Transbay Joint Powers Authority and Peninsula Corridor Joint Powers Board
Joint Ad Hoc Committee
Staff Report

To:	Joint Ad Hoc Committee	
Through:	Executive Director Michelle Bouchard (Caltrain) and Executive Director Adam Van de Water (TJPA)	
From:	Dahlia Chazan (Caltrain) and Alfonso Rodriguez (TJPA)	
Subject:	Provide Guidance Regarding Operations and Maintenance Funding Gap for The Portal	

Purpose and Recommended Action

Staff for the Transbay Joint Powers Authority (TJPA) and the Peninsula Corridor Joint Powers Board (Caltrain) recommend that the Joint Ad Hoc Committee provide guidance to the agencies regarding the projected operations and maintenance (O&M) funding gap for the Downtown Rail Extension project (DTX, also known as The Portal).

Background

The purpose of this report is to summarize The Portal's projected operations and maintenance funding gap and to describe the specific challenges related to the funding gap that remain unresolved. The Portal will connect Caltrain's regional rail system and the future California High-Speed Rail Authority's statewide system to the multimodal Salesforce Transit Center in downtown San Francisco. TJPA, the project sponsor, seeks funding for the project through the Federal Transit Administration (FTA) Capital Investment Grants (CIG) Program - New Starts and other federal, state, regional and local sources. For New Starts projects, the FTA requires completion of two phases, Project Development and Engineering, before receipt of a Full Funding Grant Agreement (FFGA). The Portal was in the Project Development phase since December 2021 until early May, when FTA approved The Portal's entry into the Engineering phase. In the letter of approval for engineering, FTA specifically states that TJPA must execute a Master Cooperative Agreement with Caltrain "outlining the specific operating roles and responsibilities and shares of operating costs between the two agencies" before receipt of a FFGA.

In support of TJPA's request for an FTA CIG for The Portal, TJPA developed a 20-Year Financial Plan (Financial Plan) with input from Caltrain and the San Francisco Transportation Authority (SFCTA). The latest version was approved by the TJPA Board in August 2023 and submitted to the FTA. Over the last several months, the FTA and its Project Management Oversight Consultant (PMOC) and Financial Management Oversight Consultant (FMOC) have conducted review and due diligence on the Financial Plan and other documentation.

The FTA requires that the Financial Plan include the O&M costs for the existing infrastructure, as well as the capital and incremental O&M costs for the proposed project. Thus, the TJPA's Financial Plan is made up of (1) TJPA's 20-Year Financial Plan, (2) Caltrain's 20-Year Financial Plan, and (3) The Portal Project 20-Year Financial Plan. The Financial Plan provides a 20-year forecast of the sources and uses of capital funds and O&M funds for both TJPA and Caltrain, for both the existing system and the implementation of The Portal.

This report focuses on the O&M component of the Financial Plan and the gap in funding to cover O&M costs. Staff plans to return to the Joint Ad Hoc Committee at a future committee meeting to discuss issues related to capital funding for the project.

The Financial Plan identifies the O&M costs and revenues to operate existing services (for both TJPA and Caltrain) plus the incremental services associated with The Portal (Operating Plan). The purpose of the Financial Plan as a whole, and the Operating Plan portion in particular, is to demonstrate that The Portal can be operated and maintained without compromising the operation of the existing TJPA facilities and Caltrain systems (this is an FTA requirement as part of the New Starts process). Accordingly, the Operating Plan identifies (1) TJPA's expected operating costs and sources of funds for O&M of TJPA's existing services (namely, the Salesforce Transit Center), (2) Caltrain's expected operating costs and sources of funds for O&M for Caltrain's existing system, and (3) the incremental operating costs and sources of funds for O&M for The Portal.

An FTA FFGA requires a 100% local match in committed capital funding. The FTA does not require a fully-committed O&M funding plan for candidate CIG projects and only requires that sponsors demonstrate a "reasonable plan to secure funding commitments to operate the transit system in its opening year." As a result, the Financial Plan for O&M costs and revenues is significantly less detailed than the capital funding plan at the time of this writing.

