

**SOUTHEASTERN PENNSYLVANIA
TRANSPORTATION AUTHORITY**

**Financial Statements
June 30, 2020 and 2019**

(With Independent Auditors' Report Thereon)

**SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
YEARS ENDED JUNE 30, 2020 AND 2019**

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 10
Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	14 - 59
Required Supplementary Information:	60
Schedule of Changes in the Net Pension Liability and Related Ratios	61-63
Schedule of Employer Pension Contributions – Last 10 Years	64-65
Schedule of Changes in the Total OPEB Liability and Related Ratios	66
Other Supplementary Information:	67
Pension Trust Funds:	
Statements of Plan Net Position	68 - 69
Statements of Changes in Plan Net Position	70 - 71



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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Southeastern Pennsylvania Transportation Authority
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY (the "AUTHORITY"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the AUTHORITY's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AUTHORITY, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Pronouncements

As described in Note 1 to the financial statements, in 2020 the AUTHORITY adopted the provisions of Governmental Accounting Standards Board Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". Our opinion is not modified with respect to this matter.



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Emphasis of Matter

As discussed in Note 12, the COVID-19 global pandemic may have a significant impact on the operations of the Authority. Management has determined that it is not possible to predict the possible effects of the global pandemic. The accompanying financial statements do not include any adjustments related to the possible effects of the global pandemic. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Employer Pension Contributions – Last 10 Years, and Schedule of Changes in the Total OPEB Liability and Related Ratios on pages 3 through 10 and pages 61 through 66, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Statements of Plan Net Position and the Statements of Changes in Plan Net Position on pages 68 through 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statements of Plan Net Position and the Statements of Changes in Plan Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Plan Net Position and the Statements of Changes in Plan Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Zelenkofske Axlerod LLC

ZELENKOFOSKE AXELROD LLC

Harrisburg, Pennsylvania
January 15, 2021

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

For the Fiscal Years Ended June 30, 2020 and 2019

This section of the Southeastern Pennsylvania Transportation Authority's ("Authority") annual financial statements presents a discussion and analysis of the Authority's performance during the fiscal years that ended June 30, 2020 and 2019. Certain Fiscal 2018 amounts have been either restated or reclassified to conform to the Fiscal 2019 presentation pertaining to other postemployment benefits. In Fiscal Year 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 83, "*Certain Asset Retirement Obligations*". The Statement legally obligates a government entity to perform future asset retirement activities related to tangible assets and that a liability should be recognized based on the standards in GASB 83. The Authority adopted GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". Besides disclosure information related to debt, the Statement established standards for reporting amount of unused line of credit, assets pledged as collateral for debt, and terms specified in debt agreements related to significant (a) events of default with finance-related consequences, (b) termination events with finance related consequences, and (c) subjective acceleration clauses. In addition, separate information in debt disclosures regarding direct borrowings and direct placement of debt from other debt. In Fiscal Year 2020, the Authority also adopted GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

We encourage readers to consider the information presented here in conjunction with the Authority's financial statements which immediately follows this section.

2020 FINANCIAL HIGHLIGHTS

Passenger revenues decreased 23.7% from \$459.1 million to \$350.4 million primarily due to the impact of the COVID-19 pandemic on the Authority's ridership which decreased by 23.5%. Prior to the pandemic, revenue and ridership at the end of fiscal year-to-date February was 0.70% and 0.9% ahead of prior year, respectively. Other operating revenue was also negatively impacted and decreased 9.3% from \$59.6 million to \$54.1 million primarily due to lower state shared ride reimbursements, advertising, and parking, offset by higher real estate rentals.

Operating expenses increased 1.5% from \$1,709.0 million to \$1,735.0 million primarily due to higher fringe benefits, casualty and liability expenses, lease rentals and depreciation expenses offset by lower wages, purchased transportation, services, fuel and lubricant costs, utilities, and other material and supplies. The lower costs were partially impacted by a reduction in service once the pandemic began.

Total government subsidies needed to support operations increased 12.0% from \$889.8 million to \$996.1 million primarily to the receipts of CARES Act funding. On March 27, 2020, the U.S. Congress passed, and the President signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides emergency assistance and health care response for individuals, families and businesses affected by the COVID-19 pandemic. The Authority is eligible to receive \$644 million in CARES Act funding, a portion of which offset the significant passenger revenue shortfall resulting from lower ridership related to the COVID-19 pandemic. The CARES Act Grant was awarded by the Federal Transit Administration on June 3, 2020. The Authority recognized \$66.6 million in federal CARES Act funding to help offset lower passenger revenues.

Total assets decreased 0.3% from \$5,362.9 million to \$5,348.0 million primarily due to a decrease in current assets. Total liabilities decreased 1.1% from \$3,506.3 to \$3,469.5 million primarily due to a decrease in long-term debt of \$172.0 million and net pension liabilities of \$14.6 million offset by an increase in other postemployment benefits liabilities of \$78.2 million. There was a decrease in deferred outflows from pensions of \$8.3 million as well as a decrease in deferred inflows from pensions of \$0.7 million related to GASB Statement No. 68 and 71. There was an increase in deferred outflows from other postemployment benefits of \$43.1 million and a decrease in deferred inflows of \$82.4 million related to GASB Statement No. 75.

Total Net Position increased 9.5% from \$1,439.6 million to \$1,575.7 million due to capital grants and nonoperating revenues were greater than the net loss from operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of: management's discussion and analysis (this section), basic financial statements, and notes to the financial statements.

The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows provide information about the Authority's financial position and recent activities. The financial statements also include notes that explain some of the information in the financial statements, provide more detailed data, and provide additional information regarding the Authority's overall financial status. The Authority's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net position. Total net position of the Authority as of June 30, 2020 increased \$136.1 million compared to June 30, 2019. At June 30, 2020, total assets decreased \$14.9 million or 0.3% to \$5,348.0 million and total liabilities decreased \$36.8 million or 1.1% to \$3,469.5 million. At June 30, 2019, total assets had increased 4.9% and total liabilities had decreased 1.7% compared to June 30, 2018.

	Net Position (thousands of dollars)		
		As of June 30,	
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 578,360	\$ 650,589	\$ 600,886
Restricted funds	43,270	41,472	56,562
Capital assets	4,722,860	4,666,895	4,452,232
Other assets	3,513	3,985	3,468
Total assets	<u>5,348,003</u>	<u>5,362,941</u>	<u>5,113,148</u>
Deferred outflows of resources	254,535	222,146	214,320
Total assets and deferred outflows	<u>\$ 5,602,538</u>	<u>\$ 5,585,087</u>	<u>\$ 5,327,468</u>
Current liabilities	\$ 656,480	\$ 746,900	\$ 672,584
Public liability, property damage and workers' compensation claims	124,625	109,703	110,449
Long-term debt	504,507	530,433	594,462
Long-term capitalized lease obligation	27,724	25,363	24,808
Net pension liability	895,200	909,804	951,670
Other postemployment benefits	1,256,735	1,178,556	1,205,651
Other liabilities	4,235	5,568	7,017
Total liabilities	<u>3,469,506</u>	<u>3,506,327</u>	<u>3,566,641</u>
Deferred inflows of resources	557,340	639,125	632,915
Net position:			
Net investment in capital assets	4,206,780	3,976,723	3,836,678
Restricted	5,661	5,295	5,183
Unrestricted (deficit)	<u>(2,636,749)</u>	<u>(2,542,383)</u>	<u>(2,713,949)</u>
Total net position	<u>1,575,692</u>	<u>1,439,635</u>	<u>1,127,912</u>
Total liabilities, deferred inflows and net position	<u>\$ 5,602,538</u>	<u>\$ 5,585,087</u>	<u>\$ 5,327,468</u>

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

The \$72.2 million decrease in current assets includes decreases in restricted funds of \$42.6 million, unrestricted funds of \$13.2 million, and net receivables of \$27.6 million offset by increases in material & supplies of \$9.8 million, and prepaid expenses of \$1.4 million. The restricted funds decrease is primarily due to timing of the June operating subsidy of \$41.1 million which was not received until July 2, 2020. The net receivable decrease of \$27.6 million is primarily due to receipt of federal and state capital grants in Fiscal Year 2020, and by a decrease in other receivables due to lower receivable amounts from third-party agents. The delay in the receipt of Fiscal 2019 state capital grant funds resulted from PennDOT's inability to fully-fund payments due pursuant to Act 89 because of a lawsuit filed by the Owner Operator Independent Drivers Association, Inc. that alleged the PA Turnpike Commission's annual payment to PennDOT to fund mass transit across the Commonwealth was unconstitutional. On August 13, 2019, the US Court of Appeals for the Third Circuit affirmed the April 4, 2019 order by the US District Court for the Middle District of Pennsylvania that dismissed the lawsuit against the PA Turnpike Commission and the Commonwealth of Pennsylvania. Material and supplies increased \$9.8 million due to a reduction in materials used during the pandemic and an increase in materials needed to maintain the new bus fleets and rail locomotives and to support various infrastructure operating maintenance and capital improvement programs. Prepaid expenses were \$1.4 million higher than the prior year primarily related to higher prepayments for information technology hardware maintenance contracts, deferred rent payments, and Amtrak Access Rights.

The \$49.7 million increase in current assets as of June 30, 2019 from the previous year was primarily due to an increase in restricted funds, net receivables related to the timing of the receipt of federal, state and local operating and capital grants beyond June 30, 2018, material and supplies, and prepaid expenses.

The \$1.8 million increase in noncurrent restricted funds as of June 30, 2020 is primarily due to a \$2.3 million funding increase in the M-4 Lease Collateral Fund.

In addition to restricted funds, the Authority maintains various unrestricted designated funds, a majority of which were adopted by resolution of the Authority's Board to cover a portion of the public liability, property damage and workers' compensation claims for which the Authority is self-insured. These Board designated amounts totaled \$55.2 million as of June 30, 2020, \$52.9 million as of June 30, 2019 and \$50.6 million as of June 30, 2018. The Authority also maintains an unrestricted designated fund, derived from swaption proceeds received in March 2003, which is being amortized over the remaining life of the related outstanding bonds. The remaining swaption fund balance was \$262 thousand as of June 30, 2020 and was \$536 thousand as of June 30, 2019.

For Fiscal Year ending June 30, 2020, total capital assets increased \$477.7 million, less \$69.4 million of retirements, and accumulated depreciation increased \$421.7 million, less \$69.4 million of accumulated depreciation retirements, resulting in a net capital asset increase of \$56.0 million. At June 30, 2019, net capital assets had increased \$214.6 million over the prior year. Major expenditures during both Fiscal Years 2020 and 2019 were incurred for various transit and regional rail infrastructure improvements such as the SEPTA Key, new buses, locomotives, vehicle overhaul program, substations and stations, loops and parking improvements.

The decrease in other assets of \$0.5 million in Fiscal Year 2020 is due to the Authority's decreased amortized costs in connection with the Authority's outstanding debt. The \$0.5 million increase in Fiscal Year 2019 was due to the increase in the fair value of the Authority's basis swap.

Total liabilities at June 30, 2020 decreased \$36.8 million primarily due to a reduction in long-term debt of \$172.0 million, unearned revenue of \$44.7 million, accounts payable of \$16.8 million, a reduced net pension liability of \$14.6 million, other liabilities of \$1.4 million, and accrued expenses of \$0.8 million, offset by an increase in the line of credit borrowings of \$115.0 million, increased recognition in other postemployment benefit obligations of \$78.2 million, public liability, property damage, and workers compensation claims liability of \$17.9 million, and capital lease obligation of \$2.4 million. The accounts payable decrease is primarily related to lower liabilities for capital assets partially due to projects being halted due to the pandemic. The long-term debt decrease during the year reflects debt service payments of \$197.4 million, a favorable decrease in the fair value of the Authority's swaps of \$0.8 million, and a \$4.4 million net decrease of amortized bond premium costs. Offsetting the June 30, 2020 debt decrease were additional loan borrowings during the year of \$33.1 million to fund capital projects and refund the 2010 bonds. The unearned revenue decrease is due to the timing of the June operating subsidy of \$41.1 million which was received on July 2, 2020. Accrued expenses decreased \$0.8 million, or 1.0%, partially due to payroll wages and taxes. The line of credit increase reflects a \$135.0 million outstanding balance on the line of credit as compared to a balance of \$20.0 million at Fiscal Year-end 2019. Additionally, there were increases in the public liability, property damage and workers' compensation claims liability of \$17.9 million due in part to a slowdown in claim payouts resulting from the pandemic, and a decrease to other liabilities of \$1.4 million. The other liability decrease reflects the use of restricted vehicle lease proceeds and other capital project funds to acquire or improve capital assets.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

At June 30, 2019, total liabilities decreased \$60.3 million primarily due to a reduced net pension liability of \$41.9 million, as well as the decreased recognition in other postemployment benefit obligations of \$27.1 million, and re-payment of the line of credit borrowings of \$55.0 million, offset by an increase of unearned revenue of \$62.0 million.

Net investment in capital assets consists of capital assets net of accumulated depreciation, reduced by the amount of long-term debt and liabilities attributable to the acquisition of those assets. Restricted net position represents deposits that are not available for general use because of third-party restrictions. Unrestricted net position represents net assets that are available for general use. The unrestricted net position deficit increased \$94.3 million and decreased \$171.5 million in Fiscal Years 2020 and 2019, respectively, to a total deficit amount of \$2,636.7 million at June 30, 2020. The Fiscal Year 2019 unrestricted net position deficit decrease reflects \$41.9 million for net pension liability, as well as the recognition of the accrued other postemployment benefit obligation decrease of \$27.1 million in Fiscal Year 2019. The deficit in unrestricted net position is not expected to have an adverse impact on continuing operations primarily due to the amount of noncurrent liabilities for other postemployment benefits, the net pension liability and public liability, property damage, and worker's compensation claims. These liabilities previously served, directly or indirectly, to increase the deficit; however, the liability amounts are not expected to be significantly liquidated in the upcoming year, which therefore would not require the use of monetary assets.

In Fiscal Year 2008, the Authority began receiving State funding pursuant to Act 44 which was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructured the way public transportation was funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997, was repealed and replaced with the PTTF dedicated fund. The PTTF provides State funding, in conjunction with required local matching funds, for five programs, namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives. In March 2010, the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to begin tolling Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA's annual capital budget was cut by 25 percent, or \$110 million, beginning in Fiscal Year 2011 which continued into Fiscal Year 2014 with a total capital budget of \$308.0 million. The capital budget in Fiscal Years 2020 and 2021 was \$675.1 million and \$640.2 million, respectively. The increase was due to the Pennsylvania General Assembly passage of transportation funding legislation, Act 89 of 2013, which was signed into law by the Governor in November 2013. Act 89 of 2013 provides a dedicated, long-term funding source for transportation in Pennsylvania that includes funding for public transportation as well as roads, bridges and multimodal transportation.

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Changes in Net Position. Net position for the Fiscal Year ended June 30, 2020 increased \$136.1 million to \$1,575.7. The increase in net position as compared to Fiscal Years 2019 and 2018 is described below. For Fiscal Year 2020, total operating revenues decreased 22.0% and total operating expenses increased 1.5%. In Fiscal Year 2019, total operating revenues decreased 1.3% and total operating expenses had decreased 3.9%.

	Changes in Net Position (thousands of dollars)		
	For the Years ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues			
Passenger	\$ 350,441	\$ 459,075	\$ 467,901
Other income	54,112	59,628	57,370
Total operating revenues	<u>404,553</u>	<u>518,703</u>	<u>525,271</u>
Operating expenses			
Operating expenses excluding depreciation	1,313,287	1,302,054	1,390,617
Depreciation	421,739	406,972	387,544
Total operating expenses	<u>1,735,026</u>	<u>1,709,026</u>	<u>1,778,161</u>
Loss from operations	<u>(1,330,473)</u>	<u>(1,190,323)</u>	<u>(1,252,890)</u>
Nonoperating revenues (expenses)			
Subsidies	996,105	889,761	843,985
Nonoperating expenses - net	<u>(9,088)</u>	<u>(9,066)</u>	<u>(13,145)</u>
Total nonoperating revenues (expenses)	<u>987,017</u>	<u>880,695</u>	<u>830,840</u>
Capital grant funding	<u>479,513</u>	<u>621,351</u>	<u>542,193</u>
Increase (decrease) in net position	136,057	311,723	120,143
Net position, beginning of year, before restatement	1,439,635	1,127,912	1,859,899
Cumulative effect of change in accounting principle	-	-	(852,130)
Net position, beginning, as restated	<u>1,439,635</u>	<u>1,127,912</u>	<u>1,007,769</u>
Net position, ending	<u>\$ 1,575,692</u>	<u>\$ 1,439,635</u>	<u>\$ 1,127,912</u>

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

In Fiscal Year 2020, passenger revenue decreased 23.7% primarily due to the impact of COVID-19 pandemic on ridership. In Fiscal Year 2019, passenger revenue decreased 1.9% due primarily to a change in fare policy that expanded free rides for seniors to include Regional Rail. Other income decreased 9.3% in Fiscal Year 2020 primarily due to lower state shared ride reimbursements, advertising, and parking, offset by higher real estate rentals.

Subsidies increased 12.0% in Fiscal Year 2020 to meet the budgeted expense increase, and the revenue shortfall from ridership losses due to the pandemic. On March 27, 2020, the U.S. Congress passed, and the President signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides emergency assistance and health care response for individuals, families and businesses affected by the COVID-19 pandemic. The Authority is eligible to receive \$644 million in CARES Act funding, a portion of which offset the significant passenger revenue shortfall resulting from lower ridership related to the COVID-19 pandemic. The CARES Act Grant was awarded by the Federal Transit Administration on June 3, 2020. The Authority recognized \$66.6 million in CARES Act funding for Fiscal 2020. In Fiscal 2019, subsidies increased \$45.8 million to meet budgeted expense increases, and ridership losses.

Other non-operating expenses, which were relatively the same as in Fiscal Year 2019, include an interest expense decrease of \$1.0 million offset by an investment income decrease of \$1.0 million. The interest expense decrease is primarily related to the current refunding of Revenue Refunding Bonds (RRB) 2010. The investment income decrease in Fiscal Year 2020 was due to the unfavorable change in the market value of investments as compared to Fiscal Year 2019. In Fiscal Year 2019, other non-operating expenses decreased \$4.1 million including lower interest on debt of \$1.2 million and an investment income increase of \$2.9 million related to a favorable market value change of investments.

Capital grant funding decreased \$141.8 million in Fiscal Year 2020 partially due to a reduced budget and was comprised of decreases in federal funding of \$109.8 million, and state funding of \$32.6 million, partially offset by an increase in local funding of \$0.6. Capital grant funding increased \$79.1 million in Fiscal Year 2019 primarily due to an increase in federal, state and local funding.

Operating Expenses
(thousands of dollars)

	For the Years ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 558,571	\$ 562,304	\$ 549,968
Fringe benefits	385,567	369,624	493,865
Services	85,011	91,368	75,648
Fuel & lubricants	26,239	28,531	25,078
Tires & tubes	2,406	2,550	2,500
Other material & supplies	58,040	61,017	63,283
Utilities	41,921	45,821	45,620
Casualty & liability	39,673	23,954	22,801
Taxes	1,384	1,568	1,583
Purchased transportation	44,453	56,038	50,289
Leases and rentals	65,215	55,985	50,908
Miscellaneous	4,807	3,294	9,074
Depreciation	421,739	406,972	387,544
Total operating expenses	<u>\$ 1,735,026</u>	<u>\$ 1,709,026</u>	<u>\$ 1,778,161</u>

FINANCIAL ANALYSIS OF THE AUTHORITY (Continued)

Salaries and wages decreased \$3.7 million, or 0.7%, in Fiscal Year 2020 primarily due to cuts in service due to the COVID-19 mitigation efforts. In Fiscal 2019 salaries and wages increased 2.2% due to contractual and planned increases. Fringe Benefit expenses increased \$15.9 million, or 4.3%, in Fiscal Year 2020 primarily due to a lower actuarial reduction in current year pension and other postemployment costs. In Fiscal Year 2019, fringe benefits decreased \$124.2 million, or 25.2% due to decreases in pension and other postemployment benefits costs related to GASB 68 and 75, respectively, offset by increases in other healthcare costs. Other postemployment benefit expenses decreased \$32.2 million, or 152.5%, in Fiscal Year 2019 primarily due to the full-year impact of the January 1, 2017 changes for new union and SAM retirees regarding employee contributions, prescription and medical copays, the adoption of updated mortality tables and an increase in the discount rate.

