

# Clipper® Executive Board

May 11, 2020

Agenda Item 3a

## Clipper® Two Year Budget and Work Plan

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**Subject:** The Clipper budget and work plan for Fiscal Years (FY) 2020-2021 and 2021-22 for the Executive Board's review and approval.

**Background:** Under the Memorandum of Understanding, the Executive Board reviews and adopts a biennial Clipper budget. The budget was reviewed by the Board at its February 2020 meeting, and in April 2020, the Board requested to defer the approval and adoption of the Clipper Two Year Budget and Work Plan to May 2020 in order to have the most updated information possible to understand the potential impacts that the COVID-19 pandemic may have on the Clipper program.

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 Operating Budget (Attachment A), the Clipper Capital Budget (Attachment B) and a summary of the updates to the Clipper Operating Budget from April 2020 (Attachment C).

MTC's FY 2020-21 annual agency budget incorporates expected revenues and expenses from this Clipper budget, which is expected to be approved by the Commission at its June 2020 meeting.

### Highlights and Updates from April 2020

1. The Capital Budget (Attachment B) expenses and fund sources remain stable, and staff believes that the grants and fund sources that fund Clipper's capital costs are relatively stable, pending litigation outcomes from Regional Measure 3 (RM3). This budget assumes that the implementation and deployment of the next-generation Clipper system continues as planned, and if there are any significant recommendations to change the program scope or delivery, that Clipper staff would return to update the Board on these recommendations and effects on the budget.
2. The Operating Budget (Attachment A) is balanced in the two-year timeframe only with the use of reserves built up from prior year surpluses and with the assumption that at least \$0.7M of Unregistered Inactive Funds (row 20) will be disbursed to the Clipper operating budget in FY 20-21, which will require Board approval.
3. Clipper operating costs for MTC (row 1) and transit operators (row 10) have been revised downwards to account for predicted decreased use of the system and based on actual system usage in March and April 2020. Customer Service and Outreach costs (rows 7 and 8) have also been revised based on updated Regional Measure 2 (RM2) Marketing estimates (rows 16 and 17). Both RM2 Operating and Float Account Interest fund source estimates (rows 18 and 21) have also been revised downwards.
4. MTC and Clipper staff are currently identifying potential areas where CARES (Coronavirus Aid, Relief, and Economic Security) Act funding for transit operations and services could be used and will return to the Board with proposals and updates to the Clipper Budget as a result.

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

Details of the Clipper Two Year Budget are listed below.

1. In both Operating and Capital Budgets, costs for the current Clipper system are expected to 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. Estimates of FY 2020-21 operating costs are based on actual and observed system usage in March and April 2020. Shelter in Place orders began in mid-March 2020, and many transit operators waived fare collection as operating policies were modified in light of the COVID-19 pandemic. System usage in April 2020 is down 95% compared to February 2020 and is expected to remain stable until Shelter in Place orders are lifted. FY 2020-21 estimates assume that Shelter in Place orders are lifted by July 2020, but that Clipper usage remains at significantly reduced levels for at least the first quarter in FY 2020-21, with slow growth throughout the next year to regular usage by July 2021. Other models were run to estimate varying Clipper system usage levels and these scenarios resulted in significant savings passed on to transit operators. However, MTC's portion of Clipper operating costs, which largely covers fixed and/or regional costs, stays consistent across different scenarios. Projected costs for FY 2021-22 assume that Clipper usage will have returned to regularly expected levels.
3. 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.
4. 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.

**Recommendation:** MTC and transit operator staff recommend that the Clipper Executive Board approve the Clipper Two Year Operating and Capital Budget and Work Plan for FY 2020-21 and FY 2021-22.

**Attachments:** **Attachment A:** Clipper Operating Budget – April 21, 2020  
**Attachment B:** Clipper Capital Budget - March 3, 2020  
**Attachment C:** Minor Operating Budget Updates for May 2020