O&M Incremental Cost Estimate

With regard to O&M, the Operating Plan outlines the operating, maintenance, and capital renewal costs necessary to provide The Portal service, which includes expenses such as traincrews, security, rolling stock maintenance, station/track/equipment maintenance, spare parts, insurance, administrative expenses, etc.

The following assumptions (among others) are built into the Operating Plan incremental cost estimate:

- **Level of Service:** The Operating Plan assumes Caltrain operates four trains per peak hour per direction (pphpd) between the City of San Jose, Fourth & Townsend and Salesforce Transit Center stations, while the Caltrain mainline service (San Jose to Fourth & Townsend/King) is projected to be six trains pphpd. Future CHSRA operations are not reflected in the plan since the FTA evaluation is based on initial conditions during which Caltrain will be the sole rail operator.

- **Asset Disposition:** The Operating Plan assumes that Caltrain will have responsibility for the operation of the Caltrain rail service. Responsibility for maintenance and capital renewal of the two underground stations, the DTX tunnel, and all the associated infrastructure is currently under negotiation and will be codified in a Master Cooperative Agreement (MCA) between TJPA and Caltrain. The MCA is considered a critical Third-Party Agreement by the FTA and must be in place before an FFGA can be requested. The outcome of the discussion about asset disposition, however, does not affect the Operating Plan incremental cost estimates.
- **Ridership:** The Operating Plan assumes ridership values over the 20-year term of the plan based on application of FTA's Simplified Trips-on-Project Software (STOPS) model. The model uses a blend of pre- and post- pandemic ridership forecasts to partially acknowledge ridership declines experienced during, and continuing after, the COVID-19 pandemic. FTA's STOPS model estimates that *without* The Portal project, Caltrain ridership will grow at about 16% per year from FY25-FY30 as the Peninsula Corridor Electrification Project (PCEP) project comes online, and level out at about 2.5% per year thereafter. FTA's STOPS model estimates that *with* The Portal project, Caltrain ridership will grow 15.9% in FY33 (the projected year of completion of The Portal) and continue to grow at about 8%, 5%, and 4% per year for the next three years, stabilizing at about 2% per year thereafter. FTA's model anticipates that by FY45, The Portal project will result in about 5 million more Caltrain riders per year than baseline Caltrain ridership projection without the Project. As noted above, the Financial Plan, including the Operating Plan component, does not include any California High-Speed Rail Authority riders in the projection.
- **Inflation:** The Operating Plan makes assumptions about annual escalation over the required 20-year term.

Incremental O&M costs (including direct, administrative, and contingency costs) for The Portal project in fiscal year 2033 (start of revenue service) and in fiscal year 2042 (the final year estimated in the Financial Plan) have been preliminarily estimated at $50.8 million and $78.7 million, respectively, in year-of-expenditure dollars.

<u>O&M Incremental Revenue Estimates</u>

In addition to O&M costs, the Financial Plan identifies existing and potential future O&M revenue sources. Potential O&M funding sources include, among other things, the TJPA's naming rights agreement, modest revenue from commercial opportunities at the two new rail stations and forecasted fare revenues due to project-induced ridership gains.

As noted above, the fare revenue estimates are based on ridership forecasts derived from the Federal STOPS model, which the FTA requires CIG applicants use to model ridership. The ridership forecasts use both pre- and post-pandemic ridership to partially acknowledge ridership declines experienced during, and continuing after, the COVID-19 pandemic. For modeling purposes, the partners assumed the average Caltrain fare generated per boarded passenger remains at $6.29 from FY22 until FY25 and grows at $0.25 increment per year starting in FY26. FTA's STOPS model estimates that the total fare revenue *without* The Portal would be about $158 million per year in FY33 and grow to $250 million per year by FY42 (in year-of-expenditure dollars). FTA's STOPS model estimates that the total fare revenue *with* The Portal project would be about $179 million per year in FY33 and grow to $304 million per year by FY42 (in year-of-expenditure dollars).

