

Clipper® Executive Board

February 24, 2020

Agenda Item 4a

Clipper® Draft Two Year Budget and Work Plan

Subject: This memorandum presents the draft Clipper budget and work plan for Fiscal Years (FY) 2020-2021 and 2021-22 for the Executive Board's review and discussion. Staff plan to bring this item to the Board in March 2020 for approval.

Background: Under the Memorandum of Understanding, the 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 and proposed funding plan. 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 budget and work plan for FYs 2020-21 and 2021-22. Included as attachments to this memo are the Clipper Projected Operating Budget and the Clipper Projected Capital Budget.

Highlights

1. Both Operating and Capital Budgets are balanced in the two-year timeframe.
2. The Operating Budget and Work Plan is balanced in the two-year timeframe only with the use of reserves built up from prior year surpluses.
3. The proposed capital funding plan covers the Capital Budget and Work Plan, which includes deployment of the next-generation Clipper system through FY 2024-25, although there are some risks related to cash flow and litigation.

Detail of Proposed FY 2020-21 and 2021-22 Budget and Work Plan

Details of the Clipper Draft Two Year Budget and Work Plan are listed below.

1. In both Operating and Capital Budgets, costs for the current Clipper system are expected to be minimized and/or decrease, while resources are shifted to next-generation implementation, accelerated deployment, and transition efforts, until Clipper is fully transitioned to the next-generation system in FY 2024-25.
2. Similar to prior year budgets, the program has identified several fund sources to help offset short-term Operating deficits. Agenda Item 3b of this packet seeks approval to include approximately \$1.6M of Inactive Unregistered Funds to offset the current year's deficit (line 20 of the Operating Budget). Furthermore, since 2018, a portion of Float Account funds deemed not immediately needed for daily operations were invested in a money market fund which is expected to earn an estimated \$1.2M annually based on current returns (line 21). Further, staff is proposing the use of SB1 State of Good Repair funds (line 22) to offset a portion of next-generation system startup costs over the next two fiscal years.

3. Based on this budget, an operating funding shortfall occurs in FY 2022-23 with an operating deficit of \$5.7M, consistent with prior approved Operating budgets. This is largely due to concurrent operating costs for both the current and next-generation Clipper systems. MTC and transit agency staff are working to identify potential funding sources and solutions to address this shortfall, which may require changes to MTC and operator contributions.
4. Since last year's Clipper Two Year Budget and Work Plan, at the board's direction, a change in equipment strategy was determined that will replace all onboard (bus and light rail) equipment during the next-generation Clipper Accelerated Deployment phase (line 10 of the Capital Budget). While this strategy does not change the overall budgeted equipment amount, these equipment costs are now frontloaded, and are expected to be incurred in FY 2021-22 upon installation. This budget also assumes equipment quantities based on operator fleet estimates projected to the end of 2022, a 15% regional spares inventory, 10% sales tax, and includes additional operator equipment requests that were not contemplated when the contract was awarded in September 2018 (line 11), such as card readers at every door on SFMTA's light rail fleet and additional card readers at Caltrain platforms to accommodate electrification and modified Caltrain boarding procedures.
5. Senate Bill 1 State of Good Repair (SGR), Regional Measure 3 (RM3), and future Federal Transit Administration (FTA) formula funds in the amount of \$88M (line 15) were projected to fund next-generation system integrator costs at contract award. If RM3 funds are not available based on current best estimates and pending litigation, new fund sources and funding plans will need to be examined and identified. At the time of contract award, if SGR or RM3 funds were not available, FTA funds were identified to address potential deficits.
6. An additional \$48.1M of uncommitted funding (line 21), highlighted in yellow, is needed to fully fund current and next-generation Clipper capital expenses. These fund sources have yet to be identified.

MTC and transit operator staff will continue to work together to update the operating and capital budgets and plan to return to the Clipper Executive Board next month to obtain approval for the Clipper Two Year Budget and Work Plan.