Services decreased 7.0% in Fiscal Year 2020 primarily related to lower advertising costs, snow removal, ticket vending, pollution remediation and legal and other costs incurred to defend claims, offset by higher contract service and software maintenance costs. The service expense increase in Fiscal Year 2019 was primarily related to higher contract service, software maintenance and legal costs.

Fuel and lubricants decreased 8.0% in Fiscal Year 2020 primarily due to lower consumption and the service cuts caused by the COVID-19 mitigation efforts. The expense increased 13.8% in Fiscal 2019 primarily due to higher prices offset by lower consumption. The decrease in fuel consumption in both Fiscal Years 2020 and 2019 is due to the increase in the hybrid bus fleet.

Tires and tubes expenses decreased 5.7% in Fiscal Years 2020 due to cuts in operating service offset by a contractual CPI increase and increased 2.0% in Fiscal 2019 due to the contractual CPI increase.

Other material and supplies decreased 4.9% in Fiscal Year 2020 and 3.6% in Fiscal 2019 due to lower infrastructure and vehicle maintenance material costs.

Utilities decreased 8.5% in Fiscal Year 2020, primarily due to lower propulsion power caused by cuts in service, lower electric and heating costs partially offset by higher telephone, rubbish removal, water and sewer costs. In Fiscal Year 2019, utilities increased 0.4%.

Casualty and liability expenses increased \$15.7 million in Fiscal Year 2020 compared to Fiscal 2019 due to an increase in costs expected to settle claims. In Fiscal 2019 expenses increased \$1.2 million due to an increase in costs to settle claims.

Purchased transportation expenses decreased 20.7% in Fiscal Year 2020 primarily due to lower demands for service caused by the pandemic.

Lease and rental expenses increased 16.5% in Fiscal Year 2020 primarily due to an increase in Amtrak lease costs, rental costs for leased service and revenue vehicles, and technology equipment. In Fiscal 2019 lease and rental expenses increased 10.0% due to Amtrak lease costs and rental costs for service vehicles.

Miscellaneous expenses increased \$1.5 million in Fiscal Year 2020 primarily due to a higher funding of the M-4 lease collateral due to lower than expected returns to meet the future obligation. In Fiscal 2019 expenses decreased \$5.8 million due to higher returns earned on the M-4 lease collateral which required less funding.

Depreciation expenses increased 3.6% in Fiscal Year 2020 and 5.0% in Fiscal 2019, primarily due to the investment in capital assets in both fiscal years which was being impacted by the increase in available capital grant funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2020, the Authority's investment in capital assets, which included revenue vehicles, transit facilities, track, roadway, and signals, was \$11,409.8 million. Net of accumulated depreciation of \$6,686.9 million, net capital assets totaled \$4,722.9 million. This amount represents a net increase, including additions and disposals net of depreciation, of \$56.0 million, or 1.2% from June 30, 2019.

As of June 30, 2020, the Authority has commitments for various unexpended construction and design contracts of approximately \$380 million and commitments for unexpended revenue vehicle purchases of approximately \$246 million primarily for electric and hybrid buses, paratransit vehicles and multi-level rail cars. The Authority's capital budget for Fiscal Year 2021 includes capital asset additions in the amount of \$523.5 million. A significant portion of the additions is scheduled for the normal replacement and

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

overhaul of vehicles, and various critical infrastructure improvement capital programs which includes maintenance shops and offices, passenger stations, New Payment (SEPTA Keycard) technology project, substation and power improvements, and other communications, signal systems and technology improvements.

Debt Administration. As of June 30, 2020, the Authority's long-term debt, including current maturities, was \$513.1 million. This amount excludes the swap derivative liability of \$1.3 million and \$24.0 million in unamortized premiums (or \$538.4 million in total). Long-term debt increased \$15.3 million from additional U.S. Employment-based Fifth Preference Category of the Visa (EB-5) Program and Energy Saving Company (Esco) project borrowings to fund designated capital projects. Offsetting the long-term debt increase were debt service payments of \$199.9 million, including a \$140 million payment made on July 1, 2019 on the New Payment Technology Loan, and a payment to refund the Revenue Refunding Bonds, Series of 2010 with the proceeds from the issuance of the Revenue Refunding Bonds Series of 2019.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, customers, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer, Southeastern Pennsylvania Transportation Authority, 1234 Market Street, 9th Floor Philadelphia, PA 19107-3780.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019
(THOUSANDS OF DOLLARS)

ASSETS AND DEFERRED OUTFLOWS	<u>2020</u>	<u>2019</u>	LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>			<u>CURRENT LIABILITIES</u>		
Unrestricted funds (Note 2)			Current maturities of		
Cash and cash equivalents	\$ 50,371	\$ 22,336	Long-term debt (Note 5)	\$ 33,874	\$ 179,997
Investments	18,258	59,498	Accounts payable - trade	114,347	131,119
Restricted funds (Note 2)			Accrued expenses	86,077	86,899
Cash and cash equivalents	88,462	152,556	Line of credit	135,000	20,000
Investments	123,440	101,948	Current portion of public liability, property damage and workers' compensation claims (Note 11)	55,469	52,443
Receivables			Unearned revenue	231,713	276,442
Operating subsidies	7,386	8,256	Total current liabilities	<u>656,480</u>	<u>746,900</u>
Capital grants (Note 3)	155,603	181,635			
Other	10,592	11,282	<u>NONCURRENT LIABILITIES</u>		
Material and supplies	100,656	90,825	Public liability, property damage and workers' compensation claims (Note 11)	124,625	109,703
Prepaid expenses	23,592	22,253	Long-term debt (Note 5)	504,507	530,433
Total current assets	<u>578,360</u>	<u>650,589</u>	Long-term capitalized lease obligation (Note 6)	27,724	25,363
			Net pension liability (Note 7)	895,200	909,804
<u>NONCURRENT ASSETS</u>			Other postemployment benefits (Note 8)	1,256,735	1,178,556
Restricted funds (Note 2)			Other liabilities (Note 6)	4,235	5,568
Cash and cash equivalents	26,096	9,625	Total noncurrent liabilities	<u>2,813,026</u>	<u>2,759,427</u>
Investments	17,174	31,847	Total liabilities	<u>3,469,506</u>	<u>3,506,327</u>
Capital assets, net (Notes 3, 4, 5 & 6)	4,722,860	4,666,895			
Other	3,513	3,985	<u>DEFERRED INFLOWS OF RESOURCES</u>		
Total noncurrent assets	<u>4,769,643</u>	<u>4,712,352</u>	Deferred inflows of resources from pensions (Note 7)	49,557	50,255
Total assets	<u>5,348,003</u>	<u>5,362,941</u>	Deferred inflows of resources from other post employment benefits (Note 8)	506,510	588,870
			Deferred charge on refundings	1,273	-
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			Total liabilities and deferred inflows of resources	<u>4,026,846</u>	<u>4,145,452</u>
Accumulated decrease in fair value of hedging derivative (Note 5)	1,266	2,054	<u>NET POSITION</u>		
Deferred charge on refundings	5,426	7,065	Net investment in capital assets	4,206,780	3,976,723
Deferred outflow of resources from pensions (Note 7)	154,997	163,258	Restricted	5,661	5,295
Deferred outflow of resources from post employment benefits (Note 8)	92,846	49,769	Unrestricted (deficit)	<u>(2,636,749)</u>	<u>(2,542,383)</u>
			Total net position	<u>1,575,692</u>	<u>1,439,635</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 5,602,538</u>	<u>\$ 5,585,087</u>	TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 5,602,538</u>	<u>\$ 5,585,087</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(THOUSANDS OF DOLLARS)

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUE:</u>		
Passenger Fare	\$ 350,441	\$ 459,075
Route Guarantees	4,175	3,985
State Shared Ride Program	10,656	13,495
Area Agency on Aging	799	1,100
Other contract revenue	22	34
Advertising	14,540	16,448
Miscellaneous income	23,920	24,566
Total revenue available from operations	<u>404,553</u>	<u>518,703</u>
<u>OPERATING EXPENSES:</u>		
Salaries and wages	558,571	562,304
Fringe benefits	385,567	369,624
Services	85,011	91,368
Fuel & lubricants	26,239	28,531
Tires & tubes	2,406	2,550
Other materials & supplies	58,040	61,017
Utilities	41,921	45,821
Casualty & liability	39,673	23,954
Taxes	1,384	1,568
Purchased transportation	44,453	56,038
Leases and rentals	65,215	55,985
Miscellaneous	4,807	3,294
Depreciation	421,739	406,972
Total operating expenses	<u>1,735,026</u>	<u>1,709,026</u>
Loss from operations	<u>(1,330,473)</u>	<u>(1,190,323)</u>
<u>NON-OPERATING REVENUES/(EXPENSES):</u>		
Capital funds used for operating assistance and planning grants:		
Federal government	86,217	83,409
Commonwealth of Pennsylvania	48,460	44,791
Local governments	1,652	1,530
Operating grants:		
Federal government - CARES	66,620	-
Commonwealth of Pennsylvania Act 44 Funds	689,701	660,897
Local Governments Act 44 Matching Funds	103,455	99,134
Total government subsidies for operations	<u>996,105</u>	<u>889,761</u>
Other Private/Public Sources		
Investment income	3,997	4,981
Gain/(Loss) on disposal of capital assets	-	(6)
Interest expense (Note 5)	(13,085)	(14,041)
Total nonoperating revenues (expenses)	<u>987,017</u>	<u>880,695</u>
Loss before capital grant funding	<u>(343,456)</u>	<u>(309,628)</u>
<u>CAPITAL GRANT FUNDING:</u>		
Federal	167,476	277,317
State	304,412	337,016
Local	7,625	7,018
Total capital grant funding	<u>479,513</u>	<u>621,351</u>
<u>INCREASE (DECREASE) IN NET POSITION</u>		
Net position, beginning	1,439,635	1,127,912
Net position, ending	<u>\$ 1,575,692</u>	<u>\$ 1,439,635</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(THOUSANDS OF DOLLARS)

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Passenger receipts	\$ 360,957	\$ 465,304
Other receipts	51,643	60,196
Payments for salaries, wages and fringe benefits	(994,577)	(1,015,191)
Payments for fuel, utilities and taxes	(70,001)	(75,590)
Payments for casualty and liability claims	(25,556)	(25,054)
Payments for other operating expenses	(271,842)	(268,189)
Net cash used in operating activities	<u>(949,376)</u>	<u>(858,524)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Receipts of operating subsidies	<u>945,927</u>	<u>942,016</u>
Net cash provided by noncapital financing activities	<u>945,927</u>	<u>942,016</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital grants received	502,386	580,587
Acquisition of operating property and construction in progress	(491,056)	(618,363)
Proceeds from issuance of debt and refunding debt	33,127	47,434
Payments for refunding of long-term debt	(19,840)	-
Proceeds from line of credit	135,000	20,000
Repayment of line of credit	(20,000)	(75,000)
Increase in long-term capitalized lease obligation	2,361	555
Repayment of long-term debt	(180,101)	(38,741)
Interest paid	(16,666)	(18,551)
Net cash (used in) provided by capital and related financing activities	<u>(54,789)</u>	<u>(102,079)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sale of investments	390,684	71,882
Receipt of interest	3,447	3,322
Purchase of investments	(355,481)	(113,963)
Net cash provided by (used in) investing activities	<u>38,650</u>	<u>(38,759)</u>
<u>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</u>		
	(19,588)	(57,346)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	184,517	241,863
End of year	<u>\$ 164,929</u>	<u>\$ 184,517</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Unrestricted	\$ 50,371	\$ 22,336
Restricted	114,558	162,181
Total	<u>\$ 164,929</u>	<u>\$ 184,517</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>		
Operating loss	\$ (1,330,473)	\$ (1,190,323)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	421,739	406,972
Decrease in other receivables	705	5,814
(Increase) decrease in materials & supplies	(9,831)	(4,952)
(Increase) decrease in prepaid expenses	(1,339)	(1,137)
(Decrease) increase in accounts payable - trade	(2,436)	(2,384)
Increase in accrued expenses, unearned revenue and other liabilities net of other assets	8,609	3,704
(Decrease) in net pension liability and pension deferred inflows/outflows	(7,040)	(19,420)
(Decrease) increase in public liability and property damage claims	17,948	(3,526)
(Decrease) in other postemployment benefits and deferred inflows/outflows	(47,258)	(53,272)
Total adjustments	<u>381,097</u>	<u>331,799</u>
Net cash (used in) operating activities	<u>\$ (949,376)</u>	<u>\$ (858,524)</u>

See accompanying notes to Financial Statements.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)
JUNE 30, 2020 AND 2019

1. Summary of Significant Accounting Policies

Basis of Presentation and Nature of Authority

The Southeastern Pennsylvania Transportation Authority ("Authority" or "SEPTA"), an instrumentality of the Commonwealth of Pennsylvania created by the State legislature, operates transportation facilities in the five-county Philadelphia metropolitan area which encompasses approximately 2,200 square miles. The Authority's operations are accounted for in the following separate divisions: City Transit, Regional Rail and Suburban Operations (Victory and Frontier). All material interdivisional transactions have been eliminated.

The City Transit Division serves the City of Philadelphia ("City") with a network of 90 subway-elevated, light rail, trackless trolley and bus routes, as well as demand response services, providing approximately 403 thousand passenger trips per day. The Regional Rail Division serves all five counties with a network of 13 commuter rail lines, providing approximately 91 thousand passenger trips per day. The Suburban Operations Division serves the western and northern suburbs with a network of 48 interurban trolley, light rail and bus routes, as well as demand response services, providing approximately 42 thousand passenger trips per day.

There are two principal sources of revenue: passenger revenue and governmental subsidies. The subsidies are dependent upon annual appropriations, which are not determinable in advance, from Federal, State and local sources. The subsidies for Fiscal Years 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Federal subsidies:		
Preventive maintenance reimbursements	\$ 36,200	\$ 36,200
Leasehold/debt service reimbursements	50,017	47,209
Federal Emergency Grant - CARES Act	66,620	-
State and local subsidies:		
Act 44 operating subsidies	793,156	760,032
Act 44 leasehold/debt service reimbursements	50,112	46,320
Total subsidies	<u>\$ 996,105</u>	<u>\$ 889,761</u>

On July 6, 2012, the President signed "Moving Ahead for Progress in the 21st Century (MAP-21)" into law. MAP-21 authorized funding for Fiscal Years 2013 and 2014. Through several extensions passed by Congress and signed by the President, MAP-21 continued to be authorized until December 4, 2015. On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act, or "FAST Act." The FAST Act authorizes funding for federal transit, rail and highway programs in Federal Fiscal Years 2016 through 2020. It is the first law enacted in over ten years that provided long-term funding certainty for surface transportation infrastructure planning and investment. The FAST Act builds on and modifies previous surface transportation laws, including the Moving Ahead for Progress in the 21st Century Act (MAP-21). Federal subsidies provide reimbursement for bus and rail transit capital projects, preventive maintenance, debt service and certain capital lease expenses.

On March 27, 2020, the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law by the President in response to public health and economic impacts of the COVID-19 pandemic in the United States. The Federal Transit Administration was appropriated \$25 billion of CARES Act funding to allocate to recipients of urbanized and rural area formula funds. Operating expenses incurred beginning on January 20, 2020 for all rural and urban recipients are eligible, including operating expenses to maintain transit services as well as paying for administrative leave for transit personnel due to reduced operations during an emergency. Funding was provided at 100% federal share, with no local match required and is available to support capital, operating, and other eligible expenses to prevent, prepare for, and respond to COVID-19. SEPTA will utilize apportioned CARES Act funds for operating and capital expenses incurred in Fiscal Years 2020, 2021, and 2022.

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Nature of Authority (Continued)

Since Fiscal Year 2008, State funding had been pursuant to Act 44 of 2007 ("Act 44"). Act 44 was enacted by the State legislature in July 2007 and signed into law by the Governor on July 18, 2007. This legislation established a Public Transportation Trust Fund ("PTTF") in the State Treasury and completely restructured the way public transportation is funded in Pennsylvania. The former system of funding transit agencies from the State General Fund, Lottery Fund, Act 26 of 1991, and Act 3 of 1997 was repealed and replaced with the PTTF dedicated fund. The PTTF provided State funding, in conjunction with required local governmental matching funds, from the five-county SEPTA region for five programs, namely: operating, asset improvement, capital improvements, programs of statewide significance, and new initiatives. On November 25, 2013, the Governor signed into law Act 89 of 2013. This law, which amended Act 44 of 2007, became effective January 1, 2014.

Act 44 of 2007, as amended by Act 89 of 2013, is a comprehensive transportation funding bill for the Commonwealth of Pennsylvania. For the Authority, the transportation funding bill will provide a predictable, growing source of funds to make critical infrastructure repairs and improvements. Act 44 of 2007, as amended by Act 89, provides state funding in conjunction with required local governmental matching funds from the five-county SEPTA region for operating, the Asset Improvement Program, Programs of Statewide significance, Capital Improvement Program and Alternative Energy Capital Investments program.

State funding represents the largest single source of subsidy revenue and the City is the largest single provider of local subsidies. The state also provides a subsidy for senior citizens under the State Shared Ride Program. It is the Authority's policy to record all subsidies on a basis consistent with the time period specified in the governmental grant for federal and state subsidies. Local government subsidies were recorded based upon the matching funding requirements of Act 44 and Act 89.

Accounting and Financial Reporting

The Authority follows Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", which requires a Management's Discussion and Analysis to provide an analytical overview and discussion of financial activities.

In Fiscal 2018, the Authority also adopted GASB Statement No. 86, "Certain Debt Extinguishment Issues". The Statement established standards for reporting in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources. Resources other than the proceeds of refunding debt are placed in an irrevocable trust for the purposes of extinguishing debt. In Fiscal 2019, the Authority adopted GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The Statement establishes additional note disclosure for debt obligations including direct borrowings and direct placements.

In Fiscal Year 2020, the Authority also adopted GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to government units. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from the Authority's principal operation of providing passenger service. The principal operating revenues are passenger fares and essentially all operating expenses relate to the delivery of passenger transportation. All other revenues and expenses are reported as nonoperating revenues or expenses, or capital grants. The cash flow statement is prepared using the direct method.

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Renewal and Replacement

A previous agreement with the City required the Authority to provide a portion of its gross revenues to be used for renewal and replacements of operating property, including, when approved, the matching of State or Federal grant funding for the acquisition of capital assets. These funds are included in the restricted cash and investments by the Authority.

Investments

The Authority accounts for investments at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. Investments are more fully described in Note 2.

Materials and Supplies

The inventory of materials and supplies of maintenance parts is valued on an average cost basis.

Capital Assets

It is the Authority's policy to capitalize and depreciate capital assets acquired with capital grants, renewal and replacement and other operating funds, as more fully described in Note 4.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources or expense until then. The Authority has four items that qualify for reporting in this category within its Statements of Net Position. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources or revenue until that time. The Authority has two items, concerning deferred pension and OPEB gains, which qualifies for reporting in this category.

Pensions

The Authority maintains five trustee, single-employer, defined benefit pension plans covering substantially all of its full-time employees, other than regional rail union employees. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The pension plans are more fully described in Note 7.

Other Postemployment Benefits

During Fiscal Year 2018, the Authority adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

1. Summary of Significant Accounting Policies (Continued)

This statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The impact of GASB Statement No. 75 is more fully described in Note 8.

Self-Insurance

The Authority provides for the present value of the self-insurance portion of public liability, property damage, workers' compensation claims, and pollution remediation obligations. The Authority is also self-insured for medical coverage and prescription drug benefits it provides to most employees and certain retirees through third-party administrators. As of January 1, 2015, the Authority elected to self-insure, through two third-party administrators, the dental coverage it provides to most employees. The Authority's self-insurance is more fully described in Note 11.

Grants and Subsidies

All capital grants, meeting the timing and eligibility requirements of the grant agreement, are recorded as an increase in the Statement of Revenues, Expenses and Changes in Net Position.

Statements of Cash Flows

For the purpose of the Statements of Cash Flows, the Authority considers cash equivalents to be all highly liquid investments with a maturity of ninety days or less at the time of purchase.

2. Cash, Cash Equivalents and Investments

The investments in the accompanying financial statements are reported at fair value.