Using FTA's ridership modeling, the incremental fare revenue (defined as the difference between the fare revenue for build and no-build) in FY33 covers only 41 percent of the incremental O&M cost estimate (a shortfall of about $30 million), and in FY42 covers only 69 percent of the incremental cost (a shortfall of about $25 million). But while the incremental annual O&M cost of The Portal is projected to be 12 percent of Caltrain's total operating cost in FY42, the incremental annual fare generated by The Portal is projected to be 18 percent of Caltrain's total fare revenue that year. Using the FTA model, The Portal project increases Caltrain's total farebox recovery to 48 percent in FY42 compared to Caltrain's expected recovery of 45 percent without the project.

The FTA model assumes the entirety of an incremental passenger's fare is assigned to the project, regardless of whether they boarded the train at Fourth and Townsend station and traveled a single stop to Salesforce Transit Center station or boarded in Gilroy and traveled to the Salesforce Transit Center. If such a method were used to allocate all of this revenue only to support O&M of the DTX, the funds would not be available to support Caltrain's O&M on the rest of the system.

O&M Funding Gap

The Financial Plan recognizes that the project has a significant O&M funding gap that neither Caltrain nor TJPA can fund without new and additional funding. Historically, Caltrain achieved over 70 percent farebox recovery, but the current farebox recovery is approximately 25 percent since ridership is only at approximately 34 percent of pre-pandemic levels. This decline in ridership, especially for an agency that has historically relied on fare revenues for such a significant share of the annual operating budget, has created an operating shortfall for Caltrain even without The Portal. Additionally, Caltrain has service level commitments with the FTA related to its CIG grant for the PCEP that, once implemented, will increase Caltrain's operating costs; while these increased costs are estimated in the Financial Plan, the actual costs may be different.

The Financial Plan recognizes that recovering transit ridership should improve Caltrain's ability to fund its operations but will not be sufficient to fully-support existing service or the incremental cost of O&M attributable to The Portal. The Financial Plan explains that Caltrain is working with State and regional partners to identify a path to close its long-term operating deficit for the existing system, and The Portal partners will work together with other regional and state partners to seek funding for operation of the extension prior to FFGA.

<u>Role of DTX in Caltrain's Long Term Planning</u>

The Caltrain-adopted Business Plan reflecting its 2040 Service Vision Policy recognizes that The Portal will reshape Caltrain's interface with San Francisco and the region's transit network by enabling a direct connection into downtown San Francisco and more efficient transit connections to the East and North Bay via the key transfer point at Salesforce Transit Center, with its connection to nine other transit providers. The Portal is identified in the adopted 2040 Service Vision as a "key regional and state partner project." With the construction of The Portal and implementation of the plan's Service Vision, the Salesforce Transit Center station is projected to have the highest number of daily boardings throughout the entire system. Further, in line with the "enhanced growth" level of service, The Portal will provide the first two stations for Caltrain with level boarding, as well as provide modifications to the 4th and King railyard that will include operational and electrified fleet storage and support the maintenance capacity of that facility.

<u>Summary of Main Challenges and Unresolved Issues Related to O&M Funding</u>

- <u>Lack of Available O&M Funding Sources</u>. Prior to the pandemic, Caltrain had one of the highest farebox recovery ratios (percent of O&M costs covered by farebox revenue) nationwide at approximately 70%. However, the ridership declines due to the pandemic have significantly impacted farebox recovery: Caltrain now only covers ~30% of its O&M costs with farebox revenue. According to a January 18, 2024, Federal Support of Public Transportation report by the Congressional Research Services, even before COVID, nationwide commuter rail fares covered only 32.1 percent of O&M costs. Consistent with these national norms, neither TJPA nor Caltrain has sufficient revenue from existing sources to fully fund the costs the agencies anticipate will be needed to operate, maintain, and capitally renew The Portal. New sources of O&M funding are challenging to identify, and unlike capital funding, the need for O&M funding does not have an end-date. Most federal, state, and local funding sources are focused on capital projects rather than ongoing operations.
- <u>Caltrain Deficit Prior to The Portal.</u> Caltrain is projected to have a significant operating deficit prior to The Portal revenue service. Caltrain's Strategic Financial Plan (SFP), updated in February 2024, projects an annual operating deficit of $36M beginning in FY26 and increasing to $92M by FY33. Projections are inclusive of significant forecasted ridership growth, Measure RR revenues, and projected operating costs of electrification beginning in September 2024. Caltrain currently forecasts that combined farebox and Measure RR revenues will cover about 70 percent of Caltrain total annual costs for its existing system.

