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VIA ELECTRONIC MAIL

June 5, 2023

Mr. Pasquale T. Deon, Sr.
Board Chairman
Southeastern Pennsylvania Transportation Authority
1234 Market Street
Philadelphia, PA 19107

**Re: Southeastern Pennsylvania Transportation Authority
Proposed Fiscal Year 2024 Operating Budget, Fiscal Years 2025-2029
Financial Projections and Proposed Fare Enhancements
Public Hearings, May 8-9, 2023**

Dear Mr. Deon:

Pursuant to my appointment as Hearing Examiner in the above-referenced proceedings, I write to provide my Report and Recommendation (“Report”) on the Proposed Fiscal Year 2024 Operating Budget, Fiscal Years 2025-2029 Financial Projections and Proposed Fare Enhancements (“Proposed Operating Budget” or “Proposed Budget”) of the Southeastern Pennsylvania Transportation Authority (“SEPTA”).

On May 8 and May 9, 2023, SEPTA conducted public hearings both in-person and virtually for the purpose of considering the Proposed Operating Budget. These hearings were held in-person at SEPTA’s offices, located at 1234 Market Street, Philadelphia, Pennsylvania 19107, and broadcasted to the public virtually via WebEx. A court reporter recorded the proceedings and prepared written transcripts of same. The hearings proceeded with an Introduction from SEPTA General Manager and CEO, Leslie S. Richards, opening remarks from the Hearing Examiner, testimony from SEPTA representative and Senior Director, Budgets and Transformation, Erik Johanson, and concluded with testimony and comment from members of the public who pre-registered to speak or signed up to do so in person. The budget proposal was published on April 5, 2023, with prior notice of the public hearings published through the

following channels: SEPTA’s website, local newspapers, and the website of the Associated Services for the Blind and Visually Impaired. In addition to commenting at the hearings, SEPTA provided several additional methods through which the public could submit comments: (1) by email; (2) by voice message; and (3) by U.S. mail to SEPTA’s offices. The public comment period remained open through May 31, 2023.

Enclosed with this Report are the following exhibits, which have been admitted into the record:

<i>Exhibit No. 1</i>	Hearing Examiner’s appointment
<i>Exhibit No. 2</i>	Proofs of publication of the Notice of the public hearings in local newspapers
<i>Exhibit No. 3</i>	Notice of the Fiscal Year 2024 Operating Budget, Five-Year Financial Projections, and Proposed Fare Enhancements as displayed on the SEPTA website
<i>Exhibit No. 4</i>	Confirmation that an audio version of the public hearing notice and summary was posted on the website of the Associated Services for the Blind and Visually Impaired
<i>Exhibit No. 5</i>	Fiscal Year 2024 Operating Budget Proposal and Fiscal Years 2025-2029 Financial Projections
<i>Exhibit No. 6</i>	SEPTA’s testimony and presentation concerning the Proposed Operating Budget

Below is a summary of the Proposed Operating Budget, the testimony presented at the hearings, and my recommendation as to same.

a. Summary of, and SEPTA’s Testimony on, the Proposed Operating Budget

Mr. Johanson testified at the public hearings on behalf of SEPTA.

Per the testimony of Mr. Johanson and summary of the Proposed Budget presented by SEPTA, the Proposed Budget is representative of SEPTA’s planned operations for the period of July 1, 2023 through June 30, 2024. The proposal contemplates a \$1.69 billion budget and accounts for efforts to mitigate inflation relating to the cost of materials, fuel and propulsion power, as well as a tightened labor market. The Proposed Budget reflects a 4.7 percent increase from the Fiscal Year 2023 Operating Budget.

The proposal further reflects advancement and investments in a number of areas: ongoing

efforts to restore pre-COVID service and ridership levels; investments in employee hiring and retention to address staffing shortages; technology, such as a new website and application; cleaning of vehicles and stations; and safety and security of SEPTA facilities through increased pay to Transit Police, funding of a virtual patrol unit, and exploration of Artificial Intelligence-based gun detection technology.

Regarding ridership level increases, the Proposed Budget accounts for growth in Key Advantage, SEPTA's flagship ridership growth initiative, which has nine institutional partners and over 30,000 eligible employee participants who receive transit as a benefit. Two fare enhancements are included in the Proposed Operating Budget: (1) a second free transfer for travel on buses and SEPTA Metro, and (2) creation of an inner-ring network of 24 Regional Rail stations that will be accessible with weekly and monthly TransPasses. Service enhancements, such as Bus Revolution, are also included in the proposal to boost service to riders.