The components of cash and cash equivalents as of June 30 are:

	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 887	\$ 6,203
Cash in bank	31,653	9,156
Money market funds	150,368	197,193
Outstanding checks	(17,979)	(28,035)
Total cash and cash equivalents	<u>164,929</u>	<u>184,517</u>
Less current portion - unrestricted	50,371	22,336
Less current portion - restricted	88,462	152,556
Total noncurrent portion - restricted	<u>\$ 26,096</u>	<u>\$ 9,625</u>

The components of investments as of June 30 are:

	<u>2020</u>	<u>2019</u>
U.S. Government and agencies	\$ 4,158	\$ 76,599
Certificates of Deposit	250	745
Commercial paper	20,900	36,875
Mutual funds	133,564	79,074
Total investments	<u>158,872</u>	<u>193,293</u>
Less current portion - unrestricted	18,258	59,498
Less current portion - restricted	123,440	101,948
Total noncurrent portion - restricted	<u>\$ 17,174</u>	<u>\$ 31,847</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements

	6/30/2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Government and agencies	\$ 4,158	\$ -	\$ 4,158	\$ -
Certificates of Deposit	250	-	250	-
Commercial paper - discounted	20,900	-	20,900	-
Mutual funds	133,564	133,564	-	-
Total debt securities	158,872	133,564	25,308	-
Investments by fair value level	<u>\$ 158,872</u>	<u>\$ 133,564</u>	<u>\$ 25,308</u>	<u>\$ -</u>
	6/30/2019			
Investments by fair value level				
Debt securities				
U.S. Government and agencies	\$ 76,599	\$ -	\$ 76,599	\$ -
Certificates of Deposit	745	-	745	-
Commercial paper - discounted	36,875	-	36,875	-
Mutual funds	79,074	79,074	-	-
Total debt securities	193,293	79,074	114,219	-
Investments by fair value level	<u>\$ 193,293</u>	<u>\$ 79,074</u>	<u>\$ 114,219</u>	<u>\$ -</u>

For fiscal years ending June 30, 2020 and 2019, SEPTA categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. U.S Government agencies, classified as Level 2, were valued using a matrix pricing technique. Certificates of deposit and commercial paper also classified as Level 2 were valued using quoted market prices of similar assets. Mutual funds, classified as Level 1, were valued using quoted prices for identical assets in an active market in Fiscal Year 2020.

For fiscal years ending June 30, 2020 and 2019, SEPTA categorizes its money market funds classified as cash and cash equivalents in the Statements of Net Position as Level 2 using quoted market prices of similar assets.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

The Authority has set aside cash, cash equivalents and investments primarily to provide for the payment of a portion of its future obligations. These include amounts restricted primarily for: State dedicated funds in accordance with Act 44 and contractual agreements between the Authority and external parties. The amounts restricted, as of June 30, are as follows:

	<u>2020</u>	<u>2019</u>
Restricted:		
State dedicated funding provided by Act 44, including local match	\$ 143,130	\$ 183,615
State Funding provided for Sub-recipients	411	748
State Senior Citizen, Free Transit Funding Provided for Sub-recipients	5	6
Debt Service Funds:		
Capital Grant Receipts Bonds, Series of 2011	24,601	24,060
Revenue Refunding Bonds, Series of 2017	14,291	28,030
Revenue Refunding Bonds, Series of 2019	4,474	-
Special Revenue Bonds, Series of 2007	20,316	18,686
Capital Project Funds:		
DVRC EB-5 Loan	-	1,513
Market-Frankford Elevated Haunch Repair Fund	3,586	4,653
Lease/leaseback guaranteed investment contract to be used for payment of long-term lease obligation	27,725	25,444
US Marshall Service	62	80
Pennsylvania Unified Certification Program	325	299
ESCO#2 Leasing Escrow	2,356	3,547
ESCO#4 Leasing Escrow	8,229	-
Security deposits and other	5,661	5,295
Total	<u>\$ 255,172</u>	<u>\$ 295,976</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2020, allowable investments of the Authority were specified by Act 3 of 1994 ("Act 3") and Act 10 of 2016 ("Act 10"). In general, the Authority may invest in obligations of the U. S. Government and its agencies, repurchase agreements, which are secured by investments allowable by Act 3 and Act 10, and mutual funds which invest in the foregoing items. Act 3 and/or Act 10 does specifically limit investments in municipal bonds and commercial paper to any of the three highest and the highest rating categories, respectively, issued by nationally recognized statistical rating organizations. All the Authority's investment transactions are executed with recognized and established securities dealers and commercial banks, and conducted in the open market at competitive prices.

As of June 30, 2020, the Authority's investments in money market funds, mutual funds and bonds of U.S. agencies were rated Aaa by Moody's Investor Service. They also rated 100% of corporate securities as P-1. The Authority's general investment policy is to apply the prudent-person rule while adhering to the investment restrictions as prescribed in Act 3 and Act 10, the Authority's enabling legislation: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The Authority places no limit on the amount the Authority may invest in any one issuer. More than five percent of the Authority's cash equivalents and investments are in the money market, mutual funds and government securities held by Goldman Sachs Financial Square Government Fund, First American Funds Government Obligations, and BlackRock Liquidity Fed Fund. These cash equivalents and investments are 42.50%, 23.65, and 7.22%, respectively, of the Authority's total cash equivalents and investments.

For a deposit, custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2020, \$31,403 of the Authority's cash in the bank of \$31,653 was fully collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2020, \$283,932 of the Authority's cash equivalent and investment balance of \$309,240 was exposed to custodial credit risk as follows:

Money market funds	\$ 150,368
Mutual funds	<u>133,564</u>
Total	<u>\$ 283,932</u>

The money market funds and mutual funds invest solely in securities that are issued or guaranteed by the U.S. Government, its agencies or instrumentalities. Fund shares are not insured or guaranteed. SEPTA's policy requires that all deposits with financial institutions must be collateralized to the extent not protected by F.D.I.C. insurance and in accordance with the Commonwealth of Pennsylvania Act No. 72 of 1971. Securities that can be accepted as collateral are limited to U.S. Government Securities, Federal Agency Securities and Municipal Securities. Also, in accordance with its policy, SEPTA's investments, except for money market funds and mutual funds, are held in the Authority's name by a third-party safe-keeping custodian that is separate from the counterparty or in the custody of a trust department, as required by bond covenants.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

2. Cash, Cash Equivalents and Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates and is a measure of the cash-weighted average term to maturity of the investment. The higher the duration, the greater the changes in fair value when interest rates change. The Authority measures interest rate risk using effective duration expressed in years. Effective duration takes into consideration the changes in expected cash flows for securities with embedded options or redemption features, when the prevailing interest rates change. As of June 30, 2020 the Authority had the following investments in its portfolio:

Investment type:	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. Government and agencies	\$ 4,158	0.113
Certificates of deposit	250	0.000
Commercial paper	20,900	0.006
Money market funds	150,368	0.002
Mutual funds	133,564	0.002
	<u>309,240</u>	
Cash in bank	31,653	
Total fair value including accrued interest	<u>\$ 340,893</u>	
Portfolio effective duration		0.12

Through its investment policy, the Authority manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its operating cash investments to less than one year, and its entire invested portfolio to less than three years. The Authority's operating cash invested at fiscal year-end was \$2.2 million with an effective duration of 0.003 years. The Authority's entire invested portfolio at fiscal year-end was \$340.9 million with an effective duration of 0.12 years.

The nature and composition of the Authority's deposits and investments during the year were similar to those at year-end.

3. Capital Contributions and Grants

Capital Contributions and Grants Received

Under the Federal Transit Act, as amended, the United States Department of Transportation ("U.S. DOT"), the State and the local governments have approved capital grants aggregating approximately \$10.7 billion from inception to June 30, 2020 for the modernization and replacement of existing transportation facilities and the acquisition of transit vehicles. At June 30, 2020, the Authority had incurred costs of approximately \$10.8 billion against these grants of which \$479.5 million and \$621.4 million were incurred in Fiscal Years 2020 and 2019, respectively.

The terms of these grants require, among other things, the Authority to utilize the equipment and facilities for the purpose specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the asset, and comply with the equal employment opportunity and affirmative action programs as required by the Federal Transit Act. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the U.S. DOT. In management's opinion, the Authority is in substantial compliance with these requirements as of June 30, 2020.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

4. Capital Assets

Capital assets are summarized as follows:

	June 30, 2019	Additions	Reclassifications	Retirements	June 30, 2020
Capital Assets					
Revenue vehicles	\$ 3,156,615	\$ 138,923	\$ 20,317	\$ 38,594	\$ 3,277,261
Transit facilities, rail, stations & depots	3,613,632	105,949	47,840	-	3,767,421
Track, roadway & signals	2,993,403	60,742	25,108	-	3,079,253
Intangibles	34,839	145	-	-	34,984
Other	749,975	40,868	21,665	30,778	781,730
Total	<u>10,548,464</u>	<u>346,627</u>	<u>114,930</u>	<u>69,372</u>	<u>10,940,649</u>
Construction in progress	452,960	131,077	(114,930)	-	469,107
Total	<u>11,001,424</u>	<u>477,704</u>	<u>-</u>	<u>69,372</u>	<u>11,409,756</u>
Accumulated depreciation					
Property and equipment	6,334,529	421,739	-	69,372	6,686,896
Total	<u>6,334,529</u>	<u>421,739</u>	<u>-</u>	<u>69,372</u>	<u>6,686,896</u>
Capital assets, net	<u>\$ 4,666,895</u>	<u>\$ 55,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,722,860</u>
	June 30, 2018	Additions	Reclassifications	Retirements	June 30, 2019
Capital Assets					
Revenue vehicles	\$ 2,991,320	\$ 151,902	\$ 68,311	\$ 54,918	\$ 3,156,615
Transit facilities, rail, stations & depots	3,407,420	141,650	64,562	-	3,613,632
Track, roadway & signals	2,961,045	19,665	12,693	-	2,993,403
Intangibles	34,839	-	-	-	34,839
Other	712,895	92,920	1,041	56,881	749,975
Total	<u>10,107,519</u>	<u>406,137</u>	<u>146,607</u>	<u>111,799</u>	<u>10,548,464</u>
Construction in progress	384,069	215,498	(146,607)	-	452,960
Total	<u>10,491,588</u>	<u>621,635</u>	<u>-</u>	<u>111,799</u>	<u>11,001,424</u>
Accumulated depreciation					
Property and equipment	6,039,356	406,972	-	111,799	6,334,529
Total	<u>6,039,356</u>	<u>406,972</u>	<u>-</u>	<u>111,799</u>	<u>6,334,529</u>
Capital assets, net	<u>\$ 4,452,232</u>	<u>\$ 214,663</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,666,895</u>

Capital assets are acquired with capital grants, renewal and replacement and other operating funds. Capital assets are stated at cost and depreciation is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally 12 to 30 years for revenue vehicles, 30 years for structures, track and roadway, and 4 to 10 years for intangibles, signals and other equipment. Vehicle overhaul costs are capitalized and depreciated as capital assets over the extended useful lives of the vehicles estimated at 4 or 5 years. Capital assets which are inexhaustible and intangible assets with indefinite useful lives are not subject to depreciation.

As of June 30, 2020, construction in process principally consists of infrastructure improvements and revenue vehicles which will be primarily funded by capital grants.

As of June 30, 2020, the Authority has commitments for various unexpended construction contracts of approximately \$380 million and commitments for unexpended revenue vehicle purchases for regional rail cars and buses of approximately \$246 million.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps

Long-term debt as of June 30, 2020 and 2019 consists of the following:

<u>Business-Type Activities:</u>	June 30, 2019	Additions	Market Value Change	Payments/ Reductions	June 30, 2020	Due Within One Year
<i>General Obligation Bonds</i>						
Variable Rate Revenue Refunding Bonds, Series of 2007, interest based on 67% of 1-month LIBOR plus 1.05% through 2022	\$ 34,575	\$ -	\$ -	\$ 10,950	\$ 23,625	\$ 11,525
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	35,750	-	-	35,750	-	-
Capital Grants Receipts Bonds, Series 2011, due in varying amounts through 2029, annual interest rates of 3.125% to 5%	21,665	-	-	10,595	11,070	11,070
Revenue Refunding Bonds, Series of 2017, due from 2017 to 2028, with annual interest rate of 5%	59,965	-	-	-	59,965	6,380
Revenue Refunding Bonds, Series of 2019, due from 2020 to 2028, with annual interest rate from 3% to 5%	-	17,825	-	105	17,720	1,945
Capital Grants Receipts Refunding Bonds, Series 2017, due from 2017 to 2029, with annual interest rate of 5%	99,970	-	-	-	99,970	-
Subtotal	251,925	17,825	-	57,400	212,350	30,920
Unamortized bond premium, net of discount	28,509	2,759	-	7,206	24,062	-
Swap, Series of 2007	2,054	-	(788)	-	1,266	-
Total bonds payable	282,488	20,584	(788)	64,606	237,678	30,920
<i>Notes from direct borrowings</i>						
EB-5 Loan, due July 1, 2022 to March 11, 2024 @ 2%	237,000	2,500	-	-	239,500	-
New Payment Technology Loan, annual interest rate of 1.75%	140,000	-	-	140,000	-	-
Energy Saving Company (ESCO) "A" due 2017 to 2033 @ 3.168%	11,910	-	-	747	11,163	77
Energy Saving Company (ESCO) "B" due 2017 to 2026 @ 2.37%	3,074	-	-	408	2,666	421
Energy Saving Company (ESCO) #2 due 2018 to 2034 @ 2.83%	35,958	-	-	1,386	34,572	1,417
Energy Saving Company (ESCO) #4 due from July 2019 to February 2037 @ 2.969%	-	12,802	-	-	12,802	339
Business-type activities long-term obligations	\$ 710,430	\$ 35,886	\$ (788)	\$ 207,147	\$ 538,381	\$ 33,174

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

<u>Business-Type Activities:</u>	June 30, 2018	Additions	Market Value Change	Payments/ Reductions	June 30, 2019	Due Within One Year
<i>General Obligation Bonds</i>						
Variable Rate Revenue Refunding Bonds, Series of 2007, interest based on 67% of 1-month LIBOR plus 1.05% through 2022	\$ 45,025	\$ -	\$ -	\$ 10,450	\$ 34,575	\$ 10,950
Revenue Refunding Bonds, Series of 2010, due in varying amounts through 2028, with annual interest from 3% to 5%	50,850	-	-	15,100	35,750	15,910
Capital Grants Receipts Bonds, Series 2011, due in varying amounts through 2029, annual interest rates from 3.125% to 5%	31,785	-	-	10,120	21,665	10,595
Revenue Refunding Bonds, Series of 2017, due from 2017 to 2028, with annual interest rate of 5%	59,965	-	-	-	59,965	-
Capital Grants Receipts Refunding Bonds, Series 2017, due from 2017 to 2029, with annual interest rate of 5%	99,970	-	-	-	99,970	-
Subtotal	287,595	-	-	35,670	251,925	37,455
Unamortized bond premium, net of discount	34,237	-	-	5,728	28,509	-
Swap, Series of 2007	2,792	-	(738)	-	2,054	-
Total bonds payable	324,624	-	(738)	41,398	282,488	37,455
<i>Notes from direct borrowings</i>						
EB-5 Loan, due July 1, 2022 to March 11, 2024 @ 2%	190,000	47,000	-	-	237,000	-
New Payment Technology Loan, annual interest rate of 1.75%	140,000	-	-	-	140,000	140,000
Energy Saving Company (ESCO) "A" due 2017 to 2033 @ 3.168%	12,630	-	-	720	11,910	748
Energy Saving Company (ESCO) "B" due 2017 to 2026 @ 2.37%	3,470	-	-	396	3,074	408
Energy Saving Company (ESCO) #2 due 2018 to 2034 @ 2.83%	37,479	434	-	1,955	35,958	1,386
Business-type activities long-term obligations	\$ 708,203	\$ 47,434	\$ (738)	\$ 44,469	\$ 710,430	\$ 179,997

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt:

In 1968, the Authority and the City entered into concurrent lease agreements whereby the Authority leased the former Philadelphia Transportation Company owned properties, which the Authority acquired in 1968, to the City and the City leased those properties, as well as certain City-owned transit properties, to the Authority. The agreements provided for the City to make rental payments to the Authority in amounts equal to the debt service (principal and interest) on the Authority's Rental Revenue Bonds which matured during Fiscal Year 2003. Also, the Authority had paid fixed rent to the City in the amounts necessary to meet the debt service on the self-supporting City bonds. The final fixed rent payment was made in 2005 as planned. The Authority was to also pay to the City, out of the net revenues from leased property, cumulative additional rent in amounts equal to the debt service on the Authority's Rental Revenue Bonds and non-cumulative additional rents. The Authority's obligation to meet the cumulative additional rent requirements has been forgiven with the exception of fiscal years 1969, 1970, 1995 through 1998 and fiscal years 2001 through 2003. The Authority has paid the cumulative additional rent for Fiscal Years 1995 and 1996. The Authority had an unrecorded contingent liability, which was discharged under the new lease agreement effective July 1, 2014, for cumulative additional rent for Fiscal Years 1969, 1970, 1997, 1998 and 2001 through 2003 totaling approximately \$24.7 million. These leases were to expire when the Authority would make the last payment of fixed rent or cumulative additional rent, or December 31, 2005, whichever would be later.

It had been the Authority's position that the lease and leaseback agreements did not expire on December 31, 2005, but that, in accordance with their terms, the agreements continue in full force and effect, *inter alia*, while cumulative additional rent and debt service on the Authority's bonds remained outstanding. In October 2005, the Authority and the City entered into a standstill agreement by which they agreed that the lease and leaseback agreements would remain in full force and effect during the term of the standstill agreement without waiver, admission or prejudice to the parties' respective positions. The standstill agreement, initially in effect until December 31, 2007, was subsequently extended for two additional one-year terms which expired December 31, 2009. In December 2009, the standstill agreement was amended to continue on a month-to-month basis unless terminated by either party or upon completion of a master agreement.

On July 15, 2014, the City of Philadelphia (City) and the Authority entered into a new City Transit Division Properties Lease Agreement (Lease Agreement) effective as of July 1, 2014. The new Lease Agreement terminated the existing 1968 lease agreement between the City and the Authority. The Lease Agreement provides that the City will lease to the Authority certain City owned transit properties, including the City owned Suburban Station Concourse property and certain rolling stock, to enable the Authority to continue operating the City Transit Division as part of the SEPTA system. The initial term of the Lease Agreement is for thirty years and expires June 30, 2044. The Lease Agreement provides for automatic extensions of 2-additional terms of fifteen years each unless the Authority provides notice to the City not to renew prior to each extended term. Under the Lease Agreement, the Authority made a nominal fixed rent payment to the City and will be responsible for keeping the City owned transit properties in good operating condition, including alterations and replacements. The Authority will also pay to the City additional rent, an amount equal to forty percent of new sources of net revenues less certain Concourse expenditures generated by the City owned transit properties. Project expenditures incurred to generate the new sources of revenue are permitted to be recovered in full so any unreimbursed project expenditures shall be carried forward to future years until fully recovered. For the Fiscal Year ending June 30, 2020, the Authority has calculated and determined that no additional rent is due to the City under the Lease Agreement.

In February 1999, the Authority issued \$262.0 million of Special Revenue Bonds, Series of 1999A ("1999A Bonds") and 1999B ("1999B Refunding Bonds"), due in varying amounts through 2029, with annual interest from 3.25% to 5.25%. The net proceeds of the 1999A Bonds were used to finance a portion of the Market-Frankford Subway-Elevated line vehicle acquisition program; refinance a bridge loan for payment of a portion of the vehicle acquisition program; reimburse the Authority for a portion of the costs of certain capital projects and pay a portion of the premium for a debt service reserve fund insurance policy. The net proceeds of the 1999B Refunding Bonds were used to refund \$73.2 million of the 1995A Bonds, and pay a portion of the premium for a debt service reserve fund insurance policy. In October 2010, the Authority terminated the 1999 Series Bonds and issued \$222.5 million of Revenue Refunding Bonds, Series of 2010 ("2010 Bonds"), due in varying amounts through 2028 with remaining annual interest rates between 3.7% and 5.0%. The proceeds of the 2010 Bonds along with other funds of the Authority were used to refund the Authority's outstanding Special

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

Revenue Bonds, Series of 1999A and 1999B, fund termination payments in connection with the Swap Agreements relating to the 1999 Bonds, fund accrued amounts payable on the Swap Agreements through the date of termination and fund certain costs and expenses incurred in connection with the issuance of the 2010 Bonds. Excluding the additional debt issued associated with termination of the swap, the net refunding transaction decreased the Authority's debt service payments by \$34.5 million and resulted in an economic gain of \$23.4 million. This amount represents the difference between the present value of the debt service on the old and new bonds. The Basis Swap in connection with the 1999 Bonds was amended so that it is now associated with the 2010 Bonds.

