draft Cost Estimate

- Escalation – 6% for 2023, 3.5% thereafter
- Risk – based on IPMT Quarterly Risk register scoring
- Design and Construction Contingency - budgeted contingency dollars to a P65 level of confidence for completing on budget, per FTA OP40
- Program Reserve – 8% of total program costs (excluding program reserve)
- Program-wide Costs – 22.5% of escalated measured construction, design and construction contingency total
- Estimated cost is exclusive of financing costs, maintenance of way vehicles, level boarding vehicle retrofits, or additional rolling stock
 - Updated guidance from FTA requires inclusion of financing costs when requesting entry into Engineering phase. Staff is working to determine financing costs to be borne by the project for advancing FTA's CIG grant funds to align with projected expenditures

Draft 2023 DTX Cost Estimate

Category	Cost Estimate (\$m)
Utility Relocation	\$34
Demolition	\$8
Civil / Tunnel	\$2,336
Station Fit Out	\$698
Systems & Trackwork	\$526
Allowances	\$114
Subtotal Construction	\$3,716
ROW acquisition	\$340
Program-wide	\$904
Design Contingency	\$856
Construction Contingency	\$370
Program Reserve	\$494
Subtotal	\$2,964
TOTAL	\$6,680

Subject to change due to FTA review and adjustments after FTA submittal in February 2023. Baseline budget to be adopted by TJPA Board in August 2023

* Estimate is presented in Year of Expenditure Dollars

**Values do not total due to rounding

DTX Capital Funding Plan

Funding Source/Category	Estimated Amount / Target Range (millions of YOES)
FTA Capital Investment Grant (~49%)	~\$3,300
Other Federal Programs (e.g., CRISI, Mega, FSP, etc.)	~\$600-700
State Transit Intercity Rail Capital Program (TIRCP)	\$560
High-Speed Rail (State/Federal Funds and/or CHSRA TBD)	\$550
MTC Regional Measure 3 (RM3)	\$325
Other/Future Regional Source(s)	TBD
Partner Agency Contributions to Project Dev./Engineering	\$12
Transit District Sources (CFD, Tax Inc, Dev Funds, etc.)	~\$925
SFCTA Sales Tax (Prop K and Prop L)	~\$320
Regional Transportation Improvement Program (RTIP)	\$18
Other Local Sources	\$50
New/Expanded Local Sources and Private Sources	TBD
Total Committed/Budgeted/Planned/Potential	~\$6,700+

DTX Capital Funding Plan

Project must demonstrate commitment of at least 30% of non-CIG funds, in order to progress to FTA Engineering phase of CIG process

Funding and Cost	Amount (Millions of YOE\$)	
Federal CIG – Planned	\$3,300	49%
Currently Committed Funds	\$1,064	31% of non-CIG
Estimated Capital Cost (Draft)	\$6,680	

Currently Committed Sources	Amount (millions of YOE\$)
MTC Regional Measure 3	\$325
MTC Contribution to Engineering (via Prop K)	\$3
Caltrain FY22/23 Contribution to PD/Eng	\$1.5
SFCTA Contribution to Eng (via Prop K)	\$3
SFCTA Other Prop K	\$18
SFCTA Prop L	\$300
CFD Funds (previous issuances)	\$32
CFD Bond Proceeds 2021B & 2022B	\$73
CFD Pay-Go Funds	\$28
CFD Future Proceeds (through FY28/29)	\$89
Tax Increment Bond Proceeds	\$114
Transit District Impact Fees	\$16
Developer Funds	\$62
TOTAL	\$1,064

DTX Capital Funding Plan

Strategic Considerations

- Assuming a successful CIG FFGA and the Committed + Budgeted sources, the project would be 74% funded
- Significant additional work in next ~24 months to complete funding plan and secure remaining funding commitments needed for FFGA, including:
 - Pursuit of competitive grants at all levels
 - Coordinated state and federal advocacy
 - Regional prioritization and support
 - Development of new/expanded local funding sources (e.g., Tax Increment term extension)
 - Consideration of financing strategies (e.g., USDOT TIFIA)
 - Incorporation of capital cost savings from Value Engineering

DTX Incremental O&M Cost Assumptions

- Includes only TJPA and Caltrain operations
 - Future CHSRA operations not reflected; FTA evaluation based on initial condition during which Caltrain will be sole rail operator
- Completion of construction and commissioning in Fall 2032
 - First complete year of Caltrain operations in 2033
- Caltrain Service Plan:
 - 4 trains per peak hour per direction (pphpd) to Fourth & Townsend and Salesforce Transit Center
 - 6 trains pphpd between Fourth & Townsend/King and San Jose
 - Caltrain seeking grant for 3 of 4 additional electric replacement trainsets to increase service to 6 trains pphpd between San Jose and Salesforce Transit Center
- Ridership Forecast:
 - Completion of Caltrain electrification
 - Incremental ridership recovery from COVID over medium-term (next ~10 years)
 - Long-term (~2040) forecast consistent with FTA "STOPS" model

Preliminary DTX Incremental O&M Cost

Cost Element	Cost (2023\$s) M
Traincrews, Supervisors, Expenses, Operations and Dispatch Management, Administration, Safety, Finance, Timetables and Tickets, and Security	\$6.9
Rolling Stock (Diesel and EMU) Maintenance, Fuel, Lubricants, and Utilities	\$5.5
Stations, Track, OCS/TPS, Equipment Maintenance, and Spare Parts	\$23.4
Insurance, Claims, Payments, and Reserves	\$1.2
Wages and Benefits	\$2.3
Professional Services	\$0.4
Other Office Expenses and Services	\$0.3
TOTAL	\$40.0

DTX Incremental O&M Funding Approach

- A fully-committed O&M funding plan is not required at this stage in the CIG process. FTA requires a “reasonable plan to secure funding commitments” to operate the transit system in opening year
- Financial Plan for February submittal will reflect known operating funding sources, remaining O&M shortfall and potential funding sources

Category	Sources
Known Sources	<ul style="list-style-type: none"> ■ Incremental Fare Revenue ■ Incremental Facility Revenues, including Naming Rights
Potential Additional Sources	<p>Multiple potential sources, including:</p> <ul style="list-style-type: none"> ■ Transit Center fare surcharge / additional fare zone ■ Future local, sub-regional, or regional O&M funding measure(s) ■ Additional commercial revenues ■ Future joint development revenue ■ Developer contributions / Transportation Demand Management (TDM) programs ■ Other future TBD



Questions?

TJPA
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