The proposal estimates revenue at \$355.7 million and encompasses a substantial increase in non-passenger revenues from two sources: (1) implementation of an Efficiency and Accountability initiative to fund the Shared Ride Program, operated by SEPTA and the City of Philadelphia, including full reimbursement to SEPTA of the costs of providing services to senior citizens in partnership with the City of Philadelphia, PennDOT, and the Philadelphia Corporation for Aging; and (2) an increase in budgeted investment income, largely from bond proceeds invested in a high interest rate environment.

The Proposed Operating Budget also proposes to defer fare increases for the seventh consecutive year through one final year of federal COVID relief funding, which has been used to address pandemic related operating revenue losses. This subsidy covers approximately eighty (80) percent of all proposed operating expenses.

SEPTA's proposal highlights certain anticipated challenges. First, there are challenges attributable to increased reliance on subsidies. This increased subsidy reliance arose during the pandemic, when operating revenue covered twenty (20) percent of operating expenses, whereas in prior years such revenue covered up to forty-five (45) percent of operating expenses. Second, SEPTA forecasts that federal COVID relief funding will be exhausted in April 2024; though SEPTA will be able to employ its Service Stabilization Fund to balance the Fiscal Year 2024 Operating Budget. Third, substantial structural deficits of approximately \$240 million per year, fifteen (15) percent of SEPTA's annual operating expenses, are anticipated to begin in Fiscal Year 2025. Cost saving measures such as the Efficiency and Accountability Program, and revenue-generating initiatives such as Key Advantage will

alleviate the impact of these structural deficits, however, SEPTA testified that it will require additional funding, particularly to limit the extent of inevitable fare increases and service cuts in upcoming fiscal years.

b. Summary of Public Attendance and Testimony

Approximately thirty-four (34) members of the public attended the hearings virtually and in-person, several of whom provided oral testimony. The speakers expressed support for several components of the Proposed Budget, including the addition of the Zone 1 and Airport Lines to weekly and monthly TransPasses and addition of a second free transfer within two hours for SEPTA Key users. The public urged SEPTA to consider, among other things: additional funding for the Key Advantage program and Regional Rail/Zone 1 and Airport Line operations; prioritizing building a coalition including riders, environmentalists and others to advance SEPTA's needs; implementing a fare card system to allow riders to capitalize on benefits such as free transfers; expanding the proposed addition of Zone 1 and Airport lines to match fares across other lines; offering unlimited transfers within a certain period of time; and the impact of some of the changes implemented through the Bus Revolution project.

The record remained open through May 31, 2023 for receipt of comments. Throughout the comment period, SEPTA received over seventy (70) public comments from members of the public, including the SEPTA Citizen Advisory Committee. Written commenters primarily urged SEPTA to: (1) expand its fare transfer proposal to offer unlimited transfers within a two-hour period; (2) lower Regional Rail fares within Philadelphia to match bus and subway fares, and accept transfers between Regional Rail and other SEPTA services such as buses and subways; and (3) equalize the amount paid for transfers by riders paying cash. Commenters also implored SEPTA to, among other things, allocate more funds to lobbying, increase personnel recruitment initiatives, delay fare increases further, and assess other improvements that can be made across other aspects of the Proposed Operating Budget, such as management of funds for maintenance and accountability initiatives. Written comments applauded SEPTA's addition of a second free transfer, expansion of Regional Rail service, and commitment to improving the experience of its ridership. Additionally, one voicemail commenter expressed concern relating to the effect of non-paying customers on SEPTA's budgetary needs.

c. Hearing Examiner's Recommendation

Based on my review of the Proposed Operating Budget and related materials, and my consideration of the testimony of the public as to same, I conclude that the Proposed Budget is consistent with federal and state programming requirements, properly allocates spending across critical areas of SEPTA operations, and invests in programs and initiatives of utmost importance to its customers. I therefore recommend that the SEPTA Board adopt the Proposed Operating Budget.

Respectfully submitted,



Shari Parker, Esquire
Hearing Examiner

cc: Erik Johanson (*via email*)