- Uncertainty Regarding Future Ridership and Associated Fare Revenue. Caltrain ridership was dramatically impacted by the COVID-19 pandemic and is currently only about 34 percent of its pre-pandemic levels. The uncertainty around ridership recovery makes it especially challenging to forecast ridership. From Caltrain's perspective, the ridership forecasts following FTA guidance, and associated fare revenue in the 20-year Financial Plan, portray an optimistic ridership scenario. On the other hand, all models are projections about the future and contain inherent uncertainty.
- Uncertainty in Estimating Induced Riders. The FTA STOPS model uses a formula to project the number of riders on the system that are induced to ride as a result of The Portal project and the benefit of arriving at the Salesforce Transit Center (rather than the existing Fourth and King station). During revenue service, it is not possible to distinguish between these types of riders. Caltrain is concerned that the model may overstate the number of induced riders. On the other hand, as described above, all models are projections. The parties will need to agree for planning purposes on a projected number of induced riders; TJPA and Caltrain will discuss other credible models that they can jointly rely on for planning purposes.
- Challenges in Calculating Incremental Fare Revenue. The Financial Plan calculates the full amount of the incremental fare revenue based on ridership from induced riders, including the full amount of fares from the entirety of their trip, and assumes all of that revenue is available to fund The Portal O&M costs. But there are O&M costs associated with the portion of a journey for riders boarding the system prior to Fourth and Townsend station. Caltrain and TJPA are discussing potential options for apportioning the incremental fare revenue .
- Challenges for Using a Fare Surcharge to Cover the Gap. The partners are reviewing a potential fare surcharge specific to the trip from Fourth and Townsend to Salesforce Transit Center. Caltrain's initial analysis of the impact of a fare surcharge for the extension demonstrates that while a surcharge could provide additional revenue, it would not cover the entirety of the O&M funding gap.
- Timing for California High-Speed Rail Service. As with O&M costs, the Financial Plan does not assume any fare revenue from California High-Speed Rail passengers into the transit center. The start of high-speed rail service is expected to result in significant revenue to offset O&M costs for the TJPA facilities. There is a timing gap, however, between the expected opening of The Portal and the expected arrival of high-speed rail service.
- Apportioning Costs of the Salesforce Transit Center**.** In addition to the incremental O&M costs for the DTX, there are O&M costs associated with the Salesforce Transit Center. The transit operators that currently use the facility (primarily AC Transit and San Francisco Municipal Transportation Agency (SFMTA)) fund the net operating cost. Those operators expect any new transit operator that uses the transit center to share in the net operating cost for the facility.