Attachments:

Attachment A: Clipper Projected Operating Budget

Attachment B: Clipper Projected Capital Budget



Carol Kuester

CLIPPER® PROJECTED OPERATING BUDGET - FEBRUARY 12, 2020

Item No.	Descriptions	Current FY 19/20 (\$M)	FY 20/21 (\$M)	FY 21/22 (\$M)	FY 22/23 (\$M)	FY 23/24 (\$M)	FY 24/25 (\$M)	Total FY 19/20-FY 24/25
MTC Operating Costs								
1	Annual Current Clipper Operating Costs - MTC	\$10.5	\$11.1	\$11.6	\$6.0	\$2.0	\$0.3	\$41.5
2	Annual Next Gen Clipper SI Operating Costs - MTC	\$0.0	\$0.5	\$1.8	\$7.5	\$11.0	\$11.6	\$32.4
3	Annual Next Gen Clipper Other Operating Costs - MTC ¹	\$0.0	\$0.0	\$0.0	\$1.1	\$1.5	\$1.6	\$4.2
4	MTC Staff - Current Clipper Operating	\$1.4	\$1.4	\$1.3	\$0.7	\$0.2	\$0.0	\$5.1
5	MTC Staff - Next Gen Clipper Operating	\$0.0	\$0.1	\$0.2	\$1.0	\$1.5	\$1.8	\$4.4
6	Clipper® Operations - Misc.	\$0.6	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$4.3
7	In Person Customer Service Centers	\$1.2	\$1.2	\$1.3	\$1.4	\$1.4	\$1.5	\$8.0
8	Customer Education Program	\$1.8	\$1.8	\$1.9	\$2.0	\$2.1	\$2.2	\$12.0
9	<i>Subtotal MTC expenses</i>	<i>\$15.5</i>	<i>\$16.8</i>	<i>\$18.9</i>	<i>\$20.3</i>	<i>\$20.5</i>	<i>\$19.7</i>	<i>\$111.7</i>
Transit Agency Costs								
10	Annual Current Clipper Operating Costs - Transit Agencies	\$21.0	\$22.2	\$23.2	\$12.0	\$4.0	\$0.5	\$82.9
11	Annual Next Gen Clipper SI Operating Costs - Transit Agencies	\$0.0	\$0.5	\$1.8	\$7.5	\$11.0	\$11.6	\$32.4
12	Annual Next Gen Clipper Other Operating Costs - Transit Agencies ²	\$0.0	\$0.5	\$1.8	\$8.6	\$12.5	\$13.1	\$36.5
13	<i>Subtotal Transit Agency expenses</i>	<i>\$21.0</i>	<i>\$23.2</i>	<i>\$26.8</i>	<i>\$28.1</i>	<i>\$27.5</i>	<i>\$25.2</i>	<i>\$151.8</i>
14	Total Operating Costs (MTC+Transit)	\$36.5	\$40.0	\$45.7	\$48.4	\$48.0	\$44.9	\$263.5
Operating Revenues								
15	Total STA Revenues	\$7.1	\$7.5	\$7.3	\$7.5	\$7.7	\$7.8	\$44.9
16	Total RM2 Marketing Revenue	\$1.2	\$1.1	\$1.1	\$1.1	\$1.1	\$1.1	\$6.7
17	Additional RM2 Marketing Revenue ³	\$1.8	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7	\$10.3
18	Additional RM2 Operating Revenue ³	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$12.0
19	STA Reserve	\$0.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.6
20	Unregistered Inactive Funds	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.6
21	Float Account Interest	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2	\$7.2
22	State of Good Repair (SB1) ⁴	\$0.0	\$0.6	\$2.0	\$0.0	\$0.0	\$0.0	\$2.6
23	Total Transit Agency Revenue	\$21.0	\$23.2	\$26.8	\$28.1	\$27.5	\$25.2	\$151.8
24	Total Operating Revenue	\$36.5	\$37.3	\$42.1	\$41.6	\$41.2	\$39.0	\$237.6
25	Cumulative Surplus/Deficit⁵	\$7.4	\$4.7	\$1.1	(\$5.7)	(\$12.6)	(\$18.5)	

¹ Includes O&M Estimate for CSC

² Includes O&M Estimate for CSC, Pass Through Fees (incl. Mobile Fees & Third Party Commissions), Payment Gateway Fees, etc.

