

May 25, 2022

Southeastern Pennsylvania Transportation Authority
1234 Market Street
Philadelphia, Pennsylvania 19107

Attention: Pasquale T. Deon, Board Chairman

Re: Public Hearings in connection with the Southeastern Pennsylvania Transportation Authority's Fiscal Year 2023 Operating Budget and Five Year Financial Projections.

Examiner's Recommendation:

That the Fiscal Year 2023 Operating Budget Proposal and Five Year Financial Projections be adopted.

Members of the Board:

Pursuant to my appointment by Pasquale T. Deon, Board Chairman, to conduct hearings for the purpose of considering SEPTA's Fiscal Year 2023 Operating Budget and Five Year Financial Projections, public virtual hearings were held at 10:00 a.m. and 4:00 p.m. on May 16, 2022 and 11:00 a.m. and 6:00 p.m. on May 18, 2022 in the SEPTA Board Room, Mezzanine, 1234 Market Street, Philadelphia, Pennsylvania 19107 with the Hearing Examiner, SEPTA witnesses and representatives present in the Board Room and the court reporter present via WebEx.

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

The Fiscal Year 2023 Operating Budget and Five Year Financial Projections were prepared by SEPTA in accordance with Section 1310 of the Pennsylvania Public Transportation Law of 1991 ("Act 26") and the hearings proceeded with the presentation and testimony by SEPTA witnesses. Following the presentation and testimony by the SEPTA witnesses, the floor was open to any person attending virtually who desired to ask questions, make a statement or present evidence.

Introduction:

Erik Johanson, Director of Operating Budgets testified that the Fiscal Year 2023 Operating Budget Proposal provides detailed information regarding SEPTA's planned operations for the upcoming year covering the period of July 1, 2022 through June 30, 2023. The Fiscal Year 2023 Operating Budget Proposal of \$1.61 billion reflects continued efforts to navigate a significant period of transition associated with, among other things, COVID-19 recovery, generationally high inflation, and a tightened labor market. The proposal preserves existing service and headcount levels while deferring

any fare increases for another fiscal year as SEPTA continues to leverage federal relief funding to backfill operating deficits created by pandemic-induced ridership losses. The \$1.61 billion in proposed operating expenses is 6 percent above FY 2022, reflecting substantial price pressures on everything from fuel, propulsion power, and equipment used to maintain fleets and facilities. Despite rigorous cost-control efforts, SEPTA's FY 2023 budget for propulsion power is up 26 percent, material and services up 33 percent, and fuel up 67 percent. Rising insurance premiums and ongoing COVID-19 related expenses have also contributed to the large spike in year-over-year budgeted operating costs. To mitigate these escalating costs, the proposal features the second full year of implementing SEPTA's Efficiency & Accountability, or E&A, Program. Now staffed day-to-day by a permanent Transformation Office, the objective of the E&A program is to position SEPTA for success by ensuring SEPTA has the right capabilities, mindsets, and resources to deliver on the Strategic Plan, by alleviating day-to-day pain points to make SEPTA a more satisfying place to work for employees, by driving efficiency, productivity, and accountability in business units across the organization and by pursuing cost-saving and revenue-generating opportunities that put SEPTA on more stable financial footing. The FY2023 budget proposal incorporates full ramp up of program implementation with dozens of cost-saving E&A initiatives, including bus and rail fleet software upgrades to reduce energy consumption, digitization and other technological enhancements to improve productivity and communication, creative approaches to simultaneously manage financial risks while also reducing insurance premiums, process improvements to right-size spending on daily tasks such as cleaning and waste management, and purchasing strategies to reduce the unit costs of goods and services. Conversely, the proposal's labor budget is 3 percent below the FY 2022 budget, driven by a historically high number of vacancies across the Authority. Nearly 10 percent of all budgeted positions are currently vacant, reflecting a now multi-year trend in rapidly accelerating transitions and retirements across the workforce. To address the increase in vacancies, the budget proposal makes a significant investment in the capacity of SEPTA's Human Resources function. Additional tools and resources for recruitment and training will help to accelerate hiring and onboarding, with a goal to restore departments to as close to full capacity as possible over the next several years, allowing SEPTA to maintain and grow service levels as ridership returns. The proposal also funds the creation of a new Equity & Inclusion Division. Reporting directly to the General Manager/CEO SEPTA's Chief Equity and Inclusion Officer will be charged with creating the vision, leadership, and direction of diversity and equity programs. The CEIO will champion the Diversity Equity and Belonging (DEB) strategy, Disadvantaged Business Enterprise (DBE) programs, and other similarly focused efforts that further SEPTA's commitment to fostering an inclusive culture. Ultimately, this new Division will help fulfill SEPTA's goal of serving as an economic equalizer and important catalyst for the equitable future of our region. Significant technological investments are funded throughout the proposal, which features year one implementation of a newly adopted Information Technology Master Plan. Highlights include continuing a transition to modern, distributed architectures already underway, leveraging cloud infrastructure where it is secure and cost effective, investing in IT security, investing in web-based and mobile infrastructure and equipping customers and staff with real-time information and guidance and developing analytical capabilities to integrate and harness large scale data. Upon implementation, this IT master plan will dramatically improve SEPTA's efficiency, productivity and customer service. Also funded in the proposal is a robust portfolio of initiatives to ensure safety and peace of mind on the system, in SEPTA's workplace and in the communities SEPTA serves. Included in this portfolio are Safety and Security initiatives, such as a new SEPTA Outreach Team and social service specialists, cleaning initiatives, such as twice a day sanitization of vehicles by an expanded custodial team using EPA-approved disinfectants, and

