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SAVING CALTRAIN — FOR THE LONG TERM:

STRATEGIES FOR FUNDING AND GOVERNING A CRITICAL REGIONAL RAIL SYSTEM

SPUR DISCUSSION PAPER

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Through research, education and advocacy, SPUR promotes good planning and good government in the San Francisco Bay Area.

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INTRODUCTION

Caltrain is in trouble. This rail service extending 77 miles from Gilroy to San Francisco and linking Northern California's two largest cities faces short-term and long-term budget and governance challenges.

But this historic commuter rail line is undoubtedly one of the most important transit systems in the Bay Area. With 32 stations in 19 cities and 40,000 passengers a day, Caltrain connects San Francisco and Silicon Valley and provides an armature for transit-oriented growth throughout the Peninsula and South Bay. Ridership has increased by 44 percent since 2004, and the system currently runs 86 weekday trains and between 32 and 36 on weekends.[1] This rail line was also the organizing principle for the Pre-WWII growth of many communities of San Mateo and Santa Clara counties. It is also essential to the future of Silicon Valley and key institutions like Stanford University and UCSF, as well as many other communities along its path. We cannot imagine a sustainable region or a successful future Bay Area economy without a frequent and reliable Caltrain.

And yet, Caltrain's future is uncertain. Unlike all other major transit systems in the Bay Area, Caltrain lacks a dedicated source of revenue. And also unlike all other major transit systems, its governance structure exists as a Joint Powers Board (JPB) of three distinct and different agencies from each of the three counties Caltrain serves: the Valley Transportation Authority in Santa Clara, SamTrans in San Mateo and the City and County of San Francisco.

In late 2010, Caltrain's budget faced major shortfalls due to expected cuts in contributions from the counties, with SamTrans taking the lead by proposing to reduce its annual contribution from $14.7 million to $4.9 million. Expecting the other two counties to also cut their funding, the Caltrain JPB announced plans to cut virtually all mid-day and late-night service, all weekend service, and all service in some stations.

This short-term crisis must be resolved with financial support from the three Caltrain counties and the Metropolitan Transportation Commission (MTC). They must come together to support Caltrain for a one- to two-year period to stave off the worst of the cuts. This stopgap plan also buys us time to put in place a longer-term solution, which is SPUR's focus.

This paper reviews the background on how we got into this fiscal and governance situation and then begins a discussion about how to save Caltrain in the long run.

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[1] Peak service level was 98 trains per day in 2009.

SOME HISTORY

Railroad service between San Francisco and San Jose began in the 1860s and was owned and operated by Southern Pacific as of 1870. Facing ongoing operating losses, Southern Pacific sought to discontinue the commuter service in the late 1970s. To preserve train service, the California Department of Transportation (Caltrans) in 1980 entered into an agreement with Southern Pacific Railroad to subsidize the aging commuter rail system and rebrand the service "Caltrain." As part of this agreement, San Francisco, San Mateo and Santa Clara counties agreed to contribute to the operation of the commuter rail service. Yet the primary subsidy was from the State of California. Caltrain was, in effect, a ward of the state.

In 1983, a new California governor determined that Caltrain was really a local service and should be primarily funded by local agencies, not the state. This started the transition from state oversight to the current voluntary Peninsula Joint Powers Board (JPB), a joint powers agency that requires the participation and annual funding of three different entities. Since that time, there have been several attempts to create Caltrain as an independent statutory agency. These efforts have failed, largely because the counties insisted that the current arrangement worked well.

That argument is clearly no longer viable. This voluntary arrangement has always depended on the financial support of the three counties. But SamTrans' role is distinct and based on its ongoing agreement to manage, support and lead the Caltrain agency (which is housed within SamTrans). SamTrans brokered the purchase of the right-of-way and the local financial contribution for that purchase, for which it was supposed to be eventually reimbursed by the City and County and Valley Transit Authority (the CCSF and VTA shares that SamTrans advanced equaled $43 million). In the first 15 years of owning the right-of-way, SamTrans received no reimbursement from VTA or Muni, and only since 2007 has received about $10 million (and no interest, which has been forgiven). Important capital projects including electrification, fleet renewal and the extension to the Transbay Transit Center have also been delayed, as other priorities were deemed more important than the regional Caltrain service.