In March 2007, the Authority issued \$131.7 million of Variable Rate Revenue Refunding Bonds, Series of 2007 ("2007 Bonds"), due in varying amounts through 2022. The net proceeds of the 2007 Bonds were used to retire the Authority's outstanding Special Revenue Bonds, Series of 1997 ("1997 Bonds") due in varying amounts through 2022, with annual interest from 4.00% to 5.75% and pay the premium for a debt service reserve fund insurance policy. The net proceeds of the 1997 Bonds were used to reimburse the Authority for a portion of the costs of certain capital projects; refund certain leases entered into by the Authority for a building and related equipment; pay the costs of certain capital projects and pay the premium for a debt service reserve fund insurance policy. On October 5, 2010, in conjunction with the issuance of the 2010 Bonds, the Authority converted the interest rate mode of its 2007 Bonds from a weekly mode to a daily mode based on SIFMA (Securities Industry and Financial Markets Association). On December 20, 2012, the Authority converted the interest rate mode of \$98.0 million of its then outstanding principal amount Variable Rate Revenue Refunding Bonds, Series 2007, from a daily mode to an indexed mode. The interest rate on the bonds are now set monthly at a rate equal to 67% of 1-month LIBOR (London Interbank Offered Rate) plus 105 basis points. The converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, may not be converted from an indexed mode to a different mode.

In August 2011, the Authority issued \$201.6 million of Capital Grant Receipts Bonds, Series 2011 ("2011 Bonds"), due in varying amounts through 2029 with annual interest rates now ranging from 3.125% to 5.0%. The net proceeds from the sale of the 2011 Capital Grant Receipts Bonds are being used to finance the acquisition of 116 Silverliner V Regional Railcars, finance the rehabilitation of the Wayne Junction Intermodal Facility, fund a deposit to the Debt Service Reserve Fund, and fund certain costs and expenses in connection with the issuance and sale of the 2011 Bonds.

Advanced Refundings:

On October 11, 2017, the Authority issued Revenue Refunding Bonds, Series 2017 ("2017 Bonds"), in the amount of \$59.97 million. The principal on these bonds is payable in annual installments ranging from \$6.38 million in 2021 to \$8.02 million in 2028. Interest on the outstanding principal shall be due semi-annually on March 1 and September 1 of each year, beginning March 1, 2018. The bonds were issued at a premium of \$11.91 million and have yields ranging between 1.25% and 2.3%, and bear a 5% interest rate. The proceeds from the sale of the 2017 Bonds in the amount of \$71.88 million were used to (a) advance refund a portion of the Authority's Revenue Refunding Bonds, Series of 2010 ("Refunded 2010 Bonds") in the aggregate principal amount of \$65.84 million, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2017 Bonds. Concurrently with the issuance of the 2017 Bonds, a portion of the proceeds along with other available moneys of the Authority, were irrevocably deposited into an escrow account pursuant to the terms of an Escrow Agreement and invested in Government Obligations, the maturing principal of and interest on which will be sufficient to pay the interest and principal on the Refunded 2010 Bonds as such payments become due. Upon the deposit of the funds for the advance refunding of the Refunded 2010 Bonds pursuant to the terms of the Escrow Agreement, the Refunded 2010 Bonds were deemed to no longer be outstanding under the Indenture. The bonds decreased debt service by \$7.93 million, and resulted in an economic gain of \$7.02 million. The principal balance outstanding on the 2017 bonds as of June 30, 2020 is \$59.97 million.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

On October 19, 2017, the Authority issued \$102.3 million par amount of Capital Grant Receipts Refunding Bonds, CGR Series 2017 (Federal Transit Administration Section 5337 State of Good Repair Formula Program Funds), ("2017 Refunding Bonds"). The 2017 Refunding Bonds are due in varying amounts with maturity dates of June 1, 2018, and June 1, 2022 through and including June 1, 2029. The 2017 Refunding Bonds were issued with a premium of \$20.77 million and have yields ranging between 1.20% and 2.51%, and bear a 5% annual interest rate. The proceeds from the sale of the 2017 Refunding Bonds in the amount of \$123.07 million, together with other available moneys of the Authority, were used to (a) advance refund a portion of the Authority's Capital Grant Receipts Bonds, Series 2011 (Federal Transit Administration Section 5309 Fixed Guideway Modernization Formula Funds) ("2011 Bonds"), in the aggregate principal amount of \$110.45 million, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2017 Refunding Bonds. Concurrently with the issuance of the 2017 Refunding Bonds, a portion of the proceeds of the 2017 Refunding Bonds and other moneys of the Authority were irrevocably deposited into an escrow account pursuant to an Escrow Agreement and invested in Government Obligations, the maturing principal of and interest on which will be sufficient to pay the interest and principal on the Refunded 2011 Bonds as such payments become due. Upon the deposit of the funds for the advance refunding of the Refunded 2011 Bonds pursuant to the terms of the Escrow Agreement, the Refunded 2011 Bonds were deemed to no longer be outstanding under the Indenture. At June 30, 2020 \$110.45 million of the defeased bonds are still outstanding. The bonds decreased debt service by \$14.32 million, and resulted in an economic gain of \$9.51 million. The principal balance outstanding on the 2017 bonds as of June 30, 2020 is \$99.97 million.

On December 5, 2019, the Authority issued \$17.825 million of Revenue Refunding Bonds, Series of 2019 ("2019 Refunding Bonds"). The 2019 Refunding Bonds are due in varying amounts with maturity dates of March 1, 2020 through and including March 1, 2028. The 2019 Revenue Refunding Bonds were issued with a premium of \$2.76 million and have yields ranging from 1.21% to 1.67%, and bear a 3% to 5% annual interest rate. The proceeds from the sale of the 2019 Revenue Refunding Bonds, were used to (a) current refund a portion of the Authority's Revenue refunding Bonds, Series of 2010, in the aggregate principal amount of \$19.84 million, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2019 Revenue Refunding Bonds. The bonds decreased debt service by \$2.97 million, and resulted in an economic gain of \$2.79 million. The principal balance outstanding on the bonds as of June 30, 2020 is \$17.72 million.

The 2007, 2017 and 2019 Refunding Bonds are secured by dedicated funding received pursuant to Act 44.

In March 2012, the Authority entered into an agreement with PIDC (Philadelphia Industrial Development Corporation) Regional Center for a construction-like loan for an amount not to exceed \$175 million to fund the New Payment Technology (NPT) Project. The NPT Project will modernize SEPTA's current fare payment system. There are three loan tranches with terms ranging between five and six years with an interest rate for each loan tranche of 1.75% payable semi-annually on the outstanding loan balance. The first tranche of \$35 million was available as of March 29, 2012 and has a term of 5 years. The second tranche for \$75 million was available as of February 1, 2013 and has a term of 5.5 years. The third tranche for \$65 million was available July 1, 2013 and has a term of 6 years. The Authority drew down \$30.6 million in Fiscal Year 2016 and \$61.6 million in Fiscal Year 2017. The Authority repaid the first tranche principal amount of \$35 million upon maturity on May 30, 2017. The loan was repaid and there is no outstanding balance as of June 30, 2020.

In November 2015, the Authority partnered with Constellation New Energy Inc., a GESA energy saving company (ESCO) to complete an \$18.3 million energy saving project, pursuant to the Pennsylvania Guaranteed Energy Saving Act (GESA). To finance the project, the Authority entered into a master equipment lease/purchase agreement with Banc of America Public Capital Corporation. The project includes the replacement of onboard lighting with high efficiency LED technology for the majority of SEPTA's regional rail fleets, and rail transit fleets of the Norristown High Speed Line and the Broad Street Subway and other energy savings improvements. The equipment to be installed will serve to reduce the Authority's energy consumption and the resultant operating savings are guaranteed by the ESCO to equal or exceed the debt service payments throughout the term of the agreement. PennDOT has agreed for the Authority to use Section 1513 operating funds to pay for the capital lease rental payments in lieu of using those same dollars to pay for higher utility expenses. The lease consists of two tranches of debt. The first tranche has a principal amount of \$4.2 million and a final maturity of June 1, 2026; the second tranche has a principal amount of \$14.0 million and a final maturity of June 1, 2033.

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

On January 1, 2016, the Authority entered into an EB-5 Loan Agreement with DVRC SEPTA II, LP (Delaware Valley Regional Center, LLC) for an amount not to exceed \$300 million at 2% per annum to fund design, development, construction and purchase of materials, equipment and machinery necessary to complete the Elwyn-Wawa Rail Service Restoration, to rehabilitate 15th Street and City Hall Stations, to complete the Substation Rehabilitation Program, and to expand Frazer Yard including the acquisition of Locomotives and Multi-Level Regional Rail Cars. On April 28, 2017, the Authority borrowed \$100 million. The loan will mature on July 1, 2022.

On November 1, 2017, the Authority borrowed an additional \$90 million. The loan will mature on November 1, 2022. On September 20, 2018, the Authority borrowed an additional \$33 million. The loan will mature on September 20, 2023. On March 11, 2019, the Authority borrowed an additional \$14 million. The loan will mature on March 11, 2024. On November 15, 2019, the Authority borrowed an additional \$2.5 million. The loan will mature on November 15, 2024. The total outstanding balance is \$239.5 million as of June 30, 2020.

In November 2016 the Authority entered into a master equipment lease/purchase agreement with PNC Equipment Finance LLC for up to \$37.9 million due in varying amounts through March 30, 2034 with an annual nominal interest rate of 2.83%. The equipment to be leased/purchased will include the installation of various energy conservation measures through a third party agreement which will also serve to reduce the Authority's energy consumption and operating expenses. The measures to be taken include the construction of a Combined Heat and Power Plant ("CHP") that will provide electricity to the Wayne Junction substation and Midvale bus maintenance facility, the installation of interior and exterior LED lighting upgrades to certain Authority owned buildings, and other work to conserve energy. The resultant operating savings are guaranteed by the ESCO to equal or exceed the debt service payments and other yearly costs associated with the projects throughout the term of the agreement. PennDOT has agreed for the Authority to use Section 1513 operating funds to pay for the capital lease rental payments in lieu of using those same dollars to pay for higher utility expenses.

In July 30, 2019, the Authority partnered with Constellation New Energy Inc., a GESA energy saving company (ESCO) to complete a \$12.8 million energy saving project, pursuant to the Pennsylvania Guaranteed Energy Saving Act (GESA). To finance the project, the Authority entered into a Master Equipment Lease/ Purchase Agreement (the "Agreement") with Banc of America Public Capital Corporation, due in varying amounts through February 1, 2037 with an annual nominal interest rate of 2.969%. The equipment to be leased/ purchased will include the installation of various energy conservation measures through a third party agreement which will serve to reduce the Authority's energy consumption and operating expenses. The measures to be taken include programmable doorframe retrofit kits; lighting wireless wall dimers; envelope improvements (weatherstripping, door sweeps, window film, caulking); EMCS upgrades (DDC controls); natural gas steam boiler plant; water conservation (aerators, toilets, urinals); cooling tower refurbishment and water submeter; generator improvement (heatpump); electric submetering; VFD/induction pumps; air handler improvements; destratification fans; computer plug load controllers/PC power management; electric window shades at the Authority's Headquarters on 1234 Market Street. The equipment to be installed will serve to reduce the Authority's energy consumption and the resultant operating savings are guaranteed by the ESCO to equal or exceed the debt service payments throughout the term of the agreement. PennDOT has agreed for the Authority to use Section 1513 operating funds to pay for the capital lease rental payments in lieu of using those same dollars to pay for higher utility expenses.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Long-Term Debt: (Continued)

At June 30, 2020, the aggregate debt service requirements of business type activities of the Authority's debt and net payments on its related effective hedging derivative instrument are as follows:

	Business Type Activities				
	Bonds			Notes from Direct Borrowings	
	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, Net</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 30,920	\$ 9,647	\$ 1,088	\$ 2,954	\$ 6,747
2022	31,270	8,565	560	3,094	6,467
2023	20,105	7,488	-	193,733	3,496
2024	21,100	6,503	-	50,767	1,949
2025	22,155	5,447	-	6,598	1,394
2026-2030	86,800	10,209	-	20,945	5,106
2031-2035	-	-	-	20,565	1,804
2036-2040	-	-	-	2,047	76
Total	<u>\$ 212,350</u>	<u>\$ 47,859</u>	<u>\$ 1,648</u>	<u>\$ 300,703</u>	<u>\$ 27,039</u>

The above amounts assume that current interest rates on the 2007 Variable Rate Refunding Bonds, which was 1.7263% as of June 30, 2020 and the current reference rates on its related hedging (effective) derivative instrument will remain the same for their term. As rates vary, interest payments on the variable rate refunding bonds and receipts on the hedging derivative instrument will vary.

Swaps:

In March 2003, the Authority entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA, the "Counterparty"), related to its \$131.7 million Special Revenue Bonds, Series 1997, that provided the Authority an up-front payment of \$8.1 million. The swaption provided the Counterparty an option to obligate the Authority to enter into a pay-fixed, receive-variable interest rate swap at a future date. On March 1, 2007 the option associated with the Special Revenue Bonds, Series 1997 was exercised by the Counterparty, the bonds were called, and the Authority then issued Variable Rate Revenue Refunding Bonds, Series 2007. Concurrently, the Authority entered into a pay-fixed receive variable interest rate swap with the Counterparty. On December 20, 2012, the Authority converted the Variable Rate Revenue Bonds, Series 2007 from a daily rate interest mode to an indexed mode. The swap, now associated with the converted indexed Variable Rate Revenue Refunding Bonds, Series 2007, has a March 1, 2022 termination date, and a notional amount of \$23.6 million as of June 30, 2020.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

In March 2003, the Authority also entered into a swaption agreement with Merrill Lynch Capital Services, Inc. (now Bank of America, NA) and Salomon Brothers (now Citibank, NA), collectively, the “Counterparties”, related to its 1999 Special Revenue Bonds (the “Underlying Swap Agreement”). On December 29, 2005, the Authority restructured the Underlying Swap Agreement associated with its Special Revenue Bonds, Series 1999 with the Counterparties by converting the variable receive rate from 67% of one-month LIBOR, to the SIFMA Index, to reduce the likelihood the swaption would be exercised. To pay for the conversion, the Authority simultaneously entered into an off-market swap with Bank of America, NA (the “Basis Swap Agreement”), whereby the Authority agreed to pay the SIFMA Index rate and receive 67% of 3-month LIBOR plus 13.52 basis points, and an upfront payment equivalent to the Basis Swap Agreement conversion cost. In October 2010, the Authority refunded the Special Revenue Bonds, Series 1999, and issued the Revenue Refunding Bonds, Series 2010. Concurrently, the Underlying Swap Agreement was terminated, and the Basis Swap Agreement was amended on substantially the same terms, but is now associated with the Series 2010 Bonds, with a termination date of March 1, 2028, and a notional amount of \$79.9 million as of June 30, 2020. The outstanding swaps are associated with the Revenue Refunding Bonds, Series of 2010 and with the Variable Rate Revenue Refunding Bonds, Series of 2007, which refunded the 1999 series bonds and 1997 series bonds, respectively.

As of June 30, 2020, the Authority had the following derivative instruments outstanding:

	<u>Notional Amount</u>	<u>Fair Value Classification</u>	<u>Fair Value Amount</u>	<u>Changes in Fair Value Classification</u>	<u>Amount</u>
Business-type activities:					
<i>Cash flow hedge:</i>					
A. Pay-fixed interest rate swap	\$ 23,625	Debt	\$ 1,266	Deferred Outflow	\$ 788
<i>Fair value hedge:</i>					
B. Pay-variable interest rate swap	\$ 79,890	Other Assets	\$ 316	Investment Income	\$ (156)

Derivative Instrument Types

Hedge effectiveness: As of June 30, 2020 and 2019, the derivative instrument B associated with the 2010 series bonds did not meet the criteria for effectiveness. Accordingly, the accumulated changes in fair value were reported within the investment income classification as (\$156) thousand at June 30, 2020 and \$424 thousand at June 30, 2019. The cash flow hedge (derivative instrument A) associated with the 2007 series bond as of June 30, 2020 was evaluated to be effective using the regression analysis method. This method measures the statistical relationship between changes in the fair value or cash flows of the potential hedging derivative and the hedgeable item. For the potential hedging derivative instrument evaluated using regression analysis to be considered effective, the analysis must meet the following 3-criteria: an R-squared of at least 0.80, an F-statistic that indicates statistical significance at the 95 percent confidence interval, and a regression coefficient for the slope between -1.25 and -0.80.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

Hedging Derivative Instrument – Objective and Terms:

The objectives and terms of the Authority's cash flow hedging derivative instrument outstanding at June 30, 2020 and the counterparty credit rating of Bank of America, NA is as follows:

Instrument	Derivative Type	Counterparty Credit Rating	Objective	Notional Amount	Effective Date	Termination Date	Terms
A	Pay-fixed interest rate swap	Aa2/A+/AA-	Hedge changes in cash flows on the 2007 Variable Rate Refunding Bonds	\$23,625	3/1/2007	3/1/2022	Receive 67% of 1-month LIBOR; pay 4.706% fixed

Fair Value

As of June 30, 2020, the swap associated with 2007 series bonds had a negative fair value of \$1.3 million and the basis swap associated with the 2010 series bonds had a positive fair value of \$316 thousand. The fair value was estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps. The fair values are determined by using Level 2 observable inputs.

Rollover Risk

The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that may be terminated prior to maturity of the hedged debt. If these hedges were to be terminated prior to maturity of the debt, the Authority would be exposed to the risks being hedged by the derivative instrument.

Credit Risk

As of June 30, 2020, the Authority was not exposed to credit risk, or the risk of economic loss due to counterparty default of its outstanding swaps, because the swaps had negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. As of June 30, 2020, the counterparty for both the Authority's swaps was Bank of America, NA which had a counterparty rating previously indicated in the terms for instrument A as rated by Moody's Investors Services, Standard & Poor's and Fitch, respectively. The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Basis Risk

The Authority has basis risk on the swap related to the Revenue Refunding Bonds, Series of 2010, issued October 1, 2010. This is because the floating rate that the Authority pays and the floating rate that the Authority receives from the basis swap counterparty, will vary with market conditions (basis differential). The basis differential could be either a positive or negative cash flow event, depending upon the relationship between SIFMA and LIBOR, the floating rate indexes underlying the basis swap.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

5. Long-Term Debt and Swaps (Continued)

Swaps: (Continued)

Interest Rate Risk

As of June 30, 2020, the Authority had an ineffective derivative investment with the following maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 - 10 Years</u>
Derivative Instrument B	\$ 316	\$ 316

Termination Risk

The Authority or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Line of Credit

On September 1, 2016, the Authority entered into a \$50 million unsecured revolving line of credit with PNC Bank, which was increased to \$100 million on August 31, 2017, with an expiration date of August 31, 2020. Interest on amounts outstanding is due on the first day of each month at the Daily LIBOR rate plus seventy basis points (0.70%), currently at 0.871% as of June 30, 2020. There was \$100 million in borrowings on the line, and repayments of \$20 million for the year ended June 30, 2020. On May 1, 2020 the Authority entered into a second unsecured line of credit with PNC Bank for \$100 million, with an expiration date of April 30, 2021. Interest on amounts outstanding is due on the first day of each month at the Daily LIBOR rate plus one hundred fifty basis points (1.50%), currently at 2.25% as of June 30, 2020. There was \$35 million in borrowings on the line for the year ended June 30, 2020. As of June 30, 2020, the balance available on line of credit is \$65 million.

There is an Unused Fee due on each anniversary date equal to a rate per annum of fifteen basis points (0.15%) on the loan expiring August 31, 2020, and seventeen and a half basis points (0.175%) on the loan expiring April 30, 2021 on the average daily amount of the Unused Revolving Line of Credit. However, an Unused Fee of ten basis points (0.10%) shall be due for such period if the average unused amount is equal to or less than 50% of the amount of the revolving line of credit at the beginning of the period. The Unused Fee accrues on the date of the agreement, and shall cease to accrue on the expiration date.

6. Leases and Other Liabilities

Leased property consists primarily of transit properties and equipment. Leased transit properties related to long-term debt obligations are described in Note 5. The leased properties, described within this note, are lease/leaseback agreements and operating leases.

