



September 21, 2020

To: Members of the Board of Directors
Donna DeMartino
From: Donna DeMartino, Managing Director
Subject: Update on the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency Business Plan and Operational Budget for Fiscal Years 2020-21 and 2021-22

Overview

The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency is required to submit an annual business plan to the California State Transportation Agency each year. The business plan is a two-year planning document that outlines operations and service goals, discusses any proposed changes to the Pacific Surfliner service, and provides the basis for the annual budget request. An update on the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency business plan and operational budget for fiscal years 2020-21 and 2021-22 is presented for review.

Recommendations

Direct staff to return to the Board of Directors in November 2020 with a revised operating budget consistent with the revenue and expense estimates provided by Amtrak for federal fiscal year 2020-21.

Background

Per the interagency transfer agreement between the Los Angeles – San Diego – San Luis Obispo (LOSSAN) Rail Corridor Agency (Agency) and the California Department of Transportation (Caltrans), and the LOSSAN Joint Powers Agreement, the LOSSAN Agency must develop a business plan to be approved by the LOSSAN Agency Board of Directors (Board) and submitted to the Secretary of the California State Transportation Agency (CalSTA) by April 1 of each year. The business plan is a two-year planning, operations, and budget document that provides the basis for the annual budget request, outlines operating and service goals, and discusses any proposed changes to the Pacific Surfliner service. The annual budget request must be included and consistent with the annual business plan.

Annual operating revenue and expense estimates are typically not received from Amtrak until March 31, which does not allow for sufficient time for review and incorporation into the annual business plan prior to the April 1 deadline. As a result, the business plan submittal on April 1 of each year includes a draft budget request, with a final budget request being brought back to the Board in June. Once the final budget request is approved by the Board, it is submitted to CalSTA and incorporated into the previously submitted business plan.

Discussion

The development of the annual budget request and submittal of the business plan for fiscal year (FY) 2020-21 and FY 2021-22 was significantly impacted by the COVID-19 pandemic. The final business plan was scheduled to be approved at the March 18, 2020 Board meeting. However, as a result of pandemic-related restrictions, that Board meeting was cancelled. In the weeks that followed, it became apparent that the annual budget request would need to be adjusted to reflect the reduction of service as well as the financial constraints imposed by the State. Staff began working with Amtrak to develop revised operating revenue and expense estimates

On May 18, 2020, the Board approved the submittal of the LOSSAN Agency annual business plan with the inclusion of a draft budget and directed staff to return in September 2020 with an updated budget request once revised cost estimates are received from Amtrak.

Revised FY 2020-21 Budget Status

On July 9, 2020, CalSTA approved the administrative and marketing components of the LOSSAN Agency budget, as submitted. The LOSSAN Agency was able to identify various cost savings and budget adjustments that lowered the administrative budget to \$5.9 million down from the originally proposed \$6.8 million. This reflects the elimination of performance-based increases and the identification of grant funding for direct costs related to administrative employees. CalSTA approved a reduced marketing funding amount of \$1,240,390, which is equivalent to prior years surplus funds. This reduced approval is with the understanding that additional funds may be requested during planned quarterly budget reviews, subject to available funding.

Regarding the FY 2020-21 operating budget, CalSTA has directed that all intercity passenger rail services operate no more than 60 percent of the train miles previously approved in their FY 2019-20 business plans, at least until such time as there is more clarity regarding the availability of funding to support a higher level of service. The LOSSAN Agency received initial operating financial forecasts from Amtrak on July 31, 2020. After an initial review and discussion, Amtrak is in

the process of revising the forecasts to update revenue projections and to further refine costs. The LOSSAN Agency anticipates receiving the updated forecasts this month, and once received, these will be thoroughly reviewed with Amtrak.

In the interim, staff is working with Amtrak, CalSTA, Caltrans, the State-Amtrak Intercity Passenger Rail Committee, and the other two California state-supported services to develop both additional funding sources and cost saving measures in an effort to achieve greater financial flexibility. Several alternate funding sources have already been identified. These include the \$13 million in State Rail Assistance funding the Board approved for operations, an anticipated \$3.5 million in operating reserve surplus from FY 2020, coordinating with Amtrak on the remaining \$70 million in Coronavirus Aid, Relief, and Economic Security act funding from FY 2020 (shared between all state supported routes), and identifying an accounting error from Amtrak that will result in an estimated \$6.2 million credit. Regarding cost saving measures, staff continues to analyze costs related to stations, connecting motor coach services, crew labor, and equipment usage. The finalized cost savings measures will inform the review of the updated cost and revenue projections provided by Amtrak. Staff plans on bringing to the Board a revised FY 2020-21 operating budget in November 2020.

Federal Fiscal Year 2021 Amtrak Operating Agreement

The current Amtrak operating agreement covers FFY 2019-20 and is effective through September 30, 2020. The agreement contains a continuation clause which allows for the operation of the Pacific Surfliner intercity passenger rail service to continue through March 30, 2021. Given the many questions that currently remain on possible cost savings, the pending receipt of the revised forecast from Amtrak, and the potential for additional federal funding support, the LOSSAN Agency recommends using the continuation clause, which does not require any Board action. An amendment to the current operating agreement will be brought before the Board with the revised FY 2020-21 budget in November 2020.

Next Steps

LOSSAN Agency staff will continue to work with Amtrak to develop updated estimates and coordinate the various cost savings measures with our state partners. Additionally, staff has begun working on the key assumptions necessary for the development of the FY 2021-22 and 2022-23 business plan. These will be brought to the Board in November 2020 for review and approval.

Summary

Consistent with the requirements of the interagency transfer agreement and the joint powers agreement, the Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency Business Plan for Fiscal Years 2020-21 and 2021-22 was submitted to the Secretary of the California State Transportation Agency on May 1, 2020, with the understanding that a revised operated budget was in development. Staff is working with Amtrak to develop refined cost and revenue projections, as well as additional cost saving measures, to allow for the development of a final fiscal year 2020-21 operating budget. Staff will return to the Board of Directors no later than November 2020 for approval of the operating budget and seek direction to submit to the Secretary of the California State Transportation Agency.

Attachment

None.

Prepared by:

A handwritten signature in black ink, appearing to read 'Roger M. Lopez', with a long horizontal line extending to the right.

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