Caltrain's $100 million operating funding comes from three main sources:

Farebox	$42 million	
Three counties	$35 million	
VTA		($14.1 million)
SamTrans		(14.7 million)
San Francisco		($6.2 million)
Various other	$15 million	

The three counties are now proposing to reduce their contributions by two-thirds, to $11 million annually.

WHAT'S AT STAKE?

Caltrain is part of the "backbone" of the region's rail network. Caltrain is one of four regional rail systems that connect riders across county lines. BART and Caltrain together form the backbone of the network. Without Caltrain, there is no integrated regional rail.

Ridership has increased while costs have grown less than inflation. From 2000 to 2009, Caltrain weekday ridership increased by one-third from about 30,000 daily to 40,000. Passenger revenue doubled to about $42 million annually (out of a total budget of $100 million), and unit operating costs were lower than the rate of inflation (14 percent versus 25 percent). At its pre-recession peak service level in 2009, Caltrain provided 49 trains in each direction on weekdays, plus special trains for Giants games.

Caltrain has been much more efficient than other transit agencies. During this last decade, while Caltrain's unit costs increased less than inflation, both SamTrans and Muni had unit cost increases more than twice the rate of inflation, and SamTrans and VTA both lost passengers, while Caltrain's annual passengers increased substantially.

MTC often points to a compelling statistic, comparing the 10-year increase in overall costs with the increase in service hours and increase in patronage. When the MTC statistic is compared with Caltrain's, the result is startling[2]:

Measure	MTC (Regionwide)	Caltrain (00-09)
10 Year Increase in Cost (after inflation)	34%	42%
10 Year Increase in Service Hrs	16%	50%
10 Year Increase in Passengers	7%	31%

Note: This information is from MTC and Caltrain's NTD reports, adjusted for inflation.

There are many other statistics that can be identified, but they all indicate that Caltrain is one of the most effective transit systems in the region.

Caltrain is also one of the most efficient expenditures for SFMTA, SamTrans and VTA. If the three JPB agencies/operators were private businesses allocating resources where they would be the most cost effective, they would never cut Caltrain. Objectively, they might even prioritize it more highly than some of their other services. Certainly, each agency has other policy and services they are balancing with their financial support for Caltrain. Public transit agencies have some goals that are different from private business — but it should be important to spend dollars wisely, and Caltrain provides the highest ridership per dollar.

There is no transit-oriented development on the Peninsula without Caltrain. The region has embarked on a monumental effort to redirect investment, development and density into the urban core, particularly within walking distance of transit stations. There is simply no way we can ask communities to up-zone near transit; investors to sink billions of dollars into infill development near transit; employers to locate their firms nearby rail stations and individuals to live in homes with reduced parking near transit if we

[2] See: http://apps.mtc.ca.gov/meeting_packet_documents/agenda_1615/3-b_Select_Comm_Feb_Presentation.pdf

cannot guarantee that the transit service is going to be there in the future. Maintaining a reliable Caltrain service is a prerequisite to prepare for a region with much more compact and focused growth. This is what makes the potential reduction in financial support for Caltrain so unsettling. The land use stakes are high.

Reduction in Caltrain service puts many more cars on the road and much more pollution in the air. On the immediate horizon, reducing Caltrain service by 50 percent will increase automobile traffic by an unknown amount (since fiscally required service cuts are not subject to CEQA analysis). But we can conclude that it will drop ridership to 1999 levels — meaning another 10,000 automobiles on the road daily and possibly more than 20,000 tons of CO2 annually.

