

June 2, 2020

Southeastern Pennsylvania Transportation Authority  
1234 Market Street  
Philadelphia, Pennsylvania 19107

Attention: Pasquale T. Deon, Board Chairman

Re: Public Hearings in connection with the Southeastern Pennsylvania Transportation Authority's Fiscal Year 2021 Operating Budget, Five Year Financial Plan and the Fare Restructuring Plan

Examiner's Recommendation:

**That the Fiscal Year 2021 Operating Budget Proposal, Five Year Financial Plan and the Fare Restructuring Plan be adopted.**

Members of the Board:

Pursuant to my appointment by Pasquale T. Deon, Board Chairman, to conduct hearings for the purpose of considering SEPTA's Fiscal Year 2021 Operating Budget, Five Year Financial Plan, and the Fare Restructuring Plan public virtual hearings were held at 11:00 a.m. and 6:00 p.m. on May 26, 2020 and 10:00 a.m. and 4:00 p.m. on May 27, 2020 in the SEPTA Board Room, Mezzanine, 1234 Market Street, Philadelphia, Pennsylvania 19107 with SEPTA witnesses and representatives present in the Board Room and the Hearing Examiner and court reporter present via WebEx.

A stenographic record was made of the hearings and is available for viewing in the Authority's files. Included as part of the record of the hearings, but not forwarded herewith, are the exhibits establishing posting and publication of the notice of the hearings. These exhibits are available for viewing in the Authority's files.

The Fiscal Year 2021 Operating Budget and Five Year Financial Plan were prepared by SEPTA in accordance with Section 1310 of the Pennsylvania Public Transportation Law of 1991 ("Act 26") and the hearings proceeded with the presentation by a SEPTA witness. Following the presentation of testimony by the SEPTA witnesses, the floor was open to any person attending virtually who desired to ask questions, make a statement or present evidence.

Introduction:

James Cullison, Director, Operating Budgets testified that before starting the Fiscal Year 2021 Operating Budget Hearing presentation, he wanted to provide an update on SEPTA financials and the steps SEPTA has taken to reduce operating expenses due to the COVID-19 pandemic. Ridership has been dramatically affected as Transit is running about 92% below baseline and Regional Rail is down 98%. As a result, SEPTA is projecting a revenue shortfall of approximately \$125 million for Fiscal

Year 2020. In late March, the Authority moved quickly to institute a number of cost reduction initiatives to partially offset the significant revenue losses that would result from the shutdown of the economy. Service was substantially reduced, overtime eliminated, a hiring freeze was instituted, non-critical purchases were reduced and business travel was cancelled. Fortunately, in late March Congress enacted and the President signed into law the Coronavirus, Aid Relief and Economic Security Act, or the CARES Act, which included financial relief for public transportation to ensure that essential services provided by Transit could be maintained during the pandemic and through an extended period of economic recovery. SEPTA is eligible to receive \$644 million in funding under the CARES ACT from the Federal Transit Administration which will help stabilize both the Fiscal Years 2020 and 2021 operating budgets. SEPTA anticipates using the vast majority of this funding, or \$613 million, to pay for operating expenses. Approximately \$25 million will be used to advance a few capital projects directly related to COVID-19 that will improve operations and enhance social distancing for SEPTA's employees and the riding public, and \$6 million will be directed to federally-mandated safety and security measures. Despite the funding provided by the CARES Act, great uncertainty remains, and the ultimate impact of COVID-19 on SEPTA's Fiscal Year 2021 Ridership, Revenue, Subsidies and Expenses, is difficult to estimate at this time. The speed at which the Authority recovers from this historic pandemic will in large part be driven by the timing of businesses and schools reopening in the region, the impact social distancing has on SEPTA services and ridership, and the rate at which the local economy recovers. It is anticipated that adjustments will be necessary as we learn what the "new normal" looks like throughout the fiscal year. The proposed Fiscal Year 2021 Operating Budget, covering the period July 1, 2020 through June 30, 2021, was developed prior to the COVID-19 outbreak. Given the uncertainties surrounding the health and economic recovery of the region, it is clear the actual revenue, subsidy and expense results will differ from budget projections. SEPTA believes that the CARES Act subsidies and careful management of expenses, will help fill budget shortfalls that may be experienced throughout the year. The Budget Proposal totals \$1.53 billion and SEPTA intends to continue the type of financial discipline that has resulted in 20 consecutive years of balanced budgets. Budgeted operating revenue for Fiscal Year 2021 is 2.6% higher than the current year budget. The budgeted revenue increase incorporates the fare restructuring plan and reflects a 2.8% increase in passenger and shared ride revenue which represents 92% of total operating revenue. Other operating revenue is budgeted to increase 1.4% as SEPTA continues to aggressively pursue alternative sources of revenue to balance the budget. The combined budget for advertising and real estate revenue of \$33.7 million represents a 19% increase from revenue generated five years ago. In January 2020, SEPTA and Penn Medicine entered into a five year station naming rights agreement that resulted in the University City Regional Rail Station being renamed Penn Medicine Station, generating another new source of advertising revenue for the Authority. Operating subsidies of \$989 million provide 65% of the Authority's operating budget. The Commonwealth of Pennsylvania provides approximately 79% of the total, with the five local counties providing 11% and federal subsidies and Other (Route Guarantees) making up the remaining 10%. SEPTA's operations are labor intensive with labor and fringe benefits accounting for 71% of the total operating budget. Labor and fringe benefits includes the costs associated with negotiated labor agreements and a modest headcount increase for operator trainees, trainers, and maintenance personnel to safely support operations. The budget proposal includes an increase in non-labor expenses to provide for inflationary increase in 3<sup>rd</sup> party contract services, lease for the right of way owned by Amtrak, service vehicles, new telephone communication software and carrier services. Over the next two years, the Authority will take delivery of 71 new paratransit vehicles, 45 multi-level railcars for regional rail, and an additional 148 hybrid-electric buses. The new buses will increase the size of the energy efficient hybrid bus fleet to approximately 90% of SEPTA's overall bus fleet.