  
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Carol Kuester

**CLIPPER® PROJECTED OPERATING BUDGET - APRIL 21, 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 |
|-----------------------------|---|------------------------|----------------|----------------|----------------|-----------------|-----------------|-------------------------|
| <b>MTC Operating Costs</b>  |   |                        |                |                |                |                 |                 |                         |
| 1                           | Annual Current Clipper Operating Costs - MTC                                  | \$10.5                 | \$10.9         | \$11.6         | \$6.0          | \$2.0           | \$0.3           | \$41.2                  |
| 2                           | Annual Next Gen Clipper SI Operating Costs - MTC                              | \$0.0                  | \$0.7          | \$1.8          | \$7.5          | \$11.0          | \$11.6          | \$32.6                  |
| 3                           | Annual Next Gen Clipper Other Operating Costs - MTC <sup>1</sup>              | \$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           | \$4.5                   |
| 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                  | \$1.1          | \$1.2          | \$1.2          | \$1.3           | \$1.3           | \$7.3                   |
| 8                           | Customer Education Program  | \$1.8                  | \$1.4          | \$1.8          | \$1.9          | \$2.0           | \$2.1           | \$10.9                  |
| 9                           | <i>Subtotal MTC expenses</i>  | <i>\$15.5</i>          | <i>\$16.2</i>  | <i>\$18.6</i>  | <i>\$20.1</i>  | <i>\$20.2</i>   | <i>\$19.4</i>   | <i>\$110.0</i>          |
| <b>Transit Agency Costs</b> |   |                        |                |                |                |                 |                 |                         |
| 10                          | Annual Current Clipper Operating Costs - Transit Agencies                     | \$21.0                 | \$18.2         | \$23.2         | \$12.0         | \$4.0           | \$0.5           | \$78.9                  |
| 11                          | Annual Next Gen Clipper SI Operating Costs - Transit Agencies                 | \$0.0                  | \$0.7          | \$1.8          | \$7.5          | \$11.0          | \$11.6          | \$32.6                  |
| 12                          | Annual Next Gen Clipper Other Operating Costs - Transit Agencies <sup>2</sup> | \$0.0                  | \$0.7          | \$1.8          | \$8.6          | \$12.5          | \$13.1          | \$36.7                  |
| 13                          | <i>Subtotal Transit Agency expenses</i>                                       | <i>\$21.0</i>          | <i>\$19.6</i>  | <i>\$26.8</i>  | <i>\$28.1</i>  | <i>\$27.5</i>   | <i>\$25.2</i>   | <i>\$148.2</i>          |
| 14                          | <b>Total Operating Costs (MTC+Transit)</b>                                    | <b>\$36.5</b>          | <b>\$35.8</b>  | <b>\$45.4</b>  | <b>\$48.2</b>  | <b>\$47.7</b>   | <b>\$44.6</b>   | <b>\$258.2</b>          |
| <b>Operating Revenues</b>   |   |                        |                |                |                |                 |                 |                         |
| 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 <sup>3</sup>                                 | \$1.8                  | \$1.5          | \$1.7          | \$1.7          | \$1.7           | \$1.7           | \$10.1                  |
| 18                          | Additional RM2 Operating Revenue <sup>3</sup>                                 | \$2.0                  | \$1.2          | \$2.0          | \$2.0          | \$2.0           | \$2.0           | \$11.2                  |
| 19                          | STA Reserve   | \$0.6                  | \$0.0          | \$0.0          | \$0.0          | \$0.0           | \$0.0           | \$0.6                   |
| 20                          | Unregistered Inactive Funds   | \$1.6                  | \$0.7          | \$0.0          | \$0.0          | \$0.0           | \$0.0           | \$2.3                   |
| 21                          | Float Account Interest  | \$1.2                  | \$0.3          | \$1.2          | \$1.2          | \$1.2           | \$1.2           | \$6.3                   |
| 22                          | State of Good Repair (SB1) <sup>4</sup>                                       | \$0.0                  | \$0.8          | \$1.0          | \$1.0          | \$0.0           | \$0.0           | \$2.8                   |
| 23                          | Total Transit Agency Revenue  | \$21.0                 | \$19.6         | \$26.8         | \$28.1         | \$27.5          | \$25.2          | \$148.2                 |
| 24                          | <b>Total Operating Revenue</b>  | <b>\$36.5</b>          | <b>\$32.7</b>  | <b>\$41.1</b>  | <b>\$42.6</b>  | <b>\$41.2</b>   | <b>\$39.0</b>   | <b>\$233.1</b>          |
| 25                          | <b>Cumulative Surplus/Deficit<sup>5</sup></b>                                 | <b>\$7.4</b>           | <b>\$4.3</b>   | <b>\$0.0</b>   | <b>(\$5.5)</b> | <b>(\$12.1)</b> | <b>(\$17.7)</b> |                         |