³ Contingent upon availability and MTC Commission Approval

⁴ Used for Next-Gen Clipper Operating Startup Costs

⁵ Operations Carry Forward From Prior Year = \$7.4M

Assumes continuation of ~ 1/3 MTC, 2/3 Transit Agency split in C2 & Agencies can pay their share

Assumes 10% tax, no contingency

CLIPPER® PROJECTED CAPITAL BUDGET - FEBRUARY 14, 2020

Item No.	Description	Current FY 19/20 (\$M)	FY 20/21 (\$M)	FY 21/22 (\$M)	FY 22/23 (\$M)	FY 23/24 (\$M)	FY 24/25 (\$M)	TOTAL FY 19/20 - 24/25 (\$M)
Capital Costs (See Table 1a for Cost Detail)								
1	Clipper Cards & Fare Media	\$4.0	\$4.0	\$3.0	\$3.0	\$2.0	\$1.0	\$17.0
	Current Clipper® System (C1)							
2	MTC Staff	\$1.3	\$1.3	\$0.7	\$0.0	\$0.0	\$0.0	\$3.3
3	Consultants	\$1.0	\$1.0	\$0.5	\$0.0	\$0.0	\$0.0	\$2.5
4	System Enhancements	\$0.5	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$1.0
5	System Enhancements - Operator Requested and Paid	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.6
6	Infrastructure Refresh/End-of-Lifecycle Replacement	\$1.0	\$0.5	\$0.0	\$0.0	\$0.0	\$0.0	\$1.5
	Next Generation Clipper® System							
7	MTC Staff	\$2.6	\$3.7	\$4.6	\$5.6	\$5.9	\$6.2	\$28.5
8	Consultants	\$2.0	\$4.7	\$2.0	\$2.1	\$2.2	\$2.3	\$15.3
9	System Integrator Contract ¹	\$24.2	\$37.6	\$48.5	\$11.6	\$7.3	\$0.0	\$129.2
10	Next-Gen Clipper Equipment ¹	\$0.0	\$0.0	\$46.7	\$0.0	\$5.1	\$1.3	\$53.1
11	Next-Gen Clipper Equipment - add'l ²	\$0.0	\$0.0	\$2.6	\$0.3	\$0.3	\$0.3	\$3.5
12	Integrate Existing Operator Equipment	\$0.0	\$0.0	\$1.5	\$1.0	\$0.0	\$0.0	\$2.5
13	Customer Service Center, Fare Media, Payment Gateway	\$0.0	\$1.0	\$0.5	\$0.5	\$0.5	\$0.0	\$2.5
14	Total Expenses	\$38.1	\$54.3	\$110.6	\$24.1	\$23.3	\$11.1	\$261.4
Revenue								
15	TCP - FTA / SGR / RM3 ³	\$10.2	\$9.9	\$61.6	\$6.3	\$0.0	\$0.0	\$88.0
16	TCP - FTA ⁴	\$5.0	\$14.1	\$0.0	\$0.0	\$0.0	\$0.0	\$19.1
17	TCP - OBAG2-STP/CMAQ ⁴	\$0.0	\$14.5	\$20.4	\$0.0	\$0.0	\$0.0	\$34.9
18	TCP - OBAG2-RM2 ⁴	\$0.0	\$13.0	\$0.0	\$0.0	\$0.0	\$0.0	\$13.0
19	Fare Media and Card Fee Revenue	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$30.0
20	Operator Paid Revenue	\$1.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.6
21	TBD - Uncommitted	\$0.0	\$0.0	\$10.9	\$12.8	\$18.3	\$6.0	\$48.1
22	Total Annual Revenue	\$21.8	\$56.5	\$97.9	\$24.1	\$23.3	\$11.0	\$234.6
23	Cumulative Surplus/Deficit⁵	\$10.5	\$12.7	\$0.0	\$0.0	\$0.0	\$0.0	

¹ Assumes No Open Payment Deployment, 10% tax where applicable

² Includes readers at all SFMTA light rail doors, add'l platform readers at Caltrain

³ Projected at Contract Award

⁴ Committed at Contract Award

⁵ Capital Carry Forward From Prior Year = \$26.8M (LCTOP, FTA, CMAQ, SB1, BATA Rehab)