health initiatives, such as high efficiency ventilation systems with upgraded filters that refresh air on vehicles every two-three minutes. These initiatives are all geared towards immediately restoring near term rider confidence in the system. Simultaneously, the proposal also invests with a longer time horizon in mind to transform the system through a significantly ramped up Capital Program. Investments feature an expansion of planning efforts to advance SEPTA's transformative "Projects of Regional Significance", including Bus Revolution and Reimagining Regional Rail. The proposal's investments in efficiency, productivity and customer experience are paired with growth initiatives generated by a new Ridership Recovery Task Force convened to lure riders back to the system as COVID-19 recovery progresses. A series of fare enhancements utilize pricing as an incentive to increase ridership and promote seamless travel, equity and affordability. Among them, the proposal reduces the price of day passes and three day passes and introduces a new Neighborhood FleX Day Pass, improving the convenience and affordability of rail travel to and from stations in Zones 1 and 2 covering nearly half of all Regional Rail stations. All travel to and from Philadelphia International Airport will now be capped at \$6.50 in Southeastern Pennsylvania, down from \$9.25 to encourage Regional Rail usage especially as parking at PHL remains constrained. Additionally, the budget proposes to make permanent the new "SEPTA Key Advantage", an employer based all-access benefit program. Under the proposal, starting this fall employers will be able to enter into an agreement with SEPTA to load "all access" passes on eligible employee SEPTA Key cards. Like any benefit program, employers would cover the cost of employee participation in the program, regardless of whether employees fully utilize the benefit. SEPTA is currently piloting the program with employees at Penn Medicine, Drexel, and Wawa, and plans on a phased rollout to allow not just additional employers but also colleges, universities, and landlords to participate. Despite these aggressive efforts at growing ridership, the proposal continues to reflect a significant reduction in revenue compared to the pre-COVID baseline. The \$316.2 million in proposed operating revenue for FY2023 is 3 percent above FY2022 and remains just 61 percent of pre-COVID levels, reflecting an expectation of slow and steady ridership growth through the region's COVID recovery. The proposal also reflects aggressive efforts to grow other non-fare based revenue such as advertising to help compensate for lost passenger revenue. As was the case in FY2022, the proposal features continued use of federal relief subsidies to supplement state and local support in filling the budget gap caused by reduced revenue from lower ridership levels. The \$1.29 billion in proposed subsidies for FY2023 is 7 percent above the FY2022 budget and again covers 80 percent of all proposed operating expenses. Whereas in the decade leading up to the COVID-19 pandemic SEPTA would regularly recover 35-45 percent of its operating expenses through self-generated revenues, for the last two fiscal years revenue has covered just 20 percent of operating expenses. This increased reliance on subsidies is a fundamental fiscal challenge moving forward. A recent \$96 million grant from an American Rescue Plan's discretionary grant program will stretch the availability of federal relief to cover operating shortfalls through the end of FY2024. After FY2024, SEPTA will begin tapping into its Service Stabilization Fund to cover operating shortfalls. SEPTA has long relied on these funds as a backstop to preserve service in the face of unexpected and costly emergencies. Thanks to careful budgeting, SEPTA has been able to count on these funds to maintain affordable, reliable, equitable service while allowing for needed emergency expenditures. Based on current modeling, SEPTA now forecasts depleting these reserves towards the end of the five-year projection. In light of this, SEPTA staff will remain focused on rigorously operating in a prudent business manner, with a strict financial discipline that has resulted in more than two decades of consecutive balanced budgets. The Fiscal Year 2023 budget proposal is grounded in SEPTA's Strategic Plan SEPTA Forward and represents continued progress on the path towards its vision for a region that places transit at the core of a resilient, prosperous, and equitable

community for everyone.

Also participating at the hearings were Leslie Richards, General Manager/CEO, Richard Burnfield, Major Initiatives, Scott Sauer, Chief Operating Officer, Maureen Litchner, Chief Officer Service Planning, Thomas Kelly, Senior Director Financial Operations, and Nikolaus Grieshaber, Chief Financial Officer and Treasurer.

A total of 26 people participated in the virtual public hearings and 1 person provided testimony. Six emails were received.

An announcement was made at the hearings that the record would be held open through May 20, 2022 for receipt of written comments.

Written Comments :

SEPTA's Citizen Advisory Committee submitted a document that commended SEPTA for offering new ways to read the budget, for not increasing fares, for managing funds well considering the huge reduction in fare revenue, for making ADA updates and for experimenting with various fare decreases. The document also contained several suggestions for additional action by SEPTA.

SEPTA's Youth Advisory Council submitted a document that contained ten YAC-initiated recommendations.

Comments received during the hearings:

Lance Haver expressed his concerns about the fairness of the hearings and questions cost overruns on SEPTA Key, equity in fares and the amount of the Service Stabilization Fund. Additionally, he had numerous other questions that were answered either at the hearing or by a written response from SEPTA's Director of Operating Budget on May 19, 2022.

Summary:

The issues raised during the hearings are provided for your information and use. I find that SEPTA's Fiscal Year 2023 Operating Budget including the fare enhancements and Five Year Financial Projections are consistent with federal and state programming requirements. In conclusion, it is my recommendation that the Fiscal Year 2023 Operating Budget and Five Year Financial Projections be adopted.

Respectfully submitted,
Joseph M. O'Malley, Esquire
Hearing Examiner