Replacing diesel buses with hybrid vehicles has resulted in a reduction of 11.2% in annual fuel consumption between Fiscal Years 2014 and 2019. The Authority has also reduced its budget for propulsion power and other utility costs to operate its facilities by competitively contracting with third party suppliers. The Authority is nearing completion of a project to install new solar panels at four large bus and rail maintenance facilities and is currently working on a project to retrofit its center city building to be more energy efficient. These projects further demonstrate SEPTA's commitment to continue implementing energy saving initiatives. The 10-year claims payout trend for individuals injured on SEPTA owned property or aboard vehicles shows over a 50% reduction in costs during this period primarily due to an extensive video surveillance network and aggressively defending against fraudulent claims.

Michael Seonia, Director, Revenue Budgets, Pricing and Analysis addressed the proposed Fare Restructuring Plan. He testified that SEPTA has historically made fare adjustments every three years as recommended by the Pennsylvania Transportation Funding and Reform Commission in 2006. The Commission recommended regular fare adjustments to improve the financial stability of public transit agencies in the Commonwealth, and to ensure that passenger revenues are increasing in accordance with inflation. SEPTA's fare restructuring that was announced in March was developed based upon feedback from our customers, local stakeholders, elected officials and advocacy groups, and included an evaluation of the operating budget to ensure that adequate revenues are generated to maintain existing service and continue to achieve balanced budgets going forward. The major goals of the restructuring include providing a free transfer on Transit, offering savings for children and family travel, developing new products for discounted travel for customers that use SEPTA less than 5-days each week, and keeping weekly and monthly passes attractive. SEPTA staff had proposed that if adopted by the SEPTA Board, the fare restructuring would become effective on July 1, 2020. The COVID-19 pandemic has, of course, caused SEPTA to reconsider those plans as discussed by Leslie Richards in her introductory remarks noting that the fare increase would be postponed until January 1, 2021 at the earliest. While the proposed free transfer, \$1.00 fare for children and increase in the number of children eligible to ride will become effective on July 1, upon Board approval, any approved fare increases will not become effective until January 1, 2021 at the earliest. The Fare Restructuring Plan is designed to lower fares specifically for passengers who transfer, such as Key card customers and customers with disabilities. Customers who transfer will save the current \$1 transfer fee. A recent Pew study reported that low income transit riders travel farther and transfer more for employment opportunities. As a result of this restructuring, low income passengers will benefit by no longer paying for the initial transfer. The free transfer will also provide flexibility allowing passengers to utilize multiple vehicles without a transfer fee, enabling faster connections on the SEPTA route network. This fare restructuring proposal will also reduce the cost of family travel on both transit and Regional Rail by introducing a \$1.00 fare for children ages 5 to 11 on both Rail and Transit. In addition, the number of children eligible to ride free will increase from two to three. The \$1.00 child fare will provide cost savings enabling families to affordably travel anywhere on the SEPTA system. On Transit, this fare reduction represents a saving of 60%. Pricing was held constant and will remain flat over a six year period for many transit fares, including the cash and disabled fare, the One Day Pass, parking rates, and for riders utilizing paratransit and senior shared ride services. The weekly and monthly pass pricing modestly increased by 4% and 3%, respectively. Also, a new three day pass is being introduced at a discounted price of \$18 for transit travel for workers with flexible work schedules requiring less than five days of travel, including shift workers and visitors traveling to the City. Product availability is targeted for October 2020. Two-thirds of SEPTA Regional Rail customers utilize weekly and monthly passes. We are proposing modest increases to ensure these pass instruments remain attractive and