Summary of Proposed Principles and Cooperative Path to Resolve O&M Funding

- TJPA and Caltrain, working together as an integrated Portal team, will identify and agree on a plan to secure funding to operate and maintain The Portal as part of the execution of the MCA.
- Funding to operate the DTX must not impair funding to support operations on TJPA's and Caltrain's existing systems.
- The funding plan must take a holistic view of the existing systems; Caltrain anticipates requiring a sufficiently credible O&M funding plan for both the current (pre-DTX) system and DTX for the first five years of revenue service by the time of Caltrain's two-year budget cycle that precedes the commissioning phase of the project. The partners will apply FTA's standards and criteria to evaluate the robustness of the O&M funding plan.
- TJPA and Caltrain jointly will develop a proposal for a fare surcharge. The partners will jointly conduct a fare elasticity study prior to completion of the MCA to determine the proposed amount of the surcharge, with consideration for equity and Title VI provisions as appropriate.
- TJPA and Caltrain will agree for planning purposes on a projected ridership; the parties will discuss credible models in addition to FTA's STOPS model that they can jointly rely on for planning purposes.
- All fare revenue for travel between Fourth and King/Townsend and Salesforce Transit Center will be applied against the O&M costs incurred by The Portal project and Transit Center.
- TJPA and Caltrain will work together to develop an approach to allocating fare revenue from induced trips other than the approach identified in the Financial Plan, which allocates fare revenue for an entire induced trip.
- In developing the O&M funding plan, TJPA and Caltrain will take into consideration the fiscal constraints of other transit partners, including AC Transit and SFMTA which have been operating at the transit center since 2018.
- TJPA and Caltrain, working together as an integrated The Portal team, will jointly advocate for a dedicated long-term stable revenue source for TJPA, Caltrain and The Portal operations.

This report summarizes the O&M funding gap and Caltrain and TJPA's positions on the topic so the Joint Ad Hoc Committee can engage in a productive discussion and understand the differing perspectives on the issue. Staff are seeking input from the Joint Ad Hoc Committee on ideas for approaches to address the O&M funding gap.

The Portal Joint Ad Hoc Committee Meeting

May 30, 2024

TRANSBAY JOINT POWERS AUTHORITY

Agenda

- Item 5
    - Introductions
    - Joint Ad Hoc Overview
        - Purpose
        - Roles
        - Meeting Schedule
- Item 6
    - Key Project Updates
    - O&M Costs and Funding
        - O&M Funding
        - Fare Revenue
        - Discussion

Item 5 - Introductions

Item 5 - Joint Ad Hoc Overview

Purpose

- Upcoming agreements between Caltrain and TJPA to further The Portal:
  - Extension of the Interim Agreement (IA), signed August 2023;
  - Master Cooperative Agreement (MCA), which will supersede the IA;
  - 4th & King Yard Preparation Works (4KY) Agreement, which may be incorporated into the MCA.
- TJPA and Caltrain need to coordinate on high-priority issues integral to the agreements.
- Committee objectives related to high-priority issues:
  - Communicate the positions of each agency.
  - Create a cooperative decision-making framework.
  - Provide informed recommendations to the respective Boards of each Agency.

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Roles

- A Co-Chair has been named from each agency.
  - Regular and special meeting agendas must be approved by each co-Chair (Director Mueller and Director John-Baptiste).
  - The Co-Chair of the hosting agency will call Committee meetings to order and act as Presiding Officer.
    - If unable to do so, the Co-Chair of the non-hosting agency will act as Presiding Officer.

- The Board Secretary of the hosting agency will:
  - Call roll at each meeting.
  - Call each item on the meeting agenda.
  - Audio record all regular meetings and create a minute book for closed sessions.
  - Record all votes by Committee members.
  - Maintain a file of all written communications received.
  - Facilitate public comment periods.
  - Assist the Presiding Officer as needed.

Meeting Schedule

- Regular meetings are proposed to occur on a bi-monthly basis, with agencies alternating hosting.
  - Caltrain host location at HQ in San Carlos; TJPA host location at HQ in San Francisco.

Proposed Date	Host Agency	Location	Proposed topics
Thursday, 5/30/2024	TJPA	San Francisco	**MCA Negotiations** • Ongoing O&M Funding
Thursday, 8/6/2024	Caltrain	San Carlos	**4th and King Yard The Portal Preparation Negotiations**
To be scheduled	TBD	TBD	**MCA Negotiations**

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Item 5 – Adopt Rules of Order

Item 6 - Key Project Updates

Entry Into Engineering

- The Portal was granted entry into engineering by Federal Transit Administration (FTA) in May 2024.
  - Provides TJPA authority to incur costs for engineering activities, demolition, procurements, etc.
  - Allows pre-award authority for vehicle procurement, real property, utility relocation.