Lease/leaseback Agreements

During Fiscal Year 2002, the Authority entered into a head lease agreement to lease for approximately 28 years 219 rail cars that are currently in service on the Market-Frankford subway-elevated line, and simultaneously lease the vehicles back. The Authority received prepayments under the head lease of \$336.1 million, of which it paid \$269.9 million to two debt payment undertakers to defease rents payable under the debt portion of the agreement, \$41.6 million to the equity payment undertaker to defease rents payable under the equity portion of the agreement, and \$3.2 million in transaction expenses. The rental obligations under the lease/leaseback, except for \$27.7 million as of June 30, 2020, are considered to be defeased in substance and therefore the related debt, as well as the trust assets, are excluded from the Authority's financial statements. The proceeds, net of expenses, from the transaction of \$21.4 million were used, starting in Fiscal Year 2007, as reimbursement of state share on capital grants, which use has been approved by the Federal Transit Administration. The leaseback includes a purchase option, which upon exercise, will be funded in installments from funds used to defease the debt during the period from January 2, 2030 through December 15, 2030, that will allow the Authority to buy out the equity investor's remaining rights under the agreement, thereby terminating the entire transaction. In December 2008, the Authority terminated its lease debt and equity payment undertaking agreements with the payment

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

6. Leases and Other Liabilities (Continued)

Lease/leaseback Agreements (Continued)

undertaker and received \$89.9 million upon termination. Of this amount, the Authority deposited \$75.2 million with a trustee and U.S. Treasury Securities were purchased to defease the remaining lease payments under the Equity Payment Undertaking Agreement (EPUA). The securities purchased are scheduled to mature in amounts and on dates required to make the lease payments. The remaining \$14.7 million was restricted and invested to satisfy payments due under the Supplemental Payment Undertaking Agreement (SPUA). In July 2009, SEPTA paid an additional \$6.5 million to Wachovia Bank (now Wells Fargo) for a waiver of certain requirements in connection with its railcar lease.

Operating Leases

The Authority leases track, equipment, facilities, utility vehicles and certain software for its demand response services with leases expiring at various dates. Lease and rental expenses totaled \$65.2 million and \$56.0 million for Fiscal Years 2020 and 2019, respectively.

Other Liabilities

In Fiscal Year 2012, the Authority received two settlements of \$8.0 million and \$6.3 million related to work performed in previous years on the Market-Frankford Elevated Project. The Authority has received insurance refunds and proceeds from certain scrap sales of \$875 thousand, \$2.0 million, \$2.0 million, \$2.4 million and \$2.7 million in Fiscal Years 2019, 2018, 2017, 2015 and 2014, respectively. The Federal Transit Administration (FTA) has approved the Authority's request to use proceeds of \$8.0 million toward the renovation of Dilworth Plaza and \$9.7 million toward the repair of the Market-Frankford Elevated haunch failures. As of June 30, 2016 Dilworth Plaza was completed and the \$8.0 million was fully expended.

In Fiscal Year 2016, the Authority entered into the Federal Equitable Sharing Agreement with the Department of Justice. Under this Equitable Sharing Program the Authority received \$54 thousand. Per the agreement, the funds must be used for law enforcement purposes only. As of June 30, 2020 the balance of these funds is \$62 thousand.

In the Fiscal Year 2018, SEPTA became the new fiscal agent for the Pennsylvania Unified Certification Program. Under this Program the Authority received \$274 thousand. Per the agreement the funds must be used for certification decisions on behalf of all agencies and organizations in the Commonwealth with respect to participation in the DBE Program. As of June 30, 2020 the balance of these funds is \$325 thousand.

Available proceeds included in other liabilities as of June 30, 2020, include \$3.59 million for the repair of the Market-Frankford Elevated haunch failures, \$262 thousand unamortized swaption proceeds, \$62 thousand from the Equitable Sharing Program, and \$325 thousand in the Pennsylvania Unified Certification Program (PA UCP) fund.

<u>Other Liabilities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Investment Earnings</u>	<u>Ending Balance</u>
2020	\$5,568	\$93	\$(1,497)	\$71	\$4,235
2019	\$7,017	\$950	\$(2,519)	\$120	\$5,568

7. Pension Plans

General Information about the Pension Plans

Plan Descriptions

The Authority maintains five trustee, single-employer, defined benefit pension plans covering substantially all of its full-time employees, other than regional rail union employees, and the plans are administered by the Authority's Human Resources Department. Regional rail union employees are covered under pension provisions of the Railroad Retirement Act. Administrative costs of all pension plans are financed through the plans' investment earnings. The Authority does not issue separate financial reports for the Plans. The Authority's five single-employer pension plans are as follows:

Retirement Plan for Supervisory, Administrative and Management Employees (SAM)

This plan covers all regular full-time non-bargaining employees immediately upon date of hire. Effective July 1, 1994 career part-time, job-sharer or co-op (until September 1, 2007) employees are covered provided they work 1,040 hours per year (975 hours prior to January 1, 1995 for career part-time and job-sharer employees).

Retirement Plan for Transit Police (TP)

This plan covers full-time employees who are members of the transit police bargaining unit. Employees become members of this plan on the first day of the month following the date they have become a full-time employee.

Retirement Plan for City Transit Division (CTD)

This plan covers full-time City Transit employees who are members of the TWU Local 234 or IBT Local 500. Employees become members of this plan on the July 1 following completion of six months of employment.

Retirement Plan for the Suburban Transit Division (STD)

This plan covers full-time employees of the Suburban Transit Division (previously referred to as Red Arrow Division) who are members of the TWU Local 234 or UTU Local 1594. Employees become members of this plan on the July 1 following completion of six months of employment.

Retirement Plan for the Frontier Division (FD)

This plan covers full-time employees of the Frontier Division who are members of the TWU Local 234. Employees become members of this plan on the July 1 following employment.

Benefits Provided

The SEPTA Board has the authority to establish and amend benefit provisions to each of the pension plans; however, the plans for Transit Police and certain Bargaining Employees - CTD, STD and FD - are based on the respective union bargaining agreement in effect at the time of retirement.

A bargaining unit employee (except for transit police) may retire with an unreduced pension benefit at age 62 with completion of 5 years of credited service or with 30 years of credited service with no restriction on age. A transit police employee may retire with an unreduced pension benefit at age 50 with completion of 25 years of credited service, and a SAM employee may retire with an unreduced pension benefit at age 62 with completion of at least 5 years of credited service or age 55 with 30 years of credited service, if hired prior to August 1, 2015. For a SAM employee hired after August 1, 2015 a SAM employee may retire at the age of 65 and completion of at least 10 years of credited service or the age of 60 and completion of at least 30 years of credited service.

During Fiscal Year 2018, the investment return assumption was decreased from 7.0% to 6.75%. The postretirement mortality assumptions has been modified to 102% of the RP-2006 Healthy Annuitant mortality table. Mortality improvements both before and after the measurement date use a 60-year average of Social Security data from 1955 to 2015 using a generational approach. This change slightly decreased the expected number of deaths for retirees. In addition, changes were made to the disability mortality and the preretirement mortality assumptions. The December 27, 2018 study also proposed changes to the form of payment election assumption and the marriage assumption for

7. Pension Plans (Continued)

Benefits Provided (Continued)

female members. Upon retirement, 50% of male members and 15% of female members are assumed to elect a joint and survivor annuity. (Previously all members were assumed to elect a single life annuity.) The marriage assumption for female members was reduced from 80% to 50% (male members remained at 80%).

During Fiscal Year 2017, the following modifications were made for certain bargaining employees of the City Transit Division, the Frontier Division, and the Suburban Transit Division. The required contributions for employees was changed from a percentage of compensation to \$50 per week. The calculation of retirement benefits was changed from percentages of compensation or annual wage rates to the sum of \$94 per month for each year of credited service accrued up to November 28, 2016 for TWU; December 15, 2016 for SMART; and February 23, 2017 for IBT employees; and \$100 per month for each year of credited service after those dates. A new benefit option has been added to these plans, permitting members to receive an actuarially equivalent benefit that is payable for the member's life, with a guarantee of at least 10 years of benefit payments. If the member does not receive 10 years of payments before death, the member's beneficiary receives the balance of 10 years of payments. The average annual compensation for the Transit Police Plan is the greater of the average of compensation earned during the 3 years preceding retirement or termination or the average of the annual rate of basic compensation for the 3 years preceding retirement or termination. A City Transit, Suburban Transit, and Frontier plans employee may retire early upon completion of 25 years of continuous service. The normal retirement benefit is reduced by 4% for each year that the early retirement date precedes age 62.

Effective for retirements on or after July 1, 2015 a SAM employee's normal benefit is 1.8% of average annual compensation for each year of credited service up to 10 years; plus 2.0% of average annual compensation for each year of credited service in excess of 10 years up to 20 years; plus 2.2% of average annual compensation for each year of credited service in excess of 20 years up to 30 years; plus 1.8% of average annual compensation for each year of credited service in excess of 30 years. For SAM employees hired on or after August 1, 2015 the basic plan benefit is 1.6% of average annual compensation for each year of credited service. There is an enhanced plan benefit that amounts to 1.8% of average annual compensation for each year of credited service up to 10 years plus, 2.0% of average annual compensation for each year of credited service in excess of 10 years up to 20 years; plus, 2.2% of average annual compensation for each year of credited service in excess of 20 years up to 30 years; plus, 1.8% of average annual compensation for each year of credited service in excess of 30 years. For SAM employees, for the new formula benefit accrued after December 31, 2015 in determining the grandfathered benefit, a three year average of the employee's annual salary rate on the day before retirement date and the same date for the two years prior. Any increases received within 90 days of termination are excluded. For service, accrued as of December 31, 2015 in determining the grandfathered benefit, the employee's compensation during the last 36 months of employment prior to retirement (or December 31, 2015 if earlier) divided by three. For members of SAM as of December 31, 2015 (excluding members who were hired prior to December 31, 2015, but transfer into SAM after December 31, 2015), the minimum benefit is based on the prior benefit formula (1.8% of average annual compensation for each year of credited service in excess of 30 years plus 1% of average annual compensation per year of credited service in excess of 30 years) determined as of December 31, 2015 (or date of termination if earlier) plus the new formula for service accrued after December 31, 2015 reflecting the revised definition of average annual compensation. A SAM employee may retire early either at age 55 with completion of 10 years of credited service or upon completion of 25 years of credited service. The normal retirement benefit is reduced by 4% for each year that the early retirement date precedes age 62 for employees hired before August 1, 2015. For SAM employees hired after August 1, 2015 the normal retirement benefit is reduced by 4% for each year that the early retirement date precedes age 65. A Transit Police employee's retirement benefit is based on 53.5% of average annual compensation, plus an additional annual benefit of \$1,200 if at least one year of service is accrued in excess of 25 years.

Death benefits for an active SAM participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on the later of date of death or age 55 with a 50% contingent annuity. This benefit is payable at the employee's age of 55 or date of death if later, reduced if payment commences prior to normal retirement date.

7. Pension Plans (Continued)

Benefits Provided (Continued)

Transit Police employees are entitled to receive disability benefits for total and permanent disability if they are under the age of 50. The disability benefit equals the normal retirement benefit assuming level compensation and continued vesting and benefit service until the age of 50. The disability benefit is payable at age 50. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This amount is payable at the spouse's attainment of age 65. If the employee was eligible for normal retirement at death, the amount is payable immediately. Active employees who die in the line of duty and leave a surviving spouse receive the benefit that would have been paid to the participant had he or she attained his normal retirement age at the time of his or her death. This benefit is payable immediately to the surviving spouse with no reduction for early commencement.

City Transit employees can receive disability pension benefits for total and permanent disability if they have completed 15 years of continuous service. The disability pension benefit equals \$500 per month payable immediately for life. A City Transit employee can receive disability severance benefits for total and permanent disability if he or she has completed at least one year of continuous service. The disability severance benefit equals a lump sum payment of \$100 for each year of continuous service. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement. A Suburban Transit employee can receive disability benefits for total and permanent disability. The disability benefits are equal to a monthly benefit of \$8 or \$10 for TWU Local 234 or UTU Local 1594, respectively, for each year of continuous service if the employee has completed at least 5 years of continuous service. The disability benefit equals \$500 per month payable immediately for life if the employee has completed at least 15 years of continuous service. A UTU Local 1594 employee who has completed at least 15 years of continuous service has the option to choose a lump sum payment equal to \$25 for each year of continuous service for total and permanent disability. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement.

Frontier Division employees can receive disability pension benefits for total and permanent disability if he or she has completed 15 years of continuous service. The disability pension benefit equals \$500 per month payable immediately for life. A Frontier Division employee can receive disability severance benefits for total and permanent disability if he or she has completed at least one year of continuous service. The disability severance benefit equals a lump sum payment of \$100 for each year of continuous service. Death benefits for an active participant who dies with a surviving spouse are equal to the benefit that would have been payable had the participant terminated on his date of death, and retired on his normal retirement date with a 50% contingent annuity. This benefit is payable at the spouse's attainment of age 65 or on a reduced basis if paid between the ages of 55 and 64. Alternatively, if the employee was eligible for normal retirement at death, the amount is payable immediately, at the normal benefit or reduced benefit if at early retirement. All employees vest after five years of continuous service. A plan member who leaves employment may withdraw his or her contributions, plus any accumulated interest.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Employees Covered by Benefit Terms

At January 1, 2018, the date of the actuarial valuation that was used to determine the Authority's total pension liability as of June 30, 2019, the following employees were covered by the benefit terms:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	1,966	87	3,361	257	50	5,721
Inactive employees entitled to but not yet receiving benefits	373	52	690	116	36	1,267
Active employees	<u>1,832</u>	<u>211</u>	<u>5,017</u>	<u>568</u>	<u>228</u>	<u>7,856</u>
Total	<u><u>4,171</u></u>	<u><u>350</u></u>	<u><u>9,068</u></u>	<u><u>941</u></u>	<u><u>314</u></u>	<u><u>14,844</u></u>

At January 1, 2017, the date of the actuarial valuation that was used to determine the Authority's total pension liability as of June 30, 2018, the following employees were covered by the benefit terms:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	1,891	63	3,238	239	48	5,479
Inactive employees entitled to but not yet receiving benefits	391	48	697	120	32	1,288
Active employees	<u>1,849</u>	<u>227</u>	<u>5,072</u>	<u>544</u>	<u>224</u>	<u>7,916</u>
Total	<u><u>4,131</u></u>	<u><u>338</u></u>	<u><u>9,007</u></u>	<u><u>903</u></u>	<u><u>304</u></u>	<u><u>14,683</u></u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Contributions

The Authority's Board establishes and may amend the employer contribution requirements. While there is no statutory or regulatory contribution requirement, the Authority's policy provides employer contributions for all plans based on actuarially determined rates recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. The Authority may amend the contribution requirements of SAM Plan members. The contribution requirements for all other plans are based on the respective union agreements in effect during the period of employment.

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2020 are as follows:

Contribution rates:	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
SEPTA	34.90%	24.40%	18.30%	15.10%	5.50%
Plan members	*	3.85%	\$50/pay	\$50/pay	\$50/pay
SEPTA Contributions	\$ 49,025	\$3,521	\$52,860	\$ 4,784	\$ 675

The Authority and plan members' contribution rates of annual covered payroll for each plan as of June 30, 2019 are as follows:

Contribution rates:	<u>SAM</u>	Transit <u>Police</u>	City <u>Transit</u>	Suburban <u>Transit</u>	<u>Frontier</u>
SEPTA	32.29%	16.78%	18.58%	14.99%	6.40%
Plan members	*	3.85%	\$50/pay	\$50/pay	\$50/pay
SEPTA Contributions	\$45,390	\$2,401	\$53,739	\$ 4,756	\$ 782

* For members hired prior to August 1, 2015, 0.9% of pay up to Social Security covered compensation plus 1.1% of pay in excess of Social Security covered compensation from July 1, 2015 through December 1, 2015 and 2.5% of the annual salary rate thereafter.

Net Pension Liability

The Authority's Fiscal Year 2020 net pension liability was measured as of June 30, 2019 ("measurement date"). The total pension liability was determined by the use of update procedures to roll forward the pension plan's actuarial valuation dated January 1, 2018 to the measurement date. The Authority's Fiscal Year 2019 net pension liability was measured as of June 30, 2018. The total pension liability was determined by the use of update procedures to roll forward the pension plan's actuarial valuation dated January 1, 2017 to the measurement date.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Actuarial Assumptions

The Fiscal Year 2020 total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>
Investment rate of return ¹	6.75%	6.75%	6.75%	6.75%	6.75%
Salary increases, including inflation	3.25%	²	²	²	²
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%

¹ Interest is net of investment-related expenses.

² Salary scale rates vary by years of service, for actuarial valuation purposes .5% plus inflation

Mortality rates for all of the plans were based on the RP-2006 Employee Mortality Table for Males and Females for Preretirement, the RP-2006 Healthy Annuitant Mortality Table for Males and Females for beneficiaries, and the RP-2006 Disabled Annuitant Mortality Table for Males and Females for disabled beneficiaries, as appropriate, with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police Plan, City Transit Plan, Suburban Transit Plan, and the Frontier Plan include Blue Collar adjustments for Preretirement. No Blue Collar adjustments were made for beneficiaries.

The actuarial assumptions that determined the pension liability as of June 30, 2019 were based upon the results of an actuarial experience study, dated March 26, 2015 for the period ending from January 1, 2007 through December 31, 2013, and a mortality study dated December 27, 2018 covering the period from January 1, 2011 to December 31, 2016.

The Fiscal Year 2019 total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>
Investment rate of return ¹	6.75%	6.75%	6.75%	6.75%	6.75%
Salary increases, including inflation	3.25%	²	²	²	²
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%

¹ Interest is net of investment-related expenses.

² Salary scale rates vary by years of service, for actuarial valuation purposes .5% plus inflation.

7. Pension Plans (Continued)

Actuarial Assumptions (Continued)

Mortality rates for all of the plans were based on the RP-2006 Employee Mortality Table for Males and Females for Preretirement, the RP-2006 Healthy Annuitant Mortality Table for Males and Females for beneficiaries, and the RP-2006 Disabled Annuitant Mortality Table for Males and Females for disabled beneficiaries, as appropriate, with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police Plan, City Transit Plan, Suburban Transit Plan, and the Frontier Plan include Blue Collar adjustments for Preretirement. No Blue Collar adjustments were made for beneficiaries.

The actuarial assumptions that determined the pension liability as of June 30, 2019 were based upon the results of an actuarial experience study dated March 26, 2015 for the period from January 1, 2007 through December 31, 2013, and a mortality study dated December 27, 2018 covering the period from January 1, 2011 to December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables: (Note that the target allocation and long-term expected real rate of return percentages are the same for all five plans.)

