

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

To: Transbay Joint Powers Authority and Peninsula Corridor Joint Powers Board
Joint Ad Hoc Committee

Through: Michelle Bouchard, Executive Director, Caltrain

From: Alfonso Rodriguez (TJPA) and Dahlia Chazan (Caltrain)

Date: September 6, 2024

Subject: **The Portal Operations and Maintenance Funding Gap: Guiding Principles and Potential Sources**

I. Purpose

At its May 30, 2024, meeting, the Joint Ad Hoc Committee asked staff for the Transbay Joint Powers Authority (TJPA) and the Peninsula Corridor Joint Powers Board (Caltrain) to identify potential new and existing funding sources that could be used to fill the projected operations and maintenance (O&M) funding gap for the Downtown Rail Extension project (DTX, now known as The Portal). These sources are presented in this report. Staff also seek guidance from the Joint Ad Hoc Committee on the key questions posed in this report (Section III).

II. Background

O&M Funding Gap – Defining the Gap

The [staff report for the May 30, 2024](#), Joint Ad Hoc meeting spelled out the challenges the project faces in identifying sufficient funding to support ongoing O&M needs after revenue service for The Portal begins. Per The Portal 20-Year Financial Plan prepared consistent with FTA requirements, The Portal is forecast to increase Caltrain’s operating deficit by approximately \$30 million in its first year of operations. This deficit is in addition to Caltrain’s projected annual operating deficit of \$36 million beginning in FY26 and increasing to \$92 million by FY33 for its existing system.

The report also noted several other uncertainties inherent in a project that will go into revenue service in approximately a decade. At this meeting, the Joint Ad Hoc directed staff to establish a staff-level committee to identify and investigate options for fulfilling the project’s O&M needs.

Staff have initiated that committee, with representation from TJPA, Caltrain and the San Francisco County Transportation Authority (SFCTA). The agencies’ intent is to document the result of the O&M analysis in the Master Cooperative Agreement (MCA) between Caltrain and

TJPA, as well as potentially other agreements. The Committee has identified three key questions regarding a path toward filling the O&M funding gap (Section III). The Committee has also completed an inventory of potential O&M funding sources for The Portal that is presented in Section IV of this report.

III. Key Questions

1. Timing for an MCA

TJPA, the project sponsor, is seeking funding for the project through the 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 FFGA. The Portal was in the Project Development phase from December 2021 until early May 2024, 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 an MCA with Caltrain "outlining the specific operating roles and responsibilities and shares of operating costs between the two agencies" before receipt of an FFGA.

The MCA is considered a critical Third-Party Agreement by the Federal Transit Administration (FTA) and must be in place before a Full Funding Grant Agreement (FFGA) can be requested.

The project is currently targeting a July 2027 FFGA, and an MCA must be completed for TJPA to request an FFGA from the FTA. To complete the FFGA in July 2027, the request for FFGA will need to be submitted in the 3rd or 4th quarter of 2026.

TJPA and Caltrain have been targeting an earlier completion date for the MCA of March 2025, allowing both parties to demonstrate progress to the FTA and to clarify key aspects of the relationship between the two agencies as the project proceeds through the Engineering phase.

Staff are seeking guidance from the Joint Ad Hoc Committee on how to approach the timing for completion of the MCA in light of the uncertainty regarding funding for O&M.

2. Timing for Identification of an O&M Backstop

As discussed in the May 30, 2024, report, there are several uncertainties related to both revenue and costs associated with O&M. Ridership on an extension is challenging to forecast; the new service will be the first significant part of the Caltrain system in an underground environment, with associated cost uncertainties; and the viability, timing, and yield of potential new or expanded funding sources that could be available to support the project's O&M funding needs is unknown. In addition, the report noted that Caltrain historically achieved over 70 percent farebox recovery, but the current farebox recovery is substantially less. Transit models forecast that Caltrain ridership will not return to pre-pandemic levels for some years but are uncertain over the longer term. With revenue service for The Portal approximately a decade

away it remains unclear where long term demographic, return to work, and transit mode splits will stabilize.

For all these reasons, Caltrain is seeking a documented method to support the project in case of lower-than-expected revenue or higher-than-expected costs as part of the MCA (shorthand as a backstop). The intent is to avoid a situation in which Caltrain must seek funding for O&M costs on its own when the project is under construction. The public will view the project as Caltrain service, and it would be politically infeasible to offer less than the expected level of service after this significant public infrastructure investment is complete.

Staff have also discussed an option in which O&M funding is finalized two years prior to revenue service, documenting how the first five years of service would be funded. This approach was also included in the principles adopted by the Joint Ad Hoc Committee on May 30, 2024. This approach would functionally push out the search for a documented method to support the project to a timeframe during construction, and two years before revenue service. While there would be additional information about fare projections and there could be additional available funding sources at that time, Caltrain staff have raised concern that this timing may be challenging.

There are points in time between when the MCA is finalized and two years before revenue service that could be established, including a potential milestone if a regional transit funding measure is on the ballot in 2026.

Staff are seeking guidance from the Joint Ad Hoc Committee on how to approach the timing of when an O&M backstop must be identified.