SB 375's goals to reduce per capita emissions are not possible without Caltrain. ABAG and MTC have assumed that in the future, Caltrain would carry 75,000 to 100,000 passengers daily (35,000 to and from San Francisco's Transbay Transit Center alone). The region's Sustainable Communities Strategy has a target of 15 percent per capita emissions reductions from greenhouse gases. If we are honest in our accounting, it will not be possible to achieve this level of carbon reduction without good Caltrain service.

A focused future requires Caltrain. ABAG projects that in 25 years, there will be nearly 700,000 additional jobs and 350,000 additional households in the three counties with Caltrain service. Total employment and population in the areas nearest to Caltrain stations will be in the millions. These residents and workers can either be distributed in a way that is totally reliant on auto travel, or they can be organized into centers with Caltrain connections between communities. The stakes for the future are high.

WHERE TO NOW?

It is clear that the existing JPB structure no longer works for Caltrain. There is both a short-term crisis, a need to come up with funding quickly enough to avoid devastating cuts this year, and a long-term problem, a need to find a sustainable governance and funding model to keep Caltrain running for the long term.

The short term:
It is essential for MTC and the JPB member agencies to finalize a short-term solution. Caltrain is too important to fail. And it is the collective responsibility of each member agency plus MTC to provide short-term financial support (primarily one-time monies) combined with more limited service cuts.

But if and when we get a two-year fix, it is just that: a two-year grace period. It buys us time to put a long-term solution into place.

The long term:
To find a sustainable long-term solution to Caltrain, there are two inter-related questions to answer:

1. How do we pay for Caltrain?
2. Who operates it, and what is the appropriate governance structure?

We believe Caltrain cannot succeed without a dedicated funding stream. It cannot rely on "handouts" from other transit operators, who will always be tempted to prioritize their own service. There are many possible funding sources, and we are agnostic about which one is best. We would note that the funding source should to be sized to enable quality operations and sufficient services. We believe Caltrain needs an annual operating subsidy of about $35 million. Some of the most promising potential sources, which SPUR would support, include:

- ***Approve a regional parcel tax***. There are approximately 950,000 parcels in the three Caltrain counties (200,000 in SF, 300,000 in SM, 450,000 in SC). A parcel tax of $50 per year would generate $47.5 million per year. Replacing MTA, SamTrans and VTA money with this tax source would both stabilize Caltrain and make more money available for these local transit operators.
- ***Establish congestion pricing on 101 and 280.*** This could be part of a regional move to toll all freeways, as is commonly done on the East Coast, or it could be confined to this corridor. Automated toll collection makes this effortless for drivers, while creating the ability to charge based on periods of peak congestion if necessary. This funding source is potentially large enough to provide operating subsidy for Caltrain as well as pay for capital upgrades to the system including electrification, grade separation and the extension to the Transbay Terminal. The MTC HOT Lane Study estimated that each mile of HOT lane on 101 in Santa Clara and San Mateo counties would generate about 1.3 million per mile annually in toll revenues on just the HOT lanes. The total revenue available could be as much as $100 million annually. Tolling the entire freeway would generate much more revenue (and could also create real congestion relief). It is important to note that this revenue source has some volatility.
- ***Extend the BART sales tax to San Mateo and Santa Clara counties***. The East Bay and San Francisco already contribute three-quarters of a half-cent tax to fund BART operations. (The other quarter of the half-cent is allocated by MTC to Muni and AC Transit.) Especially if the governance solution (see below) involves an increased role for BART, some version of this solution could make sense.
- ***Enact a regional gas tax.*** MTC has the authority to place a gas tax on county ballots. A 10-cent regional gas tax would produce $300 million annually. If this amount were shared with other transit operators as well as funding local streets and roads, the amount for Caltrain would form an important portion of an ongoing subsidy.

