



Public Exhibit # 47.

## MAYOR'S OFFICE OF CONSUMER AFFAIRS

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SEPTA's Proposed FY 2010-2011 Operating Budget  
And Proposed Fare Increases  
Submitted by Lance Haver, Director Mayor's Office of Consumer Affairs

### Background

The issues before the Hearing Examiner are both complex and compelling. Complex both because of the numerous questions facing the Hearing Examiner and the issue of what can a Hearing Examiner do if he finds that SEPTA has erred; that error has led to a financial loss and there is no one to pay for the errors other than riders; Compelling because of the importance of SEPTA to the economic vitality of our region, our environment and its riders. This brief outlines some of the issues before the Hearing Examiner, argues for positions and makes recommendations for the Hearing Examiner to consider including in his report to SEPTA's Board of Directors.

### Issues:

1. **Should SEPTA be permitted to raise fares without disclosing how many tens of millions of dollars are in its "Service Stabilization Fund?"**

### Argument:

SEPTA errors in failing to reveal the amount of money in its Service Stabilization Account and ignores a directive of the Hearing Examiner to make the amount known before the close of the record. In other proceedings the failure of a party to disclose critical information is a fatal flaw. In the instant case, it is unclear what the Hearing Examiner can do, but at the very least the Hearing Examiner can take judicial note of SEPTA's failure to disclose and condition all recommendations upon estimates of what the Hearing Examiner believes is in the fund.

The Hearing Examiner should also take notice that although the fund is described twice in SEPTA's written budget proposal, the amount in the fund is never disclosed.

SEPTA states that the fund is to be used to "protect against the need to reduce service levels or increase fares due to revenue/subsidy shortfalls and/or unanticipated one-time expenditures" (p 13 FY 2011 SEPTA proposed operating budget). It would appear based on SEPTA's written documents at least a part of the revenue short fall has been from an unanticipated 5.8% reduction in ridership as a result of the Country's economy (Ibid)

As the Federal Reserve and the Council of Economic Advisors are all projecting a 2 to 3% growth in the Country's economy, using a portion of the Service Stabilization Fund to replace lost revenues is reasonable, rational and within SEPTA's own guidelines to access the fund to mitigate any fare increase. Doing so would also lessen the projected loss of ridership and therefore lessen revenue loss SEPTA projects will follow a fare increase. This may allow the reserve to be replenished.

**2. Should SEPTA be permitted to raise fares without first attempting to seek revenues from other sources?**

Argument:

There is nothing on the record that indicates what, if any, steps SEPTA has taken to maximize its other revenue streams. No report about the renting of property either for cell phone towers or other uses that would not impact SEPTA's basic function at the location. No report regarding SEPTA's advertising revenues, either how well or how poorly SEPTA has captured the potential, nor the release of any "requests for proposals", if any were constructed, that would allow emerging companies and technologies to use SEPTA's existing infrastructure and increase SEPTA's revenues.

The record suggests that SEPTA has given little to no thought as to how to generate new revenues. In response to questions at the Philadelphia Hearing, SEPTA acknowledged it has not made any attempt to place advertising on its web page(s) nor capture any revenue from such advertisements.

The difficulty the Hearing Examiner faces is this: SEPTA should have taken steps to seek other revenue streams and because it did not, it faces a revenue shortfall. If the hearing examiner recommends SEPTA's proposed budget be adopted as is, it is unlikely that SEPTA will seek alternative revenue streams in the future. If the Hearing Examiner doesn't allow SEPTA the revenues it needs, this will create difficulties in the future.

The solution is for the hearing examiner to assume a revenue amount that should be earned from alternative sources and deduct a portion of that amount from SEPTA's fare proposal as it will take 6 to 9 months for SEPTA to implement such revenue enhancements.

**3. Should SEPTA be permitted to raise fares without first attempting to protect itself from the projected rising electric rates?**

Argument:

SEPTA projects a 10% increase in electric rates (propulsion power). In response to direct questions (Philadelphia, day time session) SEPTA could not explain what steps they took or were taking to join an aggregation pool to reduce the size of the proposed increase. SEPTA knew, or should have known, that the electric rate caps would be removed on December 31 of 2010 and developed a strategy to protect it from the escalating prices.

SEPTA either failed to review cost saving options or was unwilling or unable to produce the study showing what steps SEPTA had taken. Here again the Hearing Examiner faces the same dilemma. If he finds that SEPTA should have taken action, which is the only logical finding to make, and reduces SEPTA's revenue enhancement commensurate with the savings that should have been achieved, SEPTA will face a financial crisis in the future. If the Hearing Examiner ignores

SEPTA's failure to act prudently on its rider's behalf, he will be allowing SEPTA to escape accountability and alleviating the need for SEPTA to act in the future.