3. Level of funding certainty needed to complete an MCA

The FTA's Engineering letter of approval requires TJPA and Caltrain to demonstrate how O&M will be funded, including "outlining the specific operating roles and responsibilities and shares of operating costs between the two agencies." In addition, FTA policy requires that an O&M plan for FFGA include documentation of revenue forecasts, identifying how existing operations will be affected by the proposed project, and both historical and projected expenses. Caltrain has an interest in greater certainty to ensure the O&M backstop will be sufficient to address the need even under more conservative ridership scenarios, similar to the preceding section, and TJPA is focused on achieving the level of information required by FTA.

Staff are seeking guidance from the Joint Ad Hoc Committee on how to approach identifying the right level of funding certainty to document in the MCA.

IV. Inventory

The Joint Ad Hoc Committee requested staff prepare an inventory of potential O&M funding sources for The Portal. Staff are seeking initial input from the Committee on potential O&M funding sources to guide further staff work to develop/assess sources.

Identifying Potential O&M Sources

Staff considered both existing O&M funding sources and potential new O&M funding sources to develop an inventory. Including potential future sources was necessary, as there are a limited number of existing sources to support O&M. For each source, staff also considered if the source:

- Is already used by TJPA or Caltrain for current O&M needs.
- Could be used to help fill the existing (pre-The Portal) O&M funding gap for either TJPA's existing facility or Caltrain's existing system.
- Could be used to help fill capital funding needs.

In surveying existing and potential O&M funding sources, there are several important high-level findings.

- Funds from multiple sources will likely be necessary to fill funding gap.
- It is very unlikely that incremental growth in existing O&M sources already used by TJPA and Caltrain will be sufficient to fill the funding gap, so new sources need to be identified and leveraged.
- Some of the sources with the highest revenue potential would likely also require the most effort to secure. For example, a regional measure to support O&M for The Portal, in addition to O&M for existing transit service, or a new dedicated state/federal formula source for O&M could be very impactful in closing the O&M funding gap but would require extensive coordination.
- "One-time" sources (e.g., grants) may offer limited support, especially at the start of operations in The Portal, but are not a significant part of lasting solutions.

Potential O&M Source Inventory

After surveying existing O&M sources and considering what sources could be available in the future, staff identified four categories of sources that could help fill The Portal's O&M funding gap. Table 1 summarizes the inventory of sources.

Important considerations for the sources listed in Table 1:

- They are new sources or reflect incremental growth in existing sources. Thus, these funds are not being used for current O&M needs.
- Unless specific restrictions are placed on the sources to allocate them specifically to The Portal's O&M needs, these sources could potentially support TJPA and Caltrain's existing O&M needs as well.
- Unless specific restrictions are placed on the sources to allocate them solely to The Portal's O&M needs, these sources could potentially support TJPA and Caltrain's capital funding needs as well.

The exceptions are potential new, dedicated O&M funding sources. Even in those cases, however, the O&M funds may come at the effective trade-off of capital funds. For example, if a reauthorized Cap-and-Trade program directs a greater share of funds to transit O&M, that may result in less Cap-and Trade revenue being available for transit capital needs.

Table 1: Categorization of Potential O&M Funding Sources

Category	Source	Select Considerations
Fares	Incremental Caltrain fare revenue	Even with projected incremental fare revenue (using the optimistic FTA model), the O&M funding gap averages \$24 million between FY 33 and FY 42.
	Fare surcharge for trips using The Portal	Work has commenced to understand fare elasticity and equity implications. Staff received direction at the May meeting to study further.
	Incremental High Speed Rail (HSR) fare revenue	Similar to incremental Caltrain revenue, incremental fares could help support The Portal O&M.
Non-Fare Incremental Revenues	Increases in formula funds	Additional ridership, mileage, and revenue from The Portal will yield increases to sources like State Transit Assistance funds, but these increases will not be commensurate with the additional O&M cost.
	New or increased commercial revenues (e.g., advertising, sponsorships)	More research needed to identify whether any untapped opportunities remain for advertising, retail, sponsorships, etc.
Local Sources	Land-based sources	Multiple options could be available; revenue generated may depend on market conditions.
	Future local revenue measure	Coordination would be needed with City and County stakeholders to negotiate the amount of O&M support.
	Pricing (e.g., tolling, congestion pricing)	Coordination and negotiation would be necessary to identify the amount of potentially available funding and determine how much could be directed toward The Portal's O&M.
Regional, state, and federal operating support	Future regional revenue measure	Coordination would be necessary with regional stakeholders necessary to negotiate amount of O&M support.
	State contribution for HSR maintenance costs	In alignment with Committee discussion in May, coordination with the State is necessary to pursue further.
	New ongoing state operating support (e.g., Cap-and-Trade reauthorization)	Would require coordination with state agencies and elected officials; increases in dedicated O&M funds could reduce available capital funds.
	New ongoing federal operating support	Would require coordination with federal agencies and elected officials; increases in dedicated O&M funds could reduce available capital funds.

Category	Source	Select Considerations
	Flexing federal formula funds to O&M	Would require large policy changes to how MTC administers the One Bay Area Grant Program and likely result in reduced capital fund availability.

V. Next Steps

Based on prior direction from the Committee, staff plans to bring the following items forward at the next meeting of the Committee:

- November/December 2024
 - Cost and revenue forecasts; confirm major assumptions.
 - Fare surcharge – initial analysis.
 - Receive direction from Joint Ad Hoc Committee.