

Clipper® Executive Board

June 1, 2026

Agenda Item 3b

Clipper® Two-Year Budget

Subject:

The Clipper Two-Year Budget for Fiscal Years (FYs) 2026-27 and 2027-28 for the Clipper Executive Board's review and approval.

Background:

Under the Clipper Memorandum of Understanding, the Clipper Executive Board reviews and adopts a biennial Clipper budget. The budget is intended to provide an understanding of the scope and size of major expense categories, proposed funding plan, and overall summary of Clipper program work elements. The budget is updated annually and includes both current Clipper system and next-generation Clipper system costs, as well as costs to operate, maintain, and implement the overall Clipper program, including staffing, customer education and marketing, and estimated costs from other next-generation Clipper procurements.

Attached for your review are the Clipper Draft Operating Budget (Attachment A) and the Clipper Draft Capital Budget (Attachment B) with FYs 2026-27 and 2027-28 bordered in red, along with estimated projections of both the Operating and Capital Budget five years from the current FY to FY 2029-30. During the Board's March 2026 meeting, staff presented the key drivers of Operating costs in the FY26-27 Operating Budget ([Agenda Item 3c](#), [Clipper Budget Overview and Key Drivers](#)). At April's Board meeting, staff discussed the overall Clipper Capital and Operating Two-Year Budget as an Information item, and at its June 1, 2026 meeting, staff requests this Board's Approval of the Clipper Two-Year Budget for FY2026-27 and FY2027-28. The approved Clipper budget will then be included in the overall MTC agency budget, scheduled for adoption at the Commission meeting on June 24, 2026.

As a reminder, at a high level, an initial assessment of the Clipper FY 2026-27 budget expects:

- A significant increase to the Operating budget compared to the FY 26-27 budget estimate from the budget approved by CEB in May 2025;
- A steady Clipper Capital program with continuous Cubic updates and enhancements to reach System Completion, in addition to planning for known needed improvements to various account-based portals, Fare Inspection and Mobile Payment Solution (FIMPS)

and Customer Service Terminal (CST) equipment, and potential system enhancements and expansion;

- A need to seek Clipper Executive Board authorization to use \$3M of Inactive Card Funds (funds associated with unregistered Clipper cards that haven't been used in 3+ years) and \$3M of Clipper Float Account Interest towards the Clipper capital budget; and
- The ability to reallocate capital contingency funds (currently encumbered to Cubic for both future (2035) capital milestones and contingency) to also fund current capital needs.

As discussed at last month's meeting, this budget was developed with the following assumptions:

- A recognition of the need to plan for the continuation of C1 O&M costs during for a portion of the next fiscal year;
- MTC assumption of transit operator share of C1 O&M costs (~\$1.6M) during the next fiscal year;
- MTC assumption of a portion of transit operator costs of C2 CSC O&M costs (~\$1.2M) during the next fiscal year; and
- Clipper Executive Board Approval to authorize the use of Inactive Card Funds and Clipper Float Account Interest for overall Clipper program expenses.

FY2026-27 Operating Budget

As presented and discussed at the Board's March meeting, there are three primary contributors to the FY2026-27 Clipper Operating Budget increases: 1) continuation of C1 O&M costs as a result of C2 transition delays; 2) C2 Customer Service Center; and 3) Payment Services.

- **C1 O&M:** As discussed at last month's Board meeting, as a result of delays in the C2 launch and in completing migration of customers to C2, the C1 system will need to remain in service during FY 26-27, so the FY 26-27 budget assumes approximately six to nine additional months of C1 O&M fees, which will ramp down as migration continues.
- **Customer Service Center:** Another significant source of cost increases shared with the Board in March is for the Customer Service Center. When MTC released the Requests for Proposals for a Clipper Customer Service Center contractor, the estimated number of monthly contacts was expected to be 12,000 (these estimates were made during the

pandemic). However, in the months leading up to WSP starting operations in late 2025, the existing Clipper Customer Service Center began handling monthly call volumes that ranged from 22,000 to 28,000. For this reason, the FY25-26 budget amendment that staff brought to CEB last October included \$4.8M more in operating funds in anticipation of us needing to renegotiate the monthly operating fees associated with higher staffing levels needed to support a doubling of the contacts with the Customer Service Center. In the months since launch, WSP has already made significant adjustments to their operations – expanding weekday service hours and employing 43 more CSRs than planned. The FY26-27 budget maintains the same level of funding for the CSC from the amended FY25-26 budget to allow these expanded service levels to continue. As customer transition proceeds during FY26-27, MTC and transit operator staff will continue to discuss potential operational and/or contract adjustments to ensure appropriate customer support levels.