competitively priced in the market. Regional Rail Trail Passes are proposed to increase 6% and Cross County passes are proposed to increase 7%. While SEPTA will continue to offer discounted weekly and monthly pass products, the SEPTA Key single trip fares are proposed to increase 8%. This same 8% increase will apply to existing ten trip tickets until the Key card single trip fares become effective. The One Day Independence Pass will increase \$1.50, but the AM peak travel restriction is lifted to allow use any time of day. A new discount quantity purchase of three Independence Passes is priced at \$13.50 each, just \$0.50 over current pricing. Fares for up to three children between the ages of 5 and 11 traveling with a fare paying adult on all SEPTA services will be \$1.00. This represents between a 43% and 78% savings on Regional Rail depending on zone of travel. Up to three children under the age of five traveling with an adult will continue to ride for free. As a result of this change, the Family Independence Pass product will be eliminated because the proposed \$1.00 child fare will have broader application for savings. In addition, the evening off-peak rates that went into effect after 7:00 pm weekdays will be eliminated for fare simplification, an ongoing initiative at SEPTA. Discounted off-peak ticket rates will continue to be available for weekend travel savings. Also participating at the hearings were Leslie Richards, General Manager, Richard Burnfield, Deputy General Manager/Treasurer, Scott Sauer, Assistant General Manager, Robert Lund, Deputy General Manager and Thomas McFadden, Chief Financial Officer.

A total of 157 people participated in the virtual public hearings. 37 people provided testimony.

An announcement was made at the hearings that the record would be held open through May 31, 2020 for receipt of written comments. Twenty six emails were received and entered into the record. A majority of these supported the position stated by 5<sup>th</sup> Square and the Philadelphia Transit Riders Union as stated below.

#### Written Comments :

Delaware Valley Association of Rail Passengers urges SEPTA to pass a six month interim budget in line with the proposed budget and urges that SEPTA proceed with abolishing the \$1.00 transfer fee for Key card users on July 1. It notes that SEPTA must ramp up service levels quickly and with flexibility and advocates subway and EL trains to operate for the entire service day, as well as, expanding regional rail trains to operate with four to six car consists all day in order to maintain social distancing and to encourage transit users to switch to the railroad.

Center for Advocacy for the Rights and Interests of the Elderly (CARIE) is pleased that SEPTA is not proposing a fare increase for the Shared Ride Program or Paratransit and suggests that SEPTA reduce its passenger fares for these services. It urges SEPTA to increase service availability by increasing the overall paratransit fleet and recommends reconsideration of the Key card base fare increase so as to not increase that fare.

SEPTA's Citizen Advisory Committee submitted a document that contained several comments, questions and recommendations which will be addressed by SEPTA management.

Transit Forward Philadelphia is a coalition of 24 different organizations and it submitted a proposal that was included in a letter with approximately 250 signatures. Its proposal is to allow SEPTA riders to transfer for free as many times as they need within a two hour window, implement a fare capping

system within SEPTA Key that rewards passengers for frequent use of the system and to allow children under 12 to ride SEPTA for free.

Clean Air Counsel supports SEPTA's plan for a discounted fare program for children ages 5 to 11 and the partial elimination of the transfer fee for SEPTA key users and recommends that transfers be free for all users within a two hour window. It also recommends a fare capping system program and that fares for children under 12 be free.

5<sup>th</sup> Square submitted a document outlining its 2020 Fair Fare Platform which recommends elimination of the transfer penalty, implementation of fare capping, free rides for children, and acceptance of transpass on Zone 1 of regional rail. The document included a list of 425 people who signed on to support the platform.

Philly Transit Riders Union submitted a document that asks the SEPTA Board to pass a one year fare plan that lowers all fares to the same price and allows anyone with a PA ACCESS or EBT card to ride the entire system for low or no fare. The document includes names of hundreds of individuals who signed in support of its proposal.

SEPTA Youth Advisory Council is pleased with the budget program and advocates development of a student fare initiative that would apply to college students. It questions the budget assumptions with regard to headcount, passenger revenue increase and ridership levels. It remains committed to the successful implementation of SEPTA Key and questions the scope of SEPTA Key 2.0. It expresses concern about the reliability of the electric buses and requests a better understanding of service reliability goal methodology. It suggests that SEPTA develop a schedule and date for phasing out carbon-producing fuels and sufficient real-time information for users of CCT CONNECT. It believes that reprioritization is in order to ensure that the website is improved.

Comments received during the hearings:

Several speakers who were members of 5<sup>th</sup> Square spoke in support of its 2020 Fair Fare Platform that recommends elimination of the transfer fee entirely, begin capping fares, offer free rides for children and accept Transpass on Zone 1 regional rail. Several speakers support the position of Philly Transit Riders Union that advocates for a plan that lowers fares and simplifies fares for one year.

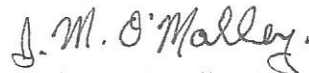
Summary:

The issues raised during the hearings are provided for your information and use. I find that SEPTA's Fiscal Year 2021 Operating Budget, Five Year Financial Plan and the Fare Restructuring

Plan are consistent with federal and state programming requirements. I recommend that the SEPTA Board, at some point in the future, after the financial impact to the Authority from COVID-19 is known, further consider the expansion of the free transfer window to a two hour period and permit children under the age of 12 to ride free.

In conclusion, it is my recommendation that the Fiscal Year 2021 Operating Budget, Five Year Financial Plan and the Fare Restructuring Plan be adopted.

Respectfully submitted,

A handwritten signature in cursive script that reads "J. M. O'Malley".

Joseph M. O'Malley, Esquire  
Hearing Examiner