



May 4, 2010

Honorable James G. Colins
Cozen O'Connor
1900 Market Street
Philadelphia, PA 19103

Re: SEPTA FY 2011 Operating Budget Proposal - Service Stabilization Fund

Dear Judge Colins:

In response to your request, I am providing information on SEPTA's Service Stabilization Fund. Act 44 of 2007 was approved by the Pennsylvania General Assembly and signed by Governor Rendell. This Act was intended to provide a stable and growing source of operating and capital subsidies for public transportation throughout the Commonwealth and provide a long-term funding solution for Pennsylvania's transit agencies.

Shortly after approval of the legislation, SEPTA staff reviewed future operating subsidy and expense projections and it was clear that subsidies would increase at a rate less than expenses. In order for the Act 44 operating subsidies to sustain SEPTA's operations for a longer term, SEPTA created the Service Stabilization Fund. The intent of the Service Stabilization Fund is to provide adequate subsidy funds to maintain stable financial resources for future operating budgets. During the first two years (FY 2008 and 2009) following the enactment of Act 44 of 2007, SEPTA was able to allocate funds to the Service Stabilization Fund. On June 30, 2009, the end of Fiscal Year 2009, the balance of the Authority's Service Stabilization Fund was \$142.5 million.

After nine months of Fiscal Year 2010, SEPTA has an operating deficit of \$29 million due to ridership decreases resulting from the economic recession and the six-day TWU work stoppage, and the record breaking snow storms in February impacting both ridership and expenses. This deficit may increase further by the end of the fiscal year. In order to balance the current operating budget, SEPTA will use funds from the Service Stabilization Fund thus reducing the current balance of the Fund. In addition, PADOT has recently advised SEPTA that the Authority's June 2010 operating subsidy payment of approximately \$30 million could be reduced due to lower receipt of state taxes during the current fiscal year. If the June payment is reduced or not paid, along with funding the operating deficit, the Service Stabilization Fund could be reduced to less than \$100 million by the end of this fiscal year. Without this fund, SEPTA would be forced to consider service cuts, fare increases or employee layoffs to balance the budget.

Judge James G. Collins

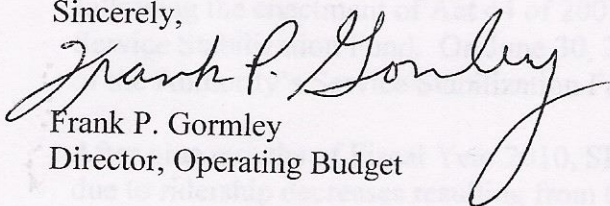
Page 2

In FY 2008, the first year of Act 44 funding, SEPTA received \$509 million. In FY 2009, SEPTA received \$517 million, an increase of \$8 million. At the same time, SEPTA's expenses increased by \$60 million. For FY 2010 and 2011, SEPTA received notice from the Pennsylvania Department of Transportation (PennDOT) that state subsidies will be held constant at \$517 million and could possibly be reduced due to lower than anticipated tax receipts. Furthermore, the recent decision of the Federal Highway Administration (FHWA) to reject Pennsylvania's application to toll Interstate 80, the Turnpike Commission's funding commitment to the Public Transportation Trust Fund (PTTF) will be capped at FY 2010 levels, rather than growing by 2.5%. With current and future subsidy payments at risk due to declining tax revenue and the I-80 rejection, it is critical for SEPTA to utilize the Service Stabilization Fund to balance the Authority's current and future operating budgets.

With subsidy levels stable or declining, and expenses such as healthcare, prescription drugs, electricity and labor continuing to grow, SEPTA developed a strategy to balance the operating budget. This strategy consists of modest fare increases every three years, limiting growth in operating expenses and use of the Service Stabilization Fund to offset shortfalls in state operating subsidies. Furthermore, the Fund is critical to SEPTA's ability to respond to situations which occur during the fiscal year without severely reducing service, increasing fares or employee layoffs. As SEPTA does not have the authority to increase taxes to address subsidy shortfalls, the establishment of this Fund is critical to maintaining our operations.

Should you have any further questions, please feel free to contact me at 215-580-8112.

Sincerely,



Frank P. Gormley
Director, Operating Budget

Cc: Richard G. Burnfield