- **Payment Services:** The final significant source of cost increases presented to this Board last month is for Payment Services. In the C1 system, credit/debit card processing fees were passthrough fees included under Cubic’s C1 O&M budget. In C2, credit/debit card processing fees are covered under a separate Payment Services contract with Fiserv. The amended FY25-26 budget included \$7.0M for credit/debit card processing fees for C2 transactions (all Open Payments transactions, plus purchases of value/passes by customers with migrated/new account-based Clipper cards after the 12/10/2025 start of customer transition). Credit/debit card processing fees for C1 transactions remained covered as part of the \$29.4M C1 O&M line item in the amended FY25-26 budget. Combined C1 and C2 credit/debit card processing fees are forecast to be \$13.8M in FY25-26. The FY26-27 budget assumes \$15M in C2 credit/debit card processing fees, representing transition of all remaining credit/debit sales to C2 and a continued increase in credit/debit sales (estimated to be \$360M total in FY26-27).

To mitigate the financial impacts on operators from keeping the C1 system in service longer than anticipated due to delays in the C2 system deployment, MTC proposes continuing to cover Operator C1 O&M costs in the FY26-27 Clipper Operating Budget. MTC is also proposing to

cover an additional \$1.2M of customer service O&M costs, which is the estimated amount of adding staffing needed to service customers and additional calls because of the delay in the Bulk Migration date and customer issues related to the transition from the card to the account-based system.

As requested by this Board, MTC and transit operator staff have been meeting regularly both regionally and in smaller working group conversations to discuss the primary cost drivers to operate the Clipper program. As part of our continued focus on identifying opportunities to streamline costs beyond the current budget discussions, we have initiated discussions regarding key cost drivers associated with Payment Services and the Customer Service Center. We will continue to meet to evaluate next steps, explore additional cost-reduction strategies, and assess potential policy and operational changes. We remain committed to keeping the Board informed through ongoing updates and will present any recommended strategies, actions, and business decisions for the Board's review and approval.

FY26-27 Capital Budget

As discussed at the outset, the Clipper Capital Budget projects the need to plan for additional capital investments in the account-based system while Cubic progresses towards the System Completion milestone. The FY26-27 capital budget anticipates funding known needed capital improvements, including enhancements to FIMPS and CST equipment, updates and improvements to the web portals, and potential system enhancements and expansion.

When the Clipper Executive Board and the MTC Commission authorized the award of the Next-Generation Clipper System Integrator contract to Cubic in 2018, the approval included approximately \$24M of capital contingency funds to be used for potential cost adjustments due to changes in assumptions included in the System Integrator Contract and other unknowns. To date, approximately \$11M of that contingency has been used, mainly to cover the costs of equipment needed for fleet expansion and new equipment requests, such as additional platform readers at all Caltrain stations and rear-door validators on AC Transit, and operator requests for integration of CAD/AVL systems with the Clipper back office. Approximately \$13M of the previously authorized \$24M in contingency funds remains available for capital Change Orders or other Changes to the System Integrator contract.

MTC and transit operator staff will continue to work together to track the operating and capital budgets and plan to return to the Clipper Executive Board when there are significant changes to the Clipper Two Year Budget. Staff will also update the Board prior to the end of calendar year 2026 with a planned agenda item for a Mid-Year Clipper Budget update, including how expected costs align with actual costs at that time.

Issues:

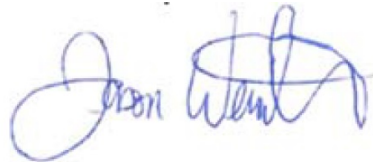
None identified.

Recommendations:

Clipper staff recommend that the Clipper Executive Board approve the Clipper Two Year Operating and Capital Budgets for FY 2026-27 and FY 2027-28.

Attachments:

- Attachment A: Clipper Operating Budget – May 10, 2026
- Attachment B: Clipper Capital Budget – March 10, 2026
- Attachment C: Clipper Two-Year Budget presentation



Jason Weinstein