- Capital Investment Grant (CIG) funding of ~$3.4 billion (41% of Project cost) to be provided by FTA upon approval of a Full-Funding Grant Agreement (FFGA).
  - TJPA had requested 49.4% of project cost.
  - Increases amount of local match that TJPA must provide to roughly $2.7 billion

- Specific pre-conditions for FTA approval of FFGA:
  - Revised Financial Plan which demonstrates ability to cover an unexpected cost increase or funding shortfall of at least 10% of project cost;
  - Finalized terms between TJPA and California High-Speed Rail (HSR) on HSR funding provided
  - Approved Master Cooperative Agreement (MCA) between TJPA and Caltrain that includes:
    - **Specific agency operating roles and responsibilities.**
    - **Shares of operating costs between the agencies.**

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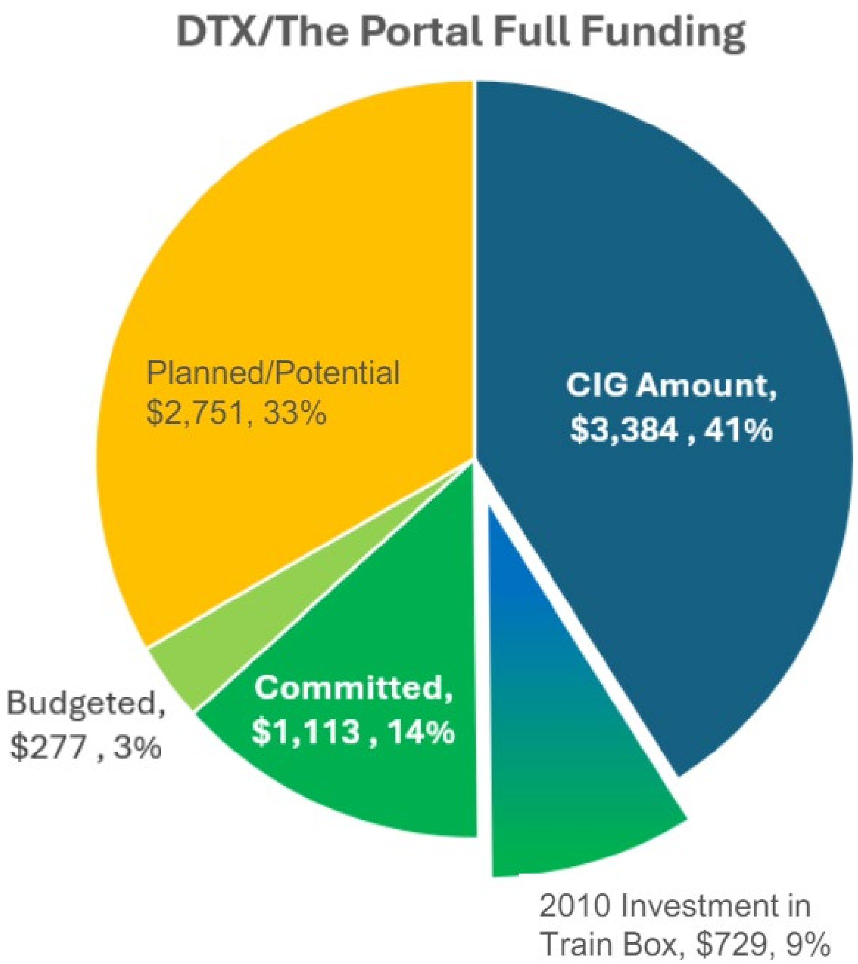
Portal Funding and Schedule



- Project received a Medium High rating from FTA and was included in the President's Proposed Budget ($500M).
- Project has $2.7 billion gap in non-CIG funding (local match).
- Funding gap impacts FFGA target date from Spring 2025. TJPA Board to discuss further in June.