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return</u>
Allocations for June 30, 2020:		
US Cash	2.53%	0.67%
US Core Fixed Income	10.04%	1.69%
US High Yield Bonds	3.13%	3.90%
Global Bonds	3.00%	0.30%
Non-US Bonds	2.11%	0.02%
US Equity Market	22.98%	4.73%
US Smal Caps	3.76%	5.82%
US Large Growth	3.12%	5.01%
US Large Value	4.28%	4.46%
US Small Growth	3.65%	6.55%
Non-US Equity	15.67%	6.34%
Foreign Developed Equity	3.42%	6.14%
Emerging Markets Equity	1.73%	8.35%
Private Real Estate Property	5.19%	3.71%
Timber	1.06%	3.86%
Private Equity	5.03%	9.66%
Commodities	1.77%	2.72%
Hedge Funds - MultiStrategy	4.72%	3.23%
Hedge Funds - Distressed	<u>2.81%</u>	3.23%
Total	<u>100.00%</u>	
Allocations for June 30, 2019		
US Cash	2.44%	0.31%
US Core Fixed Income	8.71%	2.03%
US High Yield Bonds	4.20%	3.93%
Global Bonds	3.16%	0.41%
Non-US Bonds	2.12%	-0.03%
US Equity Market	21.88%	4.99%
US Small Caps	3.68%	5.93%
US Large Growth	2.80%	5.39%
US Large Value	4.67%	4.63%
US Small Growth	3.23%	6.84%
Non-US Equity	15.22%	6.44%
Foreign Developed Equity	3.35%	6.15%
Emerging Markets Equity	1.67%	8.22%
Private Real Estate Property	5.63%	3.69%
Timber	1.25%	3.86%
Private Equity	5.97%	9.50%
Commodities	1.89%	2.85%
Hedge Funds - MultiStrategy	5.05%	3.28%
Hedge Funds - Distressed	<u>3.08%</u>	3.18%
Total	<u>100.00%</u>	

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability for the five plans was 6.75 percent for both June 30, 2019 and June 30, 2018 measurement dates. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that SEPTA contributions will be made at rates equal to the difference between the actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Fiscal Year 2020 Net Pension Liability

SAM Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 984,554	\$ 617,292	\$ 367,262
Changes for the year:			
Service cost	13,318	-	13,318
Interest	65,572	-	65,572
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	741	-	741
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	45,390	(45,390)
Contributions - employee	-	4,754	(4,754)
Net investment income	-	36,566	(36,566)
Benefit payments	(53,726)	(53,726)	-
Administrative expense	-	(310)	310
Other changes	-	493	(493)
Net changes	25,905	33,167	(7,262)
Balances as of end of year	\$ 1,010,459	\$ 650,459	\$ 360,000

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2019 Net Pension Liability

SAM Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 927,277	\$ 561,499	\$ 365,778
Changes for the year:			
Service cost	12,537	-	12,537
Interest	64,051	-	64,051
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	4,154	-	4,154
Effect of assumptions changes or inputs	26,983	-	26,983
Contributions - employer	-	44,190	(44,190)
Contributions - employee	-	4,764	(4,764)
Net investment income	-	55,398	(55,398)
Benefit payments	(50,448)	(50,448)	-
Administrative expense	-	(254)	254
Other changes	-	2,143	(2,143)
Net changes	57,277	55,793	1,484
Balances as of end of year	\$ 984,554	\$ 617,292	\$ 367,262

Changes in the Fiscal Year 2020 Net Pension Liability

Transit Police Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 59,401	\$ 40,297	\$ 19,104
Changes for the year:			
Service cost	1,488	-	1,488
Interest	3,995	-	3,995
Effect of economic/demographic gains or (losses)	4,592	-	4,592
Effect of assumption changes or inputs	-	-	-
Contributions - employer	-	2,401	(2,401)
Contributions - employee	-	569	(569)
Net investment income	-	2,369	(2,369)
Benefit payments	(3,462)	(3,462)	-
Administrative expense	-	(21)	21
Other changes	-	(98)	98
Net changes	6,613	1,758	4,855
Balances as of end of year	\$ 66,014	\$ 42,055	\$ 23,959

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2019 Net Pension LiabilityTransit Police Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 50,748	\$ 37,295	\$ 13,453
Changes for the year:			
Service cost	1,374	-	1,374
Interest	3,544	-	3,544
Effect of economic/demographic gains or (losses)	2,720	-	2,720
Effect of assumption changes or inputs	4,057	-	4,057
Contributions - employer	-	2,026	(2,026)
Contributions - employee	-	538	(538)
Net investment income	-	3,640	(3,640)
Benefit payments	(3,042)	(3,042)	-
Administrative expense	-	(18)	18
Other changes	-	(142)	142
Net changes	8,653	3,002	5,651
Balances as of end of year	\$ 59,401	\$ 40,297	\$ 19,104

Changes in the Fiscal Year 2020 Net Pension LiabilityCity Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 1,149,571	\$ 669,517	\$ 480,054
Changes for the year:			
Service cost	20,827	-	20,827
Interest	76,742	-	76,742
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(2,369)	-	(2,369)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	53,739	(53,739)
Contributions - employee	-	12,935	(12,935)
Net investment income	-	39,733	(39,733)
Benefit payments	(68,074)	(68,074)	-
Administrative expense	-	(353)	353
Other changes	-	(391)	391
Net changes	27,126	37,589	(10,463)
Balances as of end of year	\$ 1,176,697	\$ 707,106	\$ 469,591

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2019 Net Pension LiabilityCity Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 1,130,651	\$ 605,883	\$ 524,768
Changes for the year:			
Service cost	20,290	-	20,290
Interest	78,398	-	78,398
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(13,859)	-	(13,859)
Effect of assumptions changes or inputs	(2,899)	-	(2,899)
Contributions - employer	-	56,025	(56,025)
Contributions - employee	-	12,999	(12,999)
Net investment income	-	59,913	(59,913)
Benefit payments	(63,010)	(63,010)	-
Administrative expense	-	(292)	292
Other changes	-	(2,001)	2,001
Net changes	18,920	63,634	(44,714)
Balances as of end of year	\$ 1,149,571	\$ 669,517	\$ 480,054

Changes in the Fiscal Year 2020 Net Pension LiabilitySuburban Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 98,678	\$ 57,731	\$ 40,947
Changes for the year:			
Service cost	2,310	-	2,310
Interest	6,638	-	6,638
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	361	-	361
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	4,756	(4,756)
Contributions - employee	-	1,449	(1,449)
Net investment income	-	3,474	(3,474)
Benefit payments	(5,398)	(5,398)	-
Administrative expense	-	(30)	30
Other changes	-	141	(141)
Net changes	3,911	4,392	(481)
Balances as of end of year	\$ 102,589	\$ 62,123	\$ 40,466

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2019 Net Pension Liability

Suburban Transit Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 94,646	\$ 51,430	\$ 43,216
Changes for the year:			
Service cost	2,160	-	2,160
Interest	6,599	-	6,599
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	763	-	763
Effect of assumptions changes or inputs	(330)	-	(330)
Contributions - employer	-	4,785	(4,785)
Contributions - employee	-	1,435	(1,435)
Net investment income	-	5,120	(5,120)
Benefit payments	(5,160)	(5,160)	-
Administrative expense	-	(25)	25
Other changes	-	146	(146)
Net changes	4,032	6,301	(2,269)
Balances as of end of year	\$ 98,678	\$ 57,731	\$ 40,947

Changes in the Fiscal Year 2020 Net Pension Liability

Frontier Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 30,017	\$ 27,580	\$ 2,437
Changes for the year:			
Service cost	978	-	978
Interest	2,091	-	2,091
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(1,413)	-	(1,413)
Effect of assumptions changes or inputs	-	-	-
Contributions - employer	-	782	(782)
Contributions - employee	-	577	(577)
Net investment income	-	1,708	(1,708)
Benefit payments	(22)	(22)	-
Administrative expense	-	(13)	13
Other changes	-	(145)	145
Net changes	1,634	2,887	(1,253)
Balances as of end of year	\$ 31,651	\$ 30,467	\$ 1,184

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Changes in the Fiscal Year 2019 Net Pension Liability

Frontier Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of beginning of year	\$ 28,265	\$ 23,810	\$ 4,455
Changes for the year:			
Service cost	939	-	939
Interest	2,044	-	2,044
Effect of plan changes	-	-	-
Effect of economic/demographic gains or (losses)	(1,265)	-	(1,265)
Effect of assumptions changes or inputs	58	-	58
Contributions - employer	-	945	(945)
Contributions - employee	-	592	(592)
Net investment income	-	2,413	(2,413)
Benefit payments	(24)	(24)	-
Administrative expense	-	(10)	10
Other changes	-	(146)	146
Net changes	1,752	3,770	(2,018)
Balances as of end of year	\$ 30,017	\$ 27,580	\$ 2,437

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the SEPTA Pension Plans for the year ended June 30, 2020, calculated using the discount rate of 6.75 percent, as well as what SEPTA's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75 percent) or 1-percentage point higher (7.75 percent) than the current rate:

	1% Decrease	Current	1% Increase
SAM	\$ 472,690	\$ 360,000	\$ 264,148
Transit Police	32,574	23,959	16,792
City Transit	598,149	469,591	359,938
Suburban Transit	52,506	40,466	30,256
Frontier	5,165	1,184	(2,183)
Total	\$ 1,161,084	\$ 895,200	\$ 668,951

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Continued)

The following presents the net pension liability of the SEPTA Pension Plans for the year ended June 30, 2019, calculated using the discount rate of 6.75 percent, as well as what SEPTA's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75 percent) or 1-percentage point higher (7.75 percent) than the current rate:

	1% Decrease	Current	1% Increase
SAM	\$ 478,342	\$ 367,262	\$ 272,812
Transit Police	27,175	19,104	12,390
City Transit	607,122	480,054	371,715
Suburban Transit	52,663	40,947	31,015
Frontier	6,262	2,437	(796)
Total	<u>\$ 1,171,564</u>	<u>\$ 909,804</u>	<u>\$ 687,136</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, SEPTA recognized pension expense of \$103,825 (\$52,657 for the SAM Plan, \$4,123 for the Transit Police Plan, \$42,759 for the City Transit Plan, \$4,112 for the Suburban Transit Plan, and \$174 for the Frontier Plan). At June 30, 2020, SEPTA reported deferred outflows of resources and deferred inflows of resources related to the five pension plans from the following sources:

Deferred Outflows of Resources

	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Differences between expected and actual experience	\$ 9,676	\$ 7,732	\$ -	\$ 951	\$ -	\$ 18,359
Changes in assumptions	16,524	3,348	5,243	567	91	25,773
Net difference between projected and actual earnings	-	-	-	-	-	-
Contributions made subsequent to measurement date	49,025	3,521	52,860	4,784	675	110,865
Total	<u>\$ 75,225</u>	<u>\$ 14,601</u>	<u>\$ 58,103</u>	<u>\$ 6,302</u>	<u>\$ 766</u>	<u>\$154,997</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Inflows of Resources</u>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
Differences between expected and actual experience	\$ (217)	(362)	\$ (22,944)	\$ (1,330)	\$ (4,581)	\$ (29,434)
Changes in assumptions	-	-	(2,124)	(251)	-	(2,375)
Net difference between projected and actual earnings on pension plan investments	(7,679)	(519)	(8,428)	(740)	(382)	(17,748)
Total	\$ (7,896)	\$ (881)	\$ (33,496)	\$ (2,321)	\$ (4,963)	\$ (49,557)

For the year ended June 30, 2019, SEPTA recognized pension expense of \$87,645 (\$44,337 for the SAM Plan, \$2,622 for the Transit Police Plan, \$37,214 for the City Transit Plan, \$3,396 for the Suburban Transit Plan, and \$76 for the Frontier Plan). At June 30, 2019, SEPTA reported deferred outflows of resources and deferred inflows of resources related to the five pension plans from the following sources:

	<u>Deferred Outflows of Resources</u>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
Differences between expected and actual experience	\$ 16,074	\$ 4,235	\$ -	\$ 756	\$ -	\$ 21,065
Changes in assumptions	23,293	3,834	7,164	730	104	35,125
Net difference between projected and actual earnings	-	-	-	-	-	-
Contributions made subsequent to measurement date	45,390	2,401	53,739	4,756	782	107,068
Total	\$ 84,757	\$ 10,470	\$ 60,903	\$ 6,242	\$ 886	\$ 163,258

	<u>Deferred Inflows of Resources</u>					Total
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	
Differences between expected and actual experience	\$ (462)	(439)	\$ (25,769)	\$ (1,636)	\$ (3,814)	\$ (32,120)
Changes in assumptions	-	-	(2,512)	(290)	-	(2,802)
Net difference between projected and actual earnings on pension plan investments	(6,566)	(467)	(7,261)	(667)	(372)	(15,333)
Total	\$ (7,028)	\$ (906)	\$ (35,542)	\$ (2,593)	\$ (4,186)	\$ (50,255)

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

7. Pension Plans (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The amounts reported as deferred outflows of resources for each of the five plans resulting from employer contributions subsequent to the measurement date as of June 30, 2020 will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>SAM</u>	<u>Transit Police</u>	<u>City Transit</u>	<u>Suburban Transit</u>	<u>Frontier</u>	<u>Total</u>
Year ended June 30:						
2020	\$ 10,599	\$ 1,578	\$ (2,359)	\$ 75	\$ (615)	\$ 9,278
2021	1,634	991	(11,839)	(736)	(968)	(10,918)
2022	3,948	1,359	(6,149)	(256)	(735)	(1,833)
2023	2,100	1,574	(3,200)	21	(589)	(94)
2024	23	1,513	(3,182)	(34)	(576)	(2,256)
Thereafter	-	3,184	(1,524)	127	(1,389)	398

8. Other Postemployment Benefits

Plan Description and Benefits Provided

The Authority sponsors a single-employer defined benefit plan that provides postemployment benefits other than pensions (“OPEB”) for the following employee groups: Supervisory Administrative and Management employees (SAM), Transit Police (TP), Non-Railroad Union Groups, and Railroad Union Groups. The Authority does not issue financial reports for this plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The Authority provides postemployment medical, prescription drug and life insurance benefits to substantially all employees, which generally commence on the first day an employee retires. Prior to December 1, 2016, health insurance benefits were generally provided for three years, except Health Maintenance Organization (HMO) plan coverage was provided for fifty months. There was a plan change adopted June 25, 2015 for SAM employees electing the HMO plan coverage and retiring on or after January 1, 2017 decreasing the duration of the medical benefits provided from 50 months to 36 months. Beginning December 1, 2016, with varying effective dates by union, health insurance benefits are generally provided for forty months for bargaining unit employees and for thirty-six months for SAM employees. Prescription drug benefits are generally provided over the retiree’s lifetime for SAM and Non-Railroad Union Groups, except for employees hired after November 2005 for whom coverage ends at age 65. Prescription drug benefits end at the earlier of three years or age 65 for Railroad Union Groups, and at age 65 for TP. In addition, the Authority provides life insurance coverage to substantially all retirees. Life insurance is provided in various amounts to a maximum of annual final salary for SAM which decreases annually to 20% after four years.

During 2019, plan changes for police and union rail members include the duration of medical coverage upon retirement from 36 months, for PPO coverage and 50 months for HMO coverage to 40 months, regardless of plan election. For union rail members, excluding (TCU), extending prescription drug coverage from 3 years to 5 years, but no later than age 65. The effective date of these changes varies by union agreement.

The Authority provides long-term disability insurance with benefit eligibility after one year of employment for SAM and TP. Disability benefits are not covered by the OPEB valuation since generally the benefits are fully insured and paid while an employee is actively employed. The union employees are eligible for disability benefits from their respective pension plans.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Plan Description and Benefits Provided (Continued)

Benefits provisions for SAM employees are established and may be amended in accordance with recognized Authority policy. The bargaining union employees receive benefits based on the respective union agreements in effect at the time of retirement. No assets are accumulated in a trust that meets the criteria in Paragraph 4 of Statement 75.

Employees Covered by Benefit Terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	8,172
Active employees	<u>9,418</u>
	<u>17,590</u>

Total OPEB Liability

The Authority's Fiscal Year 2020 total OPEB liability amounted to \$1,256,735 for Fiscal Year 2019, and \$1,178,556 for Fiscal Year 2019 and was measured as of June 30, 2019 and June 30, 2018, ("Measurement Dates") determined by an actuarial valuation as of June 30, 2019 and June 30, 2017 which was rolled forward to the June 30, 2018 valuation respectively using the Entry Age Normal Actuarial Cost Method. The Total OPEB liability was determined using the following actuarial assumptions and other inputs:

Discount Rate: 3.87% per annum as of June 30, 2018 and 3.50% per annum as of June 30, 2019 (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

Salary Increases: 3.25% per year for SAM members; 2.75% for all other members.

Valuation Compensation: Annualized wage rate as of June 30, 2019.

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2020.2 utilizing the baseline assumptions included in the model, except inflation of 2.5% for medical and prescription drug benefits separately. Further adjustments apply based on percentage of costs associated with administrative expenses, aging factors, potential excise taxes due to healthcare reform, and other healthcare reform provisions. Excise tax is assumed to apply only while a member has both medical and pharmacy coverage. The health cost trend assumption for medical and pharmacy benefits at sample years is as follows.

Fiscal Year-End	Prescription Drug	Medical Pre-65 w/ Excise Tax	Medical Post-65 w/ Excise Tax
2020	8.7	6.1	5.5
2021	6.9	6.2	5.3
2022	5.7	5.7	5.9
2023	5.1	5.2	5.7
2024	5.0	5.2	5.6
2029	4.8	4.9	5.3
2034	4.8	5.7	5.3
2039	4.9	5.7	5.3
2044	4.9	5.6	5.6
2049	5.0	5.6	5.6
2059	4.8	5.2	5.2
2069	4.4	4.6	4.6
2079	4.0	4.2	4.2

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Total OPEB Liability (Continued)

For purposes of applying the Entry Age Normal cost method, the healthcare trend prior to the valuation date is based on the ultimate rate, which is 4.0% for prescription drug, 4.1% for medical costs prior to age 65, and 4.1% of medical costs at age 65 and later.

Mortality: For 2020 and 2019, all mortality rates projected on a generational basis using mortality improvements equal to a 60-year average social security data from 1955 to 2015. As a generational table, it reflects mortality improvements both before and after the measurement date.

Preretirement: For 2020 and 2019, RP-2006 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for current and future SAM members.

Postretirement Healthy Lives: For 2020 and 2019, RP-2006 Healthy Annuitant Mortality Table for Males and Females with blue collar adjustments multiplied by 115% up to age 90. The adjustment is phased out from ages 90 to 95. For current and future SAM members, no blue collar adjustments apply and the multiplicative adjustment factor is 102%.

Postretirement Disabled Lives: for 2020 and 2019, RP-2006 Disabled Annuitant Mortality Table for Males and Females.

The demographic actuarial assumptions that determined the total OPEB liability as of June 30, 2019 were based on the results of an actuarial experience study, dated March 26, 2015 for covered members of the pension plans sponsored by SEPTA and dated December 1, 2015 for rail members, covering the period from January 1, 2007 through December 31, 2013, and a mortality study for covered members of the pension plans sponsored by SEPTA dated December 27, 2018 covering the period from January 1, 2011 to December 31, 2016. Healthcare assumptions are determined as of each valuation date.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Total OPEB Liability (Continued)

Changes in Fiscal Year 2020 OPEB Liability

Balance as of beginning of year	\$ 1,178,556
Changes for the year:	
Service cost	36,960
Interest on total OPEB liability	46,130
Effect of plan changes	(1,066)
Effect of economic/demographic gains or losses	(4,974)
Effect of assumptions changes or inputs	48,644
Benefit payments	(47,515)
Net changes	<u>78,179</u>
Balance as of June 30, 2019	<u>\$ 1,256,735</u>

Changes in Fiscal Year 2019 OPEB Liability

Balance as of beginning of year	\$ 1,205,651
Changes for the year:	
Service cost	39,473
Interest on total OPEB liability	43,775
Effect of plan changes	-
Effect of economic/demographic gains or losses	631
Effect of assumptions changes or inputs	(65,851)
Benefit payments	(45,123)
Net changes	<u>(27,095)</u>
Balance as of June 30, 2018	<u>\$ 1,178,556</u>

The discount rate has been changed from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019 due to changes in the applicable municipal bond index. Healthcare assumptions including per capita costs, including load for children, and trend assumptions was updated based on recent claim experience, premium rates and future expectations. For members eligible to make an election between the Personal Choice PPO plan and the Keystone HMO plan, the percentage was increased to 70% electing the PPO plan. The assumed percentage of female retirees electing dependent coverage was increased from 35% to 40%.

The mortality assumption was updated based on an experience analysis dated December 27, 2018.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following represents the total OPEB liability of SEPTA Plan for the year ending June 30, 2020, calculated using the discount rate of 3.50%, as well as what the SEPTA's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate.

	1% Decrease 2.50%	Discount Rate 3.50%	1% Increase 4.50%
Total OPEB liability	\$ 1,421,146	\$ 1,256,735	\$ 1,118,267

The following represents the total OPEB liability of SEPTA Plan for the year ending June 30, 2019, calculated using the discount rate of 3.87%, as well as what the SEPTA's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current rate.

	1% Decrease 2.87%	Discount Rate 3.87%	1% Increase 4.87%
Total OPEB liability	\$ 1,327,734	\$ 1,178,556	\$ 1,052,414

The following represents the total OPEB liability of SEPTA Plan for the year ending June 30, 2020, calculated using the current healthcare cost trend rates as well as what SEPTA's total liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 1,105,703	\$ 1,256,735	\$ 1,441,497

The following represents the total OPEB liability of SEPTA Plan for the year ending June 30, 2019, calculated using the current healthcare cost trend rates as well as what SEPTA's total liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	\$ 1,030,561	\$ 1,178,556	\$ 1,360,049

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

8. Other Postemployment Benefits (Continued)

Sensitivity of Total OPEB Liability to Changes in the Discount Rate (Continued)

For the year ending June 30, 2020, SEPTA recognized OPEB expense of \$355. At June 30, 2020, SEPTA reported deferred inflows and outflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (20,045)	\$ 487
Changes of assumptions	(486,465)	43,052
Contributions subsequent to the measurement date	-	49,307
Total	<u>\$ (506,510)</u>	<u>\$ 92,846</u>

For the year ending June 30, 2019, SEPTA recognized OPEB expense of (\$3,441). At June 30, 2019, SEPTA reported deferred inflows and outflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (18,387)	\$ 559
Changes of assumptions	(570,483)	-
Contributions subsequent to the measurement date	-	49,210
Total	<u>\$ (588,870)</u>	<u>\$ 49,769</u>

The deferred outflows related to the contributions made subsequent to the measurement date of \$49,307 will be recognized in 2021, the remaining amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2021	\$ (81,669)
2022	(81,669)
2023	(81,669)
2024	(81,669)
2025	(81,669)
Thereafter	(54,626)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. These amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

9. Deferred Compensation

The Authority offers an employee savings/deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer includible compensation, as defined in the Internal Revenue Code, in an amount generally not to exceed \$19.5 thousand annually on a pre-tax basis. Includible compensation comprises the contributions made by both the employee and employer. Effective January 1, 2000, the Authority began to provide SAM employees with a 10 percent matching contribution, subject to limitations, which amounted to \$901 thousand and \$837 thousand for Fiscal Years 2020 and 2019, respectively. On January 1, 2018, SEPTA increased the matching contributions to the Plan for SAM employees from 10% to 25% of employee contributions with a cap of \$1,000.00 annually.

