

# Clipper® Executive Board

April 27, 2026

Agenda Item 3c

## Draft Clipper® Two-Year Budget

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### **Subject:**

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

### **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 [Agenda Item 3c, Clipper Budget Overview and Key Drivers](#), which discussed key drivers of Operating costs in the FY26-27 Operating Budget. At this month's meeting, staff is prepared to discuss the overall Clipper Capital and Operating Two-Year Budget as an Information item, with a plan to bring the budget to this Board for its Approval at its June 1, 2026 meeting.

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 such as expansion of Open Payment acceptance to discount customers;

- 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 during the next fiscal year;
- MTC assumption of a portion of transit operator costs of C2 CSC O&M costs 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.

### **FY26-27 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) C2 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 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, the existing Clipper Customer Service Center began handling monthly call volumes that ranged from 22k to 28k. 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 contact volumes. 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 – and 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. Slide 7 in Attachment C shows an analysis of payment services fees paid on credit/debit card revenue collected in January and February 2026. While most sales channels in the account-based C2 system are trending lower than C1, certain fees are still in flux and further data is needed to identify trends in costs when the system is in a steady state.

Table 1 shows the top drivers of the increase to the Operating budget compared to the FY 26-27 budget estimate from the budget approved by CEB in May 2025, with MTC’s proposed adjustments to cover operator costs shown in italics. MTC proposes continuing to cover Operator C1 O&M costs in the FY26-27 Clipper Operating Budget, a practice that began in January 2025. 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.

*Table 1: Top drivers of Clipper FY 26–27 Operating Budget increase*

	FY 26-27 Budget (Estimated 5/25)	FY 26-27 Budget (Proposed 4/26)	Notes
C1 O&M	\$0	\$3.4M	<del>MTC \$1.6M, Operators \$1.8M</del> <i>MTC \$3.1M, Operators \$0.3M</i>
C2 Customer Service Center	\$4.4M	\$12.0M	<del>MTC \$6M, Operators \$6M</del> <i>MTC \$7.2M, Operators \$4.8M</i>
C2 Payment Services	\$3.7M	\$14.4M	Operators \$14.4M

As requested by this Board, MTC and transit operator staff have been meeting regularly to discuss the primary cost drivers to operate the Clipper program, including key costs associated with Payment Services and the Customer Service Center. As a follow-up to the discussion last month, the operating budget includes approximately \$900K (5% of the \$18.6M), in accordance with the C2 contract Service Level Agreement (SLAs) to allow for Cubic to receive the max performance for the year. The SLAs could increase Cubic monthly O&M payments by up to 5% or decrease them by up to 20% (if compounding occurs).

### **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 such as an expansion of Open Payment acceptance.

A question from last month's CEB meeting was about capital contingency in Cubic's contract. 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, around \$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. Around \$13M of the previously authorized \$24M in contingency funds remains available for capital Change Orders or other Changes to the System Integrator contract, subject to the Approval of the Clipper Executive Board and the MTC Commission or its Committees.

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. Staff will also plan to update the Board six months after the approval of the Clipper Budgets on how expected costs align with actual costs.

**Issues:**

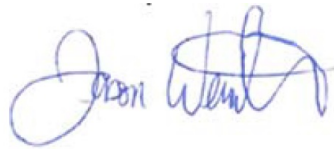
None identified.

**Recommendations:**

Information

**Attachments:**

- Attachment A: Draft Clipper Operating Budget
- Attachment B: Draft Clipper Capital Budget
- Attachment C: Draft Clipper Two-Year Budget presentation



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Jason Weinstein