<sup>1</sup> Includes O&M Estimate for CSC

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

<sup>3</sup> Contingent upon availability and MTC Commission Approval

<sup>4</sup> Used for Next-Gen Clipper Operating Startup Costs

<sup>5</sup> 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 - MARCH 3, 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) |
|---|--|------------------------|----------------|----------------|----------------|----------------|----------------|------------------------------|
| <b>Capital Costs (See Table 1a for Cost Detail)</b> |  |                        |                |                |                |                |                |                              |
| 1   | Clipper Cards & Fare Media                           | \$4.0                  | \$4.0          | \$3.0          | \$3.0          | \$2.0          | \$1.0          | \$17.0                       |
|   | <b>Current Clipper® System (C1)</b>                  |                        |                |                |                |                |                |                              |
| 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                  | \$0.6          | \$0.0          | \$0.0          | \$0.0          | \$0.0          | \$1.1                        |
| 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                  | \$0.4          | \$0.0          | \$0.0          | \$0.0          | \$0.0          | \$1.4                        |
|   | <b>Next Generation Clipper® System</b>               |                        |                |                |                |                |                |                              |
| 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 <sup>1</sup>              | \$24.2                 | \$37.6         | \$48.5         | \$11.6         | \$7.3          | \$0.0          | \$129.2                      |
| 10  | Next-Gen Clipper Equipment <sup>1</sup>              | \$0.0                  | \$0.0          | \$46.7         | \$0.0          | \$5.1          | \$1.3          | \$53.1                       |
| 11  | Next-Gen Clipper Equipment - add'l <sup>2</sup>      | \$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  | <b>Total Expenses</b>                                | <b>\$38.1</b>          | <b>\$54.3</b>  | <b>\$110.6</b> | <b>\$24.1</b>  | <b>\$23.3</b>  | <b>\$11.1</b>  | <b>\$261.4</b>               |
| <b>Revenue</b>                                      |  |                        |                |                |                |                |                |                              |
| 15  | TCP - FTA / SGR / RM3 <sup>3</sup>                   | \$10.2                 | \$9.9          | \$61.6         | \$6.3          | \$0.0          | \$0.0          | \$88.0                       |
| 16  | TCP - FTA <sup>4</sup>                               | \$5.0                  | \$14.1         | \$0.0          | \$0.0          | \$0.0          | \$0.0          | \$19.1                       |
| 17  | TCP - OBAG2-STP/CMAQ <sup>4</sup>                    | \$0.0                  | \$14.5         | \$20.4         | \$0.0          | \$0.0          | \$0.0          | \$34.9                       |
| 18  | TCP - OBAG2-RM2 <sup>4</sup>                         | \$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  | <b>Total Annual Revenue</b>                          | <b>\$21.8</b>          | <b>\$56.5</b>  | <b>\$97.9</b>  | <b>\$24.1</b>  | <b>\$23.3</b>  | <b>\$11.0</b>  | <b>\$234.6</b>               |
| 23  | <b>Cumulative Surplus/Deficit<sup>5</sup></b>        | <b>\$10.5</b>          | <b>\$12.7</b>  | <b>\$0.0</b>   | <b>\$0.0</b>   | <b>\$0.0</b>   | <b>\$0.0</b>   |                              |

<sup>1</sup> Assumes No Open Payment Deployment, 10% tax where applicable

<sup>2</sup> Includes readers at all SFMTA light rail doors, add'l platform readers at Caltrain

<sup>3</sup> Projected at Contract Award

<sup>4</sup> Committed at Contract Award

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

# Minor Operating Budget Updates for May 2020

- Budgets presented to April CEB and going to May CEB nearly identical, except for minor adjustments (below).
- Updated operating costs to reflect declining system use in FY20/21
  - MTC ↓\$0.2M
  - Transit Operator ↓\$4M
- Streamlined customer service offerings (↓\$0.5M)
  - Customer research, education, marketing, outreach
  - In-Person Customer Service Centers
- Updated fund source estimates
  - RM2 Marketing (↓\$0.2M)
  - RM2 Operating (↓\$0.8M)
  - Float Account Interest (↓\$0.9M)
- Tapped new revenue needed to balance budget
  - Inactive Unregistered Funds Disbursement ↑\$0.7M