The Deferred Compensation Plan (DCP) Trust Agreement provides that all assets and income of the DCP are to be held in the DCP Trust for the exclusive benefit of participants and their beneficiaries and as a result are not recorded in the Authority's financial statements. The costs and expenses of administering the plan are borne by the participants.

10. Commitments and Contingencies

The Authority is involved in various legal matters arising from the normal course of operations. In management's opinion, the resolution of these legal matters will not have a material adverse effect on the Authority's financial position.

Derivate Instruments

To obtain budget certainty and control volatility in fuel prices, the Authority has entered into financial derivative agreements for its fuel purchases. The Authority has collateral posting requirements related to these instruments tied to its credit rating and dollar level of exposure to the counterparty. During the year ended June 30, 2020, the Authority was not required to post collateral for any fuel derivative agreements. At June 30, 2020, the fuel derivative instruments had a net negative market position of \$7.2 million. The Authority is also a counterparty in two swap agreements as noted in the swap section of Note 5. These swap agreements require the Authority to post collateral if the long-term unenhanced rating of the Authority's Bonds is withdrawn, suspended or falls below (1) Baa3 as determined by Moody's Investors Service ("Moody's"), (2) BBB- as determined by Standard & Poor's Global Ratings Service ("S&P") or (3) BBB- as determined by Fitch Ratings ("Fitch"). If the Authority failed to post the collateral when required, the counterparty may terminate the hedging derivative instrument. If the collateral posting requirement had been triggered at June 30, 2020, the maximum amount the Authority would have been required to post to its counterparties is \$951 thousand. Because the Authority's unenhanced debt obligations were rated "A3" by Moody's, "AA-" by S&P Global, and "AA" by Fitch at June 30, 2020, no collateral has been required or posted. The Authority's obligation to make payments under the swap agreements is limited to available money under the applicable indentures pursuant to Section 1310 of the Public Transportation Assistance Law. The payment obligation is not a general obligation of the Authority and is not secured by any lien on other assets of the Authority.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

11. Self-Insurance

Public Liability, Property Damage and Workers' Compensation Claims

The Authority is self-insured for claims arising from public liability and property damage. The Authority also maintains a self-funded insurance trust for excess amounts of \$5 million to \$20 million as of June 30, 2020. The Authority provides a liability for the self-insured portion based on the present value of the estimated ultimate cost of settling claims, discounted at 1.0%, using past experience adjusted for current trends as of June 30. The valuation incorporates the effects of the statutory limitation on damages (the liability cap). The annual public liability and property damage claims expense for Fiscal Year 2020 increased \$15.7 million and the total liability increased \$15.0 million. The expense increase reflects an increase in costs expected to settle those claims. The expense for pollution remediation activities at various SEPTA locations where underground storage tanks were previously removed and replaced was \$1.8 million and \$0.4 million for Fiscal Year 2019 and 2020, respectively. The Pennsylvania Department of Environmental Protection (PADEP) Act 2, "Underground Storage Tank Program", involves follow-up testing, site characterization and remediation action plans as mandated by PADEP. The liability was developed by the Authority's engineers specializing in environmental remediation which is similar to situations at other sites with which the Authority has experience. The estimate is subject to change due to price increases, changes in technology, or other factors. The Authority has also recognized within capital grants the expected reimbursement of such costs.

The Authority is self-insured for workers' compensation claims for its employees. The Authority provides a liability for the self-insured amount based on an actuarial valuation that uses the present value of the estimated ultimate cost of settling claims, discounted at 1.0%, utilizing a case-by-case review of all claims, adjusted for estimates of future adverse claims development, as of June 30. The Authority also maintains excess workers' compensation insurance coverage with an insurance carrier for employee claims, on a per accident basis, which exceeds a self-insured retention of \$5 million up to a \$10 million liability limit.

Total claims liabilities, including changes for Fiscal Years 2020 and 2019, are as follows:

	Public Liability and <u>Property Damage</u>	Worker's <u>Compensation</u>	<u>Totals</u>
Balance at June 30, 2018	\$ 134,811	\$ 30,861	\$ 165,672
Claims expense	23,954	12,285	36,239
Pollution remediation expense	1,795	-	1,795
Payment of claims	(25,054)	(15,801)	(40,855)
Payments for pollution remediation	(705)	-	(705)
Balance at June 30, 2019	134,801	27,345	162,146
Claims expense	39,673	19,152	58,825
Pollution remediation expense	418	-	418
Payment of claims	(25,207)	(16,245)	(41,452)
Payments for pollution remediation	157	-	157
Balance at June 30, 2020	<u>\$ 149,842</u>	<u>\$ 30,252</u>	<u>\$ 180,094</u>
Balance at June 30, 2020 due within one year	<u>\$ 45,116</u>	<u>\$ 10,353</u>	<u>\$ 55,469</u>

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

11. Self-Insurance (Continued)

Employee Health Benefits

As of August 1, 2012, the Authority became self-insured in providing group medical coverage for most of its employees and certain retirees. A third-party administers the group medical coverage for the Authority. The Authority is liable for all claims up to \$600,000 per individual for any one plan year. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$600,000 per plan year. The liability for unpaid claims, if any, is estimated using the prior period history of actual claims paid.

The total medical claims liability, which is included within Accounts Payable-Trade in the Statements of Net Position, changed in Fiscal Year 2020 as follows:

	<u>Medical Liability</u>
Balance at June 30, 2018	\$ 23,997
Claims expense	129,612
Payment of claims	<u>(129,439)</u>
Balance at June 30, 2019	24,170
Claims expense	123,035
Payment of claims	<u>(123,024)</u>
Balance at June 30, 2020	<u>\$ 24,181</u>
Balance at June 30, 2020 due within one year	<u>\$ 24,181</u>

The Authority is also self-insured for prescription drug benefits through a third-party administrator for all employees and certain retirees. The annual prescription expense for Fiscal Year 2020 and 2019 was \$61.2 million and \$57.3 million, respectively. In addition, the Authority is self-insured in providing dental coverage for most employees. Two third-parties administer the group dental coverage for the Authority. The annual dental expense for each of Fiscal Years 2020 and 2019 was \$4.8 million and \$5.7 million respectively.

12. Dependency on Governmental Funding

The Authority is dependent upon its external governmental funding sources to provide subsidies in amounts that keep pace with future cost increases due to inflation, infrastructure repairs, revenue fleet replacements, technological advances and changing regulatory requirements. Historically, these funding sources, cost controls, increased ridership and passenger fare increases, have been adequate to maintain a balanced budget. However, should the external funding sources, which comprise over half the Authority's operating budget and essentially all of its capital budget, not keep pace with future capital or expense levels, the negative effect on future operations could be significant. When Act 44 was enacted in 2007, the Authority anticipated that the Pennsylvania Transportation Trust Fund ("PTTF") would provide a reliable and growing source of funds to meet future budgetary needs. In March 2010 the Pennsylvania Turnpike Commission was unable to obtain approval of the Federal Highway Administration to toll Interstate 80. As a result, PTTF funding for transportation in the Commonwealth was significantly impacted. With the reduction in PTTF funding, SEPTA's annual capital budget was reduced by 25 percent, or \$110 million, beginning in Fiscal Year 2011. The reduced capital outlay continued into Fiscal Year 2014 with a total capital budget of \$308.0 million. In 2013 the Pennsylvania General Assembly passed transportation funding legislation, Act 89 of 2013, which was signed into law by the Governor in November 2013. Act 89 of 2013 provides a dedicated, long-term funding source for transportation in Pennsylvania that includes funding for public transportation as well as roads, bridges and multimodal transportation. In Fiscal Years 2020 and 2021, the capital budget was \$675.05 million and \$640.22 million, respectively. The decrease in the Fiscal Year 2021 capital budget resulted from uncertainty in the amount of federal and state funding available.

(AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE STATED)

On March 27, 2020, the U.S. Congress passed and the President signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides emergency assistance and health care response for individuals, families and businesses affected by the COVID-19 pandemic. The Authority is eligible to receive \$644 million in CARES Act funding, a portion of which offset the significant passenger revenue shortfall resulting from lower ridership related to the COVID-19 pandemic.

13. Subsequent Events

In addition, on July 29, 2020, the Authority issued \$97.23 million par amount of Capital Grant Receipts Revenue Bonds, Series 2020 (the "2020 CGR Bonds"). The 2020 CGR Bonds are due in varying amounts with maturity dates of June 1, 2021 through and including June 1, 2032. The 2020 CGR Bonds were issued at a premium of \$23.49 million and have yields ranging between 0.41% and 1.43%, and bear annual interest rate of 5%. The proceeds from the sale of the 2020 CGR Bonds in the amount of \$120.72 million were used to (a) finance the acquisition of approximately 140 diesel-electric hybrid buses, and (b) fund certain costs and expenses incurred by the Authority in connection with the issuance and sale of the 2020 CGR Bonds.

Required Supplementary Information

- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of Employer Pension Contributions – Last 10 Years
- Schedule of Changes in the Total OPEB Liability and Related Ratios

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
 (AMOUNTS IN THOUSANDS OF DOLLARS)

	2020						2019					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Total pension liability												
Service Cost	\$ 13,318	\$ 1,488	\$ 20,827	\$ 2,310	\$ 978	\$ 38,921	\$ 12,537	\$ 1,374	\$ 20,290	\$ 2,160	\$ 939	\$ 37,300
Interest	65,572	3,995	76,742	6,638	2,091	155,038	64,051	3,544	78,398	6,599	2,044	154,636
Changes of benefit terms	-	-	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or losses	741	4,592	(2,369)	361	(1,413)	1,912	4,154	2,720	(13,859)	763	(1,265)	(7,487)
Changes of assumptions	-	-	-	-	-	-	26,983	4,057	(2,899)	(330)	58	27,869
Benefit payments, including refunds of employee contributions	(53,726)	(3,462)	(68,074)	(5,398)	(22)	(130,682)	(50,448)	(3,042)	(63,010)	(5,160)	(24)	(121,684)
Net change in total pension liability	25,905	6,613	27,126	3,911	1,634	65,189	57,277	8,653	18,920	4,032	1,752	90,634
Total pension liability - beginning	984,554	59,401	1,149,571	98,678	30,017	2,322,221	927,277	50,748	1,130,651	94,646	28,265	2,231,587
Total pension liability - ending (a)	\$ 1,010,459	\$ 66,014	\$ 1,176,697	\$ 102,589	\$ 31,651	\$ 2,387,410	\$ 984,554	\$ 59,401	\$ 1,149,571	\$ 98,678	\$ 30,017	\$ 2,322,221
Plan fiduciary net position												
Contributions - employer	\$ 45,390	\$ 2,401	\$ 53,739	\$ 4,756	\$ 782	\$ 107,068	\$ 44,190	\$ 2,026	\$ 56,025	\$ 4,785	\$ 945	\$ 107,971
Contributions - employee	4,754	569	12,935	1,449	577	20,284	4,764	538	12,999	1,435	592	20,328
Net investment income	36,566	2,369	39,733	3,474	1,708	83,850	55,398	3,640	59,913	5,120	2,413	126,484
Benefit payments, including refunds of employee contributions	(53,726)	(3,462)	(68,074)	(5,398)	(22)	(130,682)	(50,448)	(3,042)	(63,010)	(5,160)	(24)	(121,684)
Administrative expense	(310)	(21)	(353)	(30)	(13)	(727)	(254)	(18)	(292)	(25)	(10)	(599)
Other	493	(98)	(391)	141	(145)	-	2,143	(142)	(2,001)	146	(146)	-
Net change in plan fiduciary position	33,167	1,758	37,589	4,392	2,887	79,793	55,793	3,002	63,634	6,301	3,770	132,500
Plan fiduciary net position - beginning	617,292	40,297	669,517	57,731	27,580	1,412,417	561,499	37,295	605,883	51,430	23,810	1,279,917
Plan fiduciary net position - ending (b)	\$ 650,459	\$ 42,055	\$ 707,106	\$ 62,123	\$ 30,467	\$ 1,492,210	\$ 617,292	\$ 40,297	\$ 669,517	\$ 57,731	\$ 27,580	\$ 1,412,417
Authority's net pension liability - ending (a) - (b)	\$ 360,000	\$ 23,959	\$ 469,591	\$ 40,466	\$ 1,184	\$ 895,200	\$ 367,262	\$ 19,104	\$ 480,054	\$ 40,947	\$ 2,437	\$ 909,804
Plan fiduciary net position as a percentage of the total pension liability	64.37%	63.71%	60.09%	60.56%	96.26%		62.70%	67.84%	58.24%	58.50%	91.88%	
Covered payroll	\$ 146,821	\$ 13,928	\$ 290,533	\$ 32,412	\$ 12,245		\$ 140,563	\$ 14,312	\$ 289,290	\$ 31,722	\$ 12,204	
Authority net pension liability as a percentage of covered payroll	245.20%	172.02%	161.63%	124.85%	9.67%		261.28%	133.48%	165.94%	129.08%	19.97%	

Note to Schedule

The Authority adopted GASB 68 on a prospective basis in Fiscal Year 2015; therefore only six years are presented in the above schedule. The Authority's total pension liability was measured one year prior to the fiscal year-end for each year noted.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
(AMOUNTS IN THOUSANDS OF DOLLARS)

	2018						2017					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Total pension liability												
Service Cost	\$ 12,109	\$ 1,293	\$ 17,226	\$ 1,793	\$ 782	\$ 33,203	\$ 12,185	\$ 1,248	\$ 17,039	\$ 1,747	\$ 791	\$ 33,010
Interest	61,150	3,240	70,978	5,871	1,732	142,971	59,114	3,071	69,344	5,712	1,663	138,904
Changes of benefit terms	-	-	84,481	8,055	3,013	95,549	4,469	-	-	-	-	4,469
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or losses	16,641	2,340	(8,980)	(772)	(1,197)	8,032	(1,194)	(182)	(6,016)	(767)	(1,424)	(9,583)
Changes of assumptions	-	-	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(47,359)	(2,208)	(58,592)	(4,677)	(36)	(112,872)	(43,546)	(1,323)	(56,122)	(4,244)	(35)	(105,270)
Net change in total pension liability	<u>42,541</u>	<u>4,665</u>	<u>105,113</u>	<u>10,270</u>	<u>4,294</u>	<u>166,883</u>	<u>31,028</u>	<u>2,814</u>	<u>24,245</u>	<u>2,448</u>	<u>995</u>	<u>61,530</u>
Total pension liability - beginning	<u>884,736</u>	<u>46,083</u>	<u>1,025,538</u>	<u>84,376</u>	<u>23,971</u>	<u>2,064,704</u>	<u>853,708</u>	<u>43,269</u>	<u>1,001,293</u>	<u>81,928</u>	<u>22,976</u>	<u>2,003,174</u>
Total pension liability - ending (a)	<u>\$ 927,277</u>	<u>\$ 50,748</u>	<u>\$ 1,130,651</u>	<u>\$ 94,646</u>	<u>\$ 28,265</u>	<u>\$ 2,231,587</u>	<u>\$ 884,736</u>	<u>\$ 46,083</u>	<u>\$ 1,025,538</u>	<u>\$ 84,376</u>	<u>\$ 23,971</u>	<u>\$ 2,064,704</u>
Plan fiduciary net position												
Contributions - employer	\$ 42,061	\$ 1,692	\$ 45,769	\$ 3,821	\$ 641	\$ 93,984	\$ 37,334	\$ 1,737	\$ 46,986	\$ 3,920	\$ 770	\$ 90,747
Contributions - employee	4,558	579	12,923	1,364	563	19,987	2,134	568	9,249	937	377	13,265
Net investment income	62,313	4,157	67,353	5,700	2,612	142,135	(9,265)	(584)	(9,883)	(809)	(345)	(20,886)
Benefit payments, including refunds of employee contributions	(47,359)	(2,208)	(58,592)	(4,677)	(36)	(112,872)	(43,546)	(1,323)	(56,122)	(4,244)	(35)	(105,270)
Administrative expense	(222)	(16)	(258)	(22)	(9)	(527)	(206)	(15)	(258)	(21)	(8)	(508)
Other	1,360	(114)	(773)	(172)	(301)	-	1,736	(610)	(949)	164	(341)	-
Net change in plan fiduciary position	<u>62,711</u>	<u>4,090</u>	<u>66,422</u>	<u>6,014</u>	<u>3,470</u>	<u>142,707</u>	<u>(11,813)</u>	<u>(227)</u>	<u>(10,977)</u>	<u>(53)</u>	<u>418</u>	<u>(22,652)</u>
Plan fiduciary net position - beginning	<u>498,788</u>	<u>33,205</u>	<u>539,461</u>	<u>45,416</u>	<u>20,340</u>	<u>1,137,210</u>	<u>510,601</u>	<u>33,432</u>	<u>550,438</u>	<u>45,469</u>	<u>19,922</u>	<u>1,159,862</u>
Plan fiduciary net position - ending (b)	<u>\$ 561,499</u>	<u>\$ 37,295</u>	<u>\$ 605,883</u>	<u>\$ 51,430</u>	<u>\$ 23,810</u>	<u>\$ 1,279,917</u>	<u>\$ 498,788</u>	<u>\$ 33,205</u>	<u>\$ 539,461</u>	<u>\$ 45,416</u>	<u>\$ 20,340</u>	<u>\$ 1,137,210</u>
Authority's net pension liability - ending (a) - (b)	<u>\$ 365,778</u>	<u>\$ 13,453</u>	<u>\$ 524,768</u>	<u>\$ 43,216</u>	<u>\$ 4,455</u>	<u>\$ 951,670</u>	<u>\$ 385,948</u>	<u>\$ 12,878</u>	<u>\$ 486,077</u>	<u>\$ 38,960</u>	<u>\$ 3,631</u>	<u>\$ 927,494</u>
Plan fiduciary net position as a percentage of the total pension liability	60.55%	73.49%	53.59%	54.34%	84.24%		56.38%	72.05%	52.60%	53.83%	84.85%	
Covered payroll	\$ 140,105	\$ 14,548	\$ 290,384	\$ 30,390	\$ 11,976		\$ 132,095	\$ 13,695	\$ 288,333	\$ 30,149	\$ 11,866	
Authority net pension liability as a percentage of covered payroll	261.07%	92.47%	180.72%	142.20%	37.20%		292.17%	94.03%	168.58%	129.22%	30.60%	

Note to Schedule

The Authority adopted GASB 68 on a prospective basis in Fiscal Year 2015; therefore only six years are presented in the above schedule. The Authority's total pension liability was measured one year prior to the fiscal year-end for each year noted.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
(AMOUNTS IN THOUSANDS OF DOLLARS)