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Item 6 - O&M Costs and Funding

Role of The Portal in Caltrain's Long Term Planning

- Caltrain's Business Plan reflecting 2040 Service Vision Policy recognizes The Portal's critical value to Caltrain's long term planning.
- The Salesforce Transit Center station is projected to have the highest number of daily boardings throughout the entire Caltrain system.
- The Portal will provide the first two stations for Caltrain with level boarding.

O&M Funding Challenges

- **Caltrain deficit prior to The Portal**
  - Caltrain's 2024 Strategic Financial Plan (SFP) projects annual operating deficit of $36M beginning in FY26 and increasing to $92M by FY33.
- **Lack of available funding sources**
  - Neither Caltrain nor TJPA have sufficient revenue from existing sources to cover Portal O&M.
  - Most funding sources are focused on capital projects
- **Uncertainty Regarding Future Ridership and Associated Fare Revenue**
  - Caltrain ridership is ~34% of its pre-pandemic levels.
- **Magnitude of O&M gap is uncertain and likely to be higher than currently estimated**

TJPA TRANSBAY JOINT POWERS AUTHORITY

Caltrain

Incremental Annual Forecasted Operating Deficit: Per Portal 20-Year Financial Plan

- Per The Portal 20-Year Financial Plan prepared consistent with FTA requirements, The Portal is forecast to increase Caltrain's operating deficit.

Portal 20-Year Financial Plan*	**FY 2033**	**FY 2042**
Incremental O&M Costs	$51M	$79M
Incremental Fare Revenue	$21M	$54M
Incremental Operating Deficit	$(30)M	$(25)M

*Numbers at this time are projections, not budgeted or actuals and account for just The Portal extension.

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Incremental Annual Forecasted Operating Deficit: Per Portal 20-Year Financial Plan – ALTERNATE

- FTA's model calculates incremental fare revenue using the full amount of fares (not just the portion associated with the extension) from riders for their trip between Salesforce Transit Center and wherever their ride begins/ends on the Caltrain corridor. Caltrain does not agree with the assumption of full fares being attributed to the extension.
- Caltrain and TJPA will need to agree on a methodology to apportion fare revenue to The Portal project's O&M costs.
- Caltrain is concerned the FTA model may overstate the number of induced riders and portray an overly optimistic scenario, which compounds the concern about fare revenue attribution.
- No commitment has been made regarding fare revenue to date.

TJPA
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Caltrain

Securing Sufficient O&M Funding

- There is not enough revenue to cover The Portal's O&M costs.
- <u>Proposed cooperative principles:</u>
  - TJPA and Caltrain will jointly advocate for a dedicated long-term stable revenue source.
  - Funding to operate The Portal must not impair funding to support operations on TJPA's and Caltrain's existing systems. The funding plan must take a holistic view of the existing systems.
- <u>Proposed path forward:</u>
  - Establish a staff-level committee to identify and investigate options for fulfilling the project's O&M needs
  - As part of the execution of the MCA, TJPA and Caltrain will develop and agree on a plan to secure O&M funding
  - By the time of Caltrain's budget cycle that precedes the commissioning phase of the project, must have a credible O&M funding plan for both the current (pre-Portal) Caltrain system and the first five years of revenue service of The Portal.

Fare Revenue

- No commitment has been made regarding fare revenue to date.
- Proposed cooperative principles:
  - TJPA recognizes Caltrain's concern with the assumptions in the FTA STOPS model regarding induced riders and incremental fare revenue.
  - All fare revenue from The Portal for travel between 4th and King/Townsend and Salesforce Transit Center will be applied against the O&M costs incurred by the project.
    - TJPA and Caltrain recognize that the fare revenue will only partially cover the O&M costs.
- Proposed path forward:
  - TJPA and Caltrain will jointly develop a proposal for a fare surcharge.
  - TJPA and Caltrain will agree for planning purposes on projected ridership.
  - TJPA and Caltrain will discuss apportioning incremental fare revenue.

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Item 6 – Discussion and Direction