The following table summarizes these options:

Funding mechanism	Amount raised	Strengths	Issues
$50/year Parcel tax in three Caltrain counties	$47.5 million	Landowners typically benefit from increased value in transit corridor.	Perceived or real equity issues.
Congestion pricing on 101 and 280	$100 million +	Reduces congestion by providing disincentive to drive at peak hours. Direct nexus between increasing cost of roadway and improving rail travel on this corridor.	Taxpayers may expect this money to be split among freeway and transit spending; needs to apply both Northbound and Southbound; will bump traffic to local streets. Could be a volatile source.

Extend BART Sales Tax to San Mateo and Santa Clara counties	Not provided	Extends a current funding mechanism.	A share of SF revenue would need to be allocated to Caltrain in place of former Caltrain funding; associated with governance changes.
Regional Gas tax	$300 million	Could garner regional support from SF and East Bay; addresses system-wide funding shortfall since state transit funding reductions.	Voters need to be convinced of benefits: congestion relief, environmental sustainability, cost-effective operations.

There is also a need for a better long-term funding and governance model for Caltrain. The question of who operates Caltrain is technically separate from the governing structure. The current joint powers agency could, in theory, contract with another transit agency or a private operator to run the service. And while the questions of governance and operations are inter-twined, we think it's important to keep track of these issues as distinct. As with funding, there are multiple possibilities that could be effective, including:

- ***Create an umbrella agency to coordinate BART and Caltrain***. This was suggested in the Regional Rail Plan. Some believe that regional/Transbay buses and ferries should also be folded into such a regional agency.
- ***Expand BART to San Mateo and Santa Clara counties.*** Under this scenario, BART's Board of Directors would include representatives from San Mateo and Santa Clara counties, and BART would become the agency with direct responsibility for managing Caltrain, the BART to San Jose project (currently managed by VTA) and all other BART service.
- ***Sell Caltrain to the California High Speed Rail Authority and have the CHSRA operate Caltrain service.*** The high-speed rail system in California is designed to bring riders from the Bay Area through the Central Valley to Southern California in just a few hours. High-speed rail will have a dedicated and electrified right-of-way along the same route as Caltrain. Local trains would supplement the HSR services that continue to Southern California. Costs would decrease since Peninsula passengers could use some empty HSR seats for trips up and down the Peninsula, and integrated operations would reduce any possible redundancy. Under this scenario, there would still need to be a dedicated funding source to purchase local service from the HSRA. But the operations would be one with the statewide system.

The following table summarizes these options:

Governance Structure	Strengths	Issues
Create an umbrella agency to coordinate BART, Caltrain and other "backbone" services such as Transbay buses	Better coordination among backbone services in fares, schedules and branding while preserving local accountability for service; manage backbone services similarly despite different technology (bus vs. train).	Needs to reduce administrative cost through consolidation of functions rather than adding administrative cost.

Expand BART to San Mateo and Santa Clara counties	Leverages existing successful transit governance.	No change in costs. Existing BART board not as directly familiar with Peninsula transit issues.
Sell Caltrain to California High Speed Rail Authority	Potential cost savings if local passengers fill empty HSR seats; better coordination than if the two were managed separately.	HSRA is being planned for statewide service. There is no model in place for them to manage more local or regional service.

Combinations of these options are also possible. For example, BART could be assigned responsibility for managing both the Caltrain corridor and the regional/Transbay buses (which are currently operated by AC Transit). Under this scenario, BART could use the California High Speed Rail Authority as the operator (just as the JPB currently contracts to Amtrak to provide Caltrain service) and coordinate and manage the service. BART already provides this function on the Capital Corridor service between San Jose and Sacramento, where ridership has increased substantially. Regional/Transbay buses could be managed the same way, with BART contracting for the services, either with the incumbent operators or with the private sector.

CONCLUSION

All of these above options have pluses and minuses. What is clear is that the status quo cannot and should not continue. We need to find a short-term funding solution to prevent drastic cuts. And then we need to fix the budget and governance of Caltrain for the long term. Caltrain service needs stable funding and improved governance to continue to serve as a critical transit backbone for its region.