	2016						2015					
	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total	SAM	Transit Police	City Transit	Suburban Transit	Frontier	Total
Total pension liability												
Service Cost	\$ 10,313	\$ 1,231	\$ 16,578	\$ 1,714	\$ 808	\$ 30,644	\$ 9,995	\$ 1,245	\$ 16,365	\$ 1,657	\$ 769	\$ 30,031
Interest	55,466	2,956	68,844	5,653	1,592	134,511	53,586	2,710	66,692	5,409	1,472	129,869
Changes of benefit terms	27,068	-	1,260	92	42	28,462	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	-	-	-	-
Effect of economic/demographic gains or losses	16,583	(508)	(6,149)	(1,044)	(673)	8,209	(1,242)	(44)	(1,774)	241	(563)	(3,382)
Changes of assumptions	9,047	380	14,847	1,383	82	25,739	-	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
Net change in total pension liability	80,137	3,416	42,137	3,619	1,793	131,102	27,186	3,532	30,871	3,462	1,625	66,676
Total pension liability - beginning	773,571	39,853	959,156	78,309	21,183	1,872,072	746,385	36,321	928,285	74,847	19,558	1,805,396
Total pension liability - ending (a)	\$ 853,708	\$ 43,269	\$ 1,001,293	\$ 81,928	\$ 22,976	\$ 2,003,174	\$ 773,571	\$ 39,853	\$ 959,156	\$ 78,309	\$ 21,183	\$ 1,872,072
Plan fiduciary net position												
Contributions - employer	\$ 37,122	\$ 1,708	\$ 47,321	\$ 3,877	\$ 796	\$ 90,824	\$ 35,353	\$ 1,389	\$ 47,588	\$ 3,805	\$ 809	\$ 88,944
Contributions - employee	1,141	618	9,719	984	401	12,863	1,076	557	9,431	948	391	12,403
Net investment income	12,129	784	13,034	1,081	467	27,495	70,296	4,268	74,777	6,157	2,552	158,050
Benefit payments, including refunds of employee contributions	(38,340)	(643)	(53,243)	(4,179)	(58)	(96,463)	(35,153)	(379)	(50,412)	(3,845)	(53)	(89,842)
Administrative expense	(172)	(11)	(209)	(19)	(10)	(421)	(100)	(7)	(132)	(11)	(3)	(253)
Other	522	(196)	145	(356)	(115)	-	576	-	(308)	(51)	(217)	-
Net change in plan fiduciary position	12,402	2,260	16,767	1,388	1,481	34,298	72,048	5,828	80,944	7,003	3,479	169,302
Plan fiduciary net position - beginning	498,199	31,172	533,671	44,081	18,441	1,125,564	426,151	25,344	452,727	37,078	14,962	956,262
Plan fiduciary net position - ending (b)	\$ 510,601	\$ 33,432	\$ 550,438	\$ 45,469	\$ 19,922	\$ 1,159,862	\$ 498,199	\$ 31,172	\$ 533,671	\$ 44,081	\$ 18,441	\$ 1,125,564
Authority's net pension liability - ending (a) - (b)	\$ 343,107	\$ 9,837	\$ 450,855	\$ 36,459	\$ 3,054	\$ 843,312	\$ 275,372	\$ 8,681	\$ 425,485	\$ 34,228	\$ 2,742	\$ 746,508
Plan fiduciary net position as a percentage of the total pension liability	59.81%	77.27%	54.97%	55.50%	86.71%		64.40%	78.22%	55.64%	56.29%	87.06%	
Covered payroll	\$ 136,146	\$ 13,717	\$ 273,009	\$ 28,141	\$ 11,522		\$ 133,250	\$ 13,605	\$ 264,860	\$ 26,750	\$ 10,756	
Authority net pension liability as a percentage of covered payroll	252.01%	71.71%	165.14%	129.56%	26.51%		206.66%	63.81%	160.65%	127.96%	25.49%	

Note to Schedule

The Authority adopted GASB 68 on a prospective basis in Fiscal Year 2015; therefore only six years are presented in the above schedule. The Authority's total pension liability was measured one year prior to the fiscal year-end for each year noted.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS - LAST 10 YEARS
(AMOUNTS IN THOUSANDS OF DOLLARS)

<u>SAM</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined employer contributions	\$ 49,025	\$ 45,390	\$ 44,190	\$ 42,060	\$ 37,334	\$ 37,122	\$ 35,353	\$ 34,550	\$ 32,462	\$ 31,213
Contributions in relation to the actuarially determined employer contribution	49,025	45,390	44,190	42,060	37,334	37,122	35,353	34,550	32,462	31,213
Employer contributions deficiency (excess)	<u>\$ -</u>									
Covered payroll	\$ 146,821	\$ 140,563	\$ 140,105	\$ 132,095	\$ 130,848	\$ 136,146	\$ 133,250	\$ 130,846	\$ 128,215	\$ 124,931
Employer contributions as a percentage of covered payroll	33.39%	32.29%	31.54%	31.84%	28.53%	27.27%	26.53%	26.41%	25.32%	24.98%
<u>TRANSIT POLICE</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined employer contributions	\$ 3,521	\$ 2,401	\$ 2,025	\$ 1,692	\$ 1,737	\$ 1,652	\$ 1,444	\$ 1,389	\$ 1,190	\$ 1,031
Contributions in relation to the actuarially determined employer contribution	3,521	2,401	2,025	1,692	1,737	1,652	1,388	1,389	1,190	1,031
Employer contributions deficiency (excess)	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>					
Covered payroll	\$ 13,928	\$ 14,312	\$ 14,548	\$ 13,695	\$ 13,268	\$ 13,717	\$ 13,606	\$ 13,513	\$ 12,553	\$ 11,546
Employer contributions as a percentage of covered payroll	25.28%	16.78%	13.92%	12.35%	13.09%	12.04%	10.61%	10.28%	9.48%	8.93%
<u>CITY TRANSIT</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined employer contributions	\$ 52,860	\$ 53,739	\$ 56,025	\$ 45,401	\$ 46,282	\$ 47,017	\$ 47,588	\$ 49,218	\$ 48,635	\$ 43,320
Contributions in relation to the actuarially determined employer contribution	52,860	53,739	56,025	45,401	46,282	47,017	47,588	49,218	48,635	43,320
Employer contributions deficiency (excess)	<u>\$ -</u>									
Covered payroll	\$ 290,533	\$ 289,290	\$ 290,384	\$ 288,333	\$ 279,978	\$ 273,009	\$ 264,860	\$ 256,667	\$ 251,418	\$ 248,484
Employer contributions as a percentage of covered payroll	18.19%	18.58%	19.29%	15.75%	16.53%	17.22%	17.97%	19.18%	19.34%	17.43%

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS - LAST 10 YEARS (CONTINUED)
 (AMOUNTS IN THOUSANDS OF DOLLARS)

SUBURBAN TRANSIT	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined employer contributions	\$ 4,784	\$ 4,756	\$ 4,785	\$ 3,777	\$ 3,888	\$ 3,860	\$ 3,805	\$ 3,953	\$ 3,811	\$ 3,319
Contributions in relation to the actuarially determined employer contribution	4,784	4,756	4,785	3,777	3,888	3,860	3,805	3,953	3,811	3,319
Employer contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 32,412	\$ 31,722	\$ 30,390	\$ 30,149	\$ 28,882	\$ 28,141	\$ 26,750	\$ 26,065	\$ 25,155	\$ 24,709
Employer contributions as a percentage of covered payroll	14.76%	14.99%	15.75%	12.53%	13.46%	13.72%	14.22%	15.17%	15.15%	13.43%
FRONTIER										
Actuarially determined employer contributions	\$ 675	\$ 782	\$ 945	\$ 631	\$ 757	\$ 779	\$ 809	\$ 921	\$ 911	\$ 709
Contributions in relation to the actuarially determined employer contribution	675	782	945	631	757	779	809	921	911	709
Employer contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 12,245	\$ 12,204	\$ 11,976	\$ 11,866	\$ 11,699	\$ 11,522	\$ 10,756	\$ 10,239	\$ 9,903	\$ 9,484
Employer contributions as a percentage of covered payroll	5.51%	6.41%	7.89%	5.32%	6.47%	6.76%	7.52%	9.00%	9.20%	7.48%

Notes to Schedule

Valuation date: January 1, 2018

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	Market value less unrecognized gains/losses over a 5-year period
Inflation	2.50%
Salary increases	SAM - 3.25%
Investment rate of return	Transit Police, City Transit, Suburban Transit and Frontier - Salary scale rates vary by years of service for actuarial valuation purposes .5% plus inflation 6.75%, net of pension plan investment expense
Retirement age	SAM - For Plan members hired prior to August 1, 2015 that have attained age 62 with 5 years service or age 55 with 30 years of service. If hired after August 1, 2015, Plan members that have attained age 65 with 10 years service or age 60 with 30 years of service. Transit Police - Plan members that have attained age 50 with 25 years of service
Mortality	City Transit, Suburban Transit and Frontier - Plan members that have attained 62 with 5 years of service or 30 years of service with no age restriction Mortality rates for all plans were based on the RP-2006 Annuitant Tables for Males and Females with adjustments for mortality improvements based on Scale AA. The mortality rates for the Transit Police, City Transit, Suburban Transit and Frontier Plans include blue collar adjustments for Preretirement.

Other Information

Effective in 2014 the Entry Age Funding Normal Method was used to determine the actuarially determined calculated contribution. Prior to 2014, the Projected Unit Credit Method was used. Effective in 2015 and based upon the results of an experience study for the period January 1, 2007 through December 31, 2013, termination rates and rates of retirement for members between the ages of 62 and 64 were reduced. In addition, the assumed rate of inflation and the rate of return on investment were both reduced by .25%. Effective in 2019 the Mortality tables were updated from the RP-2000 Annuitant Tables to the RP-2006 Annuitant Tables and the investment rate of return went from 7.0% to 6.75%.

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 (AMOUNTS IN THOUSANDS OF DOLLARS)

	Fiscal Year Ending June 30									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Total OPEB liability										
Service Cost	\$ 36,960	\$ 39,473	\$ 65,131	n/a						
Interest on total OPEB liability	46,130	43,775	53,562	n/a						
Changes of benefit terms	(1,066)	-	(16,096)	n/a						
Effect of economic/demographic gains or (losses)	(4,974)	631	(23,876)	n/a						
Effect of assumption changes or inputs	48,644	(65,851)	(665,096)	n/a						
Benefit payments	(47,515)	(45,123)	(44,069)	n/a						
Net change in total OPEB liability	78,179	(27,095)	(630,444)	n/a						
Total OPEB liability - beginning	1,178,556	1,205,651	1,836,095	n/a						
Total OPEB liability - ending	1,256,735	1,178,556	1,205,651	n/a						
Covered payroll	\$ 590,383	\$ 582,548	\$ 582,548	n/a						
Total OPEB liability as a % of covered payroll	212.87%	202.31%	206.96%	n/a						

Notes to Schedule

Changes of Benefit Terms

For 2018, the health plan election percentage was modified for Union and SAM retirements due to plan changes. For 2020, amounts presented reflect changes in duration for the Transit Police medical benefits and a change in the duration of medical and prescription benefits for union rail members excluding TCU and a change in duration of medical benefits for union and TCU members in 2017.

Changes of Assumptions

For 2018, various healthcare assumptions have been updated including the per capita claim cost assumption, health cost trend assumption, and the loads for children. The dependent coverage assumption for female employees was increased from 30% to 35%. The promotion assumption was revised for members who are assumed to be promoted to SAM. For 2019, the mortality tables were updated from RP-2000 Annuitant Tables to the RP-2006 Annuitant Tables and the discount rate was changed from 3.58% to 3.87%. For 2020, healthcare assumptions including per capita costs, including load for children, and trend assumptions was updated based on recent claim experience, premium rates and future expectations. For members eligible to make an election between the Personal Choice PPO plan and the Keystone HMO plan, the percentage was increased to 70% electing the PPO plan. The assumed percentage of female retirees electing dependent coverage was increased from 35% to 40%. The discount rate was changed from 3.87% to 3.50%.

The Authority adopted GASB 75 on a perspective basis in Fiscal Year 2018; therefore only three years are presented in this schedule.

No assets are accumulated in a trust that meets criteria in paragraph 4 of GASB Statement No. 75.

Other Supplementary Information

Pension Trust Funds:

- Statements of Plan Net Position
- Statements of Changes in Plan Net Position

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
OTHER SUPPLEMENTARY INFORMATION
PENSION PLAN TRUST FUNDS
STATEMENT OF PLAN NET POSITION
(THOUSANDS OF DOLLARS)

as of June 30, 2020

	<u>SAM</u> <u>Plan</u>	<u>Transit</u> <u>Police</u> <u>Plan</u>	<u>City</u> <u>Transit</u> <u>Plan</u>	<u>Suburban</u> <u>Transit</u> <u>Plan</u>	<u>Frontier</u> <u>Plan</u>	<u>Total</u>
Assets:						
Receivables						
Plan member contributions	\$ 393	\$ 48	\$ 1,002	\$ 105	\$ 42	\$ 1,590
Employer contribution receivable	4,457	320	4,806	435	61	10,079
Interest and dividends	777	51	837	75	38	1,778
Sales pending settlement	4,478	295	4,827	430	218	10,248
Total receivables	<u>10,105</u>	<u>714</u>	<u>11,472</u>	<u>1,045</u>	<u>359</u>	<u>23,695</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	21,039	1,379	22,695	2,019	1,024	48,156
U.S. Government obligations	-	-	-	-	-	-
Corporate and other government obligations	185,171	12,134	199,745	17,774	9,013	423,837
Preferred stocks	-	-	-	-	-	-
Common stocks	355,789	23,315	383,792	34,151	17,317	814,364
Private equity	57,085	3,741	61,579	5,479	2,779	130,663
Real estate	41,546	2,722	44,816	3,988	2,022	95,094
Natural resources	1,436	92	1,551	138	68	3,285
Total Investments	<u>662,066</u>	<u>43,383</u>	<u>714,178</u>	<u>63,549</u>	<u>32,223</u>	<u>1,515,399</u>
Total assets	672,171	44,097	725,650	64,594	32,582	1,539,094
Liabilities:						
Purchases pending settlement	<u>7,517</u>	<u>492</u>	<u>8,108</u>	<u>722</u>	<u>365</u>	<u>17,204</u>
Net position restricted for pensions	<u>\$ 664,654</u>	<u>\$ 43,605</u>	<u>\$ 717,542</u>	<u>\$ 63,872</u>	<u>\$ 32,217</u>	<u>\$ 1,521,890</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
OTHER SUPPLEMENTARY INFORMATION
PENSION PLAN TRUST FUNDS
STATEMENT OF PLAN NET POSITION
(THOUSANDS OF DOLLARS)

as of June 30, 2019

	<u>SAM</u> <u>Plan</u>	<u>Transit</u> <u>Police</u> <u>Plan</u>	<u>City</u> <u>Transit</u> <u>Plan</u>	<u>Suburban</u> <u>Transit</u> <u>Plan</u>	<u>Frontier</u> <u>Plan</u>	<u>Total</u>
Assets:						
Receivables						
Plan member contributions	\$ 387	\$ 44	\$ 1,274	\$ 139	\$ 55	\$ 1,899
Interest and dividends	935	60	1,016	89	44	2,144
Sales pending settlement	<u>16,405</u>	<u>1,060</u>	<u>17,819</u>	<u>1,563</u>	<u>771</u>	<u>37,618</u>
Total receivables	<u>17,727</u>	<u>1,164</u>	<u>20,109</u>	<u>1,791</u>	<u>870</u>	<u>41,661</u>
Cash equivalents and Investments, at fair value						
Cash equivalents	23,037	1,489	25,012	2,197	1,077	52,812
U.S. Government obligations	17,127	1,107	18,596	1,633	802	39,265
Corporate and other government obligations	159,024	10,277	172,663	15,163	7,439	364,566
Common stocks	364,243	23,540	395,482	34,730	17,039	835,034
Private equity	57,020	3,685	61,910	5,437	2,667	130,719
Real estate	29,028	1,876	31,517	2,768	1,358	66,547
Natural resources	<u>2,097</u>	<u>135</u>	<u>2,276</u>	<u>200</u>	<u>98</u>	<u>4,806</u>
Total Investments	<u>651,576</u>	<u>42,109</u>	<u>707,456</u>	<u>62,128</u>	<u>30,480</u>	<u>1,493,749</u>
Total assets	669,303	43,273	727,565	63,919	31,350	1,535,410
Liabilities:						
Purchases pending settlement	<u>18,844</u>	<u>1,218</u>	<u>20,459</u>	<u>1,796</u>	<u>883</u>	<u>43,200</u>
Net position restricted for pensions	<u>\$ 650,459</u>	<u>\$ 42,055</u>	<u>\$ 707,106</u>	<u>\$ 62,123</u>	<u>\$ 30,467</u>	<u>\$ 1,492,210</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
OTHER SUPPLEMENTARY INFORMATION
PENSION PLAN TRUST FUNDS
STATEMENT OF CHANGES IN PLAN NET POSITION
(THOUSANDS OF DOLLARS)

for the Year Ended June 30, 2020

	SAM <u>Plan</u>	Transit Police <u>Plan</u>	City Transit <u>Plan</u>	Suburban Transit <u>Plan</u>	Frontier <u>Plan</u>	<u>Total</u>
Additions						
Contributions						
Employer (ADC)	\$ 49,025	\$ 3,521	\$ 52,860	\$ 4,784	\$ 675	\$ 110,865
Plan member	4,714	611	13,112	1,389	548	20,374
Other	-	-	-	-	-	-
Total contributions	<u>53,739</u>	<u>4,132</u>	<u>65,972</u>	<u>6,173</u>	<u>1,223</u>	<u>131,239</u>
Investment income (loss)						
Net realized gain	14,062	909	15,246	1,351	675	32,243
Net (decrease) in fair value of investments	(5,679)	(364)	(6,256)	(555)	(270)	(13,124)
Interest	4,841	313	5,248	465	233	11,100
Dividends	5,163	335	5,596	496	249	11,839
Total investment gain	<u>18,387</u>	<u>1,193</u>	<u>19,834</u>	<u>1,757</u>	<u>887</u>	<u>42,058</u>
Less investment expense	1,400	92	1,519	135	67	3,213
Net investment income	<u>16,987</u>	<u>1,101</u>	<u>18,315</u>	<u>1,622</u>	<u>820</u>	<u>38,845</u>
Total additions	70,726	5,233	84,287	7,795	2,043	170,084
Deductions						
Benefits	57,883	3,802	72,214	5,843	36	139,778
Asset transfer for transferred employees	(1,622)	(134)	1,334	178	244	-
Administrative expense	270	15	303	25	13	626
Total deductions	<u>56,531</u>	<u>3,683</u>	<u>73,851</u>	<u>6,046</u>	<u>293</u>	<u>140,404</u>
Net increase	14,195	1,550	10,436	1,749	1,750	29,680
Net position restricted for pensions						
Beginning of year	650,459	42,055	707,106	62,123	30,467	1,492,210
End of year	<u>\$ 664,654</u>	<u>\$ 43,605</u>	<u>\$ 717,542</u>	<u>\$ 63,872</u>	<u>\$ 32,217</u>	<u>\$ 1,521,890</u>

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY
OTHER SUPPLEMENTARY INFORMATION
PENSION PLAN TRUST FUNDS
STATEMENT OF CHANGES IN PLAN NET POSITION
(THOUSANDS OF DOLLARS)

	for the Year Ended June 30, 2019					
	SAM Plan	Transit Police Plan	City Transit Plan	Suburban Transit Plan	Frontier Plan	Total
Additions						
Contributions						
Employer (ADC)	\$ 45,390	\$ 2,401	\$ 53,739	\$ 4,756	\$ 782	\$ 107,068
Plan member	4,754	569	12,935	1,449	577	20,284
Other	-	-	-	-	-	-
Total contributions	<u>50,144</u>	<u>2,970</u>	<u>66,674</u>	<u>6,205</u>	<u>1,359</u>	<u>127,352</u>
Investment income (loss)						
Net realized gain	6,559	424	7,110	617	299	15,009
Net (decrease) in fair value of investments	21,790	1,413	23,709	2,079	1,030	50,021
Interest	4,366	283	4,736	413	201	9,999
Dividends	5,311	344	5,762	502	245	12,164
Total investment (loss)	<u>38,026</u>	<u>2,464</u>	<u>41,317</u>	<u>3,611</u>	<u>1,775</u>	<u>87,193</u>
Less investment expense	1,460	95	1,584	138	67	3,344
Net investment (loss)	<u>36,566</u>	<u>2,369</u>	<u>39,733</u>	<u>3,473</u>	<u>1,708</u>	<u>83,849</u>
Total additions	86,710	5,339	106,407	9,678	3,067	211,201
Deductions						
Benefits	53,726	3,462	68,074	5,397	22	130,681
Asset transfer for transferred employees	(493)	98	391	(141)	145	-
Administrative expense	310	21	353	30	12	726
Total deductions	<u>53,543</u>	<u>3,581</u>	<u>68,818</u>	<u>5,286</u>	<u>179</u>	<u>131,407</u>
Net increase (decrease)	33,167	1,758	37,589	4,392	2,888	79,794
Net position restricted for pensions						
Beginning of year	617,292	40,297	669,517	57,731	27,579	1,412,416
End of year	<u>\$ 650,459</u>	<u>\$ 42,055</u>	<u>\$ 707,106</u>	<u>\$ 62,123</u>	<u>\$ 30,467</u>	<u>\$ 1,492,210</u>