The solution as outlined above is for the Hearing Examiner to assume an amount that should have been saved, deduct a portion of that from SEPTA's projected increase in rider revenues based on the number of months the Hearing Examiner believes will be needed to implement an electrical aggregation plan and recommend fares accordingly.

4. **Is the current share of local funding subsidies fair and just?**

Argument:

SEPTA's proposed budget projects that local subsidies remain at the same levels. This includes requiring the City of Philadelphia to contribute 80% of the local match to the Regional Rail Division. Based on the changing population of the region and the residencies of the Regional Rail Division Riders this percentage of subsidy should be examined.

While calling for an examination for the local subsidies and the disproportionate representation of the SEPTA board violating the underlying principle of American Democracy of one person one vote, may have no impact on SEPTA's operating budget, it would be an error for the Hearing Examiner to allow his recommendations to be used as an argument that these issues are not worthy of examination.

5. **Is SEPTA's proposed changes in fares, fair, justifiable and warranted?**

Argument:

**SEPTA seeks to raise 22 million dollars through fare increases. While there is no doubt 22 million dollars is a considerable amount of money if any one person were to have it, it's a very small percentage of SEPTA's total operating budget of \$1.18 Billion dollars – SLIGHTLY MORE THAN 1%**

Before the Hearing Examiner makes any recommendation regarding any fare increases, he should first decide if a fare increase is needed. As outlined above, we argue for using a portion of the Service Stabilization Account, reducing the projected revenue short fall that would occur without a fare increase by the amount of additional revenues gain from sources other than riders and reducing the need for the increase by the amount of savings generated by SEPTA joining an electric aggregation pool.

Without knowing how much is in the Service Stabilization Account it is impossible to know if any fare increase is needed. However we suspect that using 10% of the fund with the steps outlined above would make any fare increase at this time unnecessary.

If after consideration the Hearing Examiner finds that SEPTA needs to raise fares, the question becomes which fares and by how much.

SEPTA's current proposal is badly flawed. In its introductory letter SEPTA states: "The prices for tokens and weekly and monthly passes will increase by an inflationary rate." But its fare proposal doesn't do that. Instead for inexplicable reasons it proposes no fare increase in the only fare that does not have to be paid, the cash fare and a 33% increase in the cost of a transfer, a method of payment used

primarily by those who depend upon SEPTA for transportation, as contrasted with commuters who use weekly or monthly passes. Transfers are not used at all on the Regional Rail Line and increasing transfers 500 percent more than the average 6% increase is unwarranted, unjust and unfairly discriminatory.

If SEPTA had chosen to raise the cash fare and ensure that those who are price sensitive were able to buy tokens, the fare increase would fall most heavily on those who are the least price sensitive as opposed to the current proposal that falls on those who have the fewest options and the greatest needs.

**6. Is SEPTA doing everything it can to inform its riders about the coming difficulties?**

Argument:

SEPTA's projected revenue shortfall is 1.25% of its total budget. The real threat to SEPTA is the failure of the Commonwealth to achieve permission to toll I-80. As SEPTA is one of the economic drivers for our region, a tremendous tool in protecting the environment and a grand utility for riders it is paramount that we protect its future.

SEPTA errors in diverting the public's attention from the impending crisis to close a budget shortfall that could be closed with savings and accessing the stabilization fund. Instead SEPTA should be meeting with businesses, community groups, riders and elected officials to help the public understand just how big future challenges will be if the Commonwealth doesn't replace the projected funding.

Such information should include how much longer the driving commute will be if SEPTA's services are cut, how many jobs will be lost, how many more days will the air in our region be declared "unsafe to breath" and how much longer SEPTA riders will have to wait to get their ride.

In past years, SEPTA has been able to inform the public and the public has responded by building a coalition that secured funding for SEPTA. A report from anyone reviewing SEPTA's situation that does not call for a similar effort is a report that overlooks future perils at great risk

Closing Argument

As outlined above we urge the Hearing Examiner to first answer the question: Is a fare increase needed.

During these difficult economic times many people have been asked to cut back and find savings. Public workers, have been asked to accept unpaid furloughs, other less fortunate workers have lost benefits and even their livelihoods. SEPTA's fare increase is projected to raise an additional 1.25% of its annual budget. Is it not reasonable to ask, could such a small shortfall not have been met with savings, added revenues or from its Service Stabilization Fund?

And shouldn't all of SEPTA's efforts, at this point, be to secure the riding public's support for the future, both for its sake and the sake of its riders and our region?

If after careful examination the Hearing examiner finds that a rate increase cannot be prudently avoided, we ask the Hearing Examiner to recommend fare increases that fall equally on all classes of riders and when possible ask those who are not price sensitive to bear a bigger burden than those that are.