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25PageHonorable Don Bailey, Auditor General,
Commonwealth of Pennsylvania

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Mr. Charles Kryder, Regional Manager,
Bureau of Audits, Auditor General's
OfficeMr. Frank McCormick, Field Auditor,
Auditor General's OfficeMr. Charles Little, President, Local 2013
Transport Worker's Union

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Mr. Louis Gould, Esq., Chairman of the
SEPTA board

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Mr. Brian Clymer, member of the SEPTA
boardMs. Mary Harris, member of the SEPTA
board

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2 **CHAIRMAN LINTON:** Good morning. Pursuant
3 to House Resolution 41, the House Transportation full
4 committee will begin this morning's hearing in
5 pursuit of an ongoing investigation into the SEPTA
6 transit system. I would like to give you a little
7 introduction to the members who are with us this
8 morning and also the staff and talk a little bit
9 about what our schedule will be for the remaining of
10 the day.

11 To the far right we have Mr. Paul Landis,
12 who is in fact the minority executive director of the
13 House Transportation Committee. Next to Mr. Landis
14 we have Mr. Brian Clark, Representative Clark from
15 Allegheny County. To my immediate right,
16 Representative Dennis O'Brien from the northeast city
17 of Philadelphia. I'm Gordon Linton, and I'm the
18 Subcommittee Chairman on Public Transportation and I
19 will chair the proceedings this morning. The full
20 Transportation Committee chair, Mr. Amos Hutchinson,
21 will not be able to be with us today. To my
22 immediate left is Mr. Scott Casper, who is the
23 executive director of the House Transportation
24 Committee.

25 I'd like this morning to begin our
hearings with a presentation by the Honorable Don

1
2 Bailey, the Auditor General of the Commonwealth of
3 Pennsylvania. Mr. Bailey and his staff have done an
4 extensive audit of the SEPTA system, and we'll begin
5 our hearings this morning with a presentation from
6 the Honorable Don Bailey. Following that, Mr.
7 Charles Little, president of Local 2013, the
8 Transport Worker's Union, and then we will break for
9 lunch. The following of the lunch break we expect to
10 hear from Mr. Lou Gould, the chairman of the SEPTA
11 board. That's the current schedule that we have
12 outlined at this point.

13 I would like to begin our hearing this
14 morning with the presentation from the Honorable Don
15 Bailey. I would ask all who appear before the
16 committee to identify themselves for the record so
17 that our stenographer could have the information for
18 our House report. Thank you.

19 'AUDITOR' GENERAL BAILEY: Thank you, Mr.
20 Chairman.

21 Mr. Chairman, I have with me two
22 auditors, our Regional Director of the Bureau of
23 Special Audits, Mr. Chuck Kryder, is to my immediate
24 right. And to his right is a field auditor, Frank
25 McCormick, who is also with the Bureau of Audits who
can answer your questions on the SEPTA audit.

1
2 I would like to read a brief statement,
3 which I've given to the reporter here, and then I
4 would be more than happy to answer any individual
5 questions you might have.

6 CHAIRMAN LINTON: You may proceed.

7 AUDITOR GENERAL BAILEY: Mr. Chairman and
8 members of the House Transportation Committee, I
9 appreciate the opportunity to share with you some
10 thoughts on how best to address the problems facing
11 SEPTA, which all of us are by now familiar. I know
12 that each of you has received a copy of a report we
13 recently issued on a year-long audit of SEPTA. I'll
14 get to some of the specific findings of that audit in
15 a moment.

16 First, allow me to make a general
17 observation about that report because I'm extremely
18 proud of it and the work that went into it. Our
19 audit was the first operational and compliance review
20 audit conducted of SEPTA in more than 10 years, and
21 the first since it added a commuter rail system that
22 dramatically increased its operations and
23 responsibilities. The report should be viewed as a
24 management tool for this committee, the State
25 Legislature as a whole, the executive branch of State
Government, specifically PennDOT, and SEPTA in

1 mapping a course of action that will address the
2 problems identified by the audit.

3 The report contains three observations
4 and 20 separate findings. It is not my intent today
5 to deal with all of them. Rather, I'll focus on
6 those findings and observations regarding problems
7 that we believe can be addressed, at least in part
8 through legislative remedy.

9 First and foremost is the matter of
10 SEPTA's liability problem. It is a huge problem.
11 SEPTA, as our audit report documented, spends more of
12 its operating revenue proportionately on damage
13 claims than any other transit agency in the United
14 States of America. The problem must be brought under
15 control.

16 We've recommended some things, and
17 incidentally, I honestly don't know if this would be
18 within the jurisdiction of your committee. I trust,
19 of course, that with concurrent jurisdictions, et
20 cetera, that you could share those problems or help
21 identify those problems and do something about them.

22 We've recommended some things that SEPTA
23 can do to get a better handle on the problem, and
24 I'll elaborate if you have questions, and hopefully
25 SEPTA will take appropriate action. SEPTA contends,

1
2 incidentally, that its liability problem stems in
3 large measure from factors beyond its control, such
4 as comparative negligence law, judicial rulings.
5 There are a number of issues - joint severable
6 liability, negligence law in the State of
7 Pennsylvania, et cetera.

8 There is, we believe, some merit in
9 SEPTA's argument, although, quite frankly, there's a
10 lot of things that they can do to help that they have
11 not done.

12 We would urge this committee, working
13 through your legal counsel, et cetera, with PennDOT
14 and it's legal counsel on the development of
15 legislation in the tort reform area that will address
16 liability problems of the dimension of that faced by
17 SEPTA. We would be very happy to assist or do
18 anything to support you in that area or in that
19 effort.

20 As a correlation, we also urge you to
21 consider legislation that will set in place an
22 effective system of monitoring the status of driving
23 privileges of those who operate public carriers where
24 there is, of course, a higher duty of care.

25 During our audit we ran a random sample
of 500 -- and we only randomly sampled 500 -- of

1 SEPTA's almost 3,000 drivers. We found that 35 of
2 the 500 had their licenses suspended or revoked, and
3 that 30 of them had continued to drive SEPTA buses
4 after their licenses had been suspended or revoked.
5 There's a large story to this. Part of it is SEPTA
6 responsibility, part of it is PennDOT responsibility,
7 part of it is individual responsibility.

8 We would urge you to initiate legislation
9 that will require transit agencies in this
10 Commonwealth to conduct periodic, and I would
11 recommend monthly, a double-check on SEPTA. They're
12 now doing a bimonthly check on licenses, at least
13 they're beginning to do something there, on the
14 license status of all of their operators. PennDOT
15 should be assigned a responsibility of cooperating
16 promptly in that activity.

17 We've discussed this point -- I had an
18 excellent talk show opportunity with some members of
19 the union and I know that they have some excellent
20 ideas and they're very sensitive to some things I
21 think the committee may want to consider, and it
22 would be helpful to you and helpful to them. I would
23 recommend that the committee meet and sit down and
24 talk with the union because they're very sensitive to
25 the human needs, et cetera, to talk about this issue.

1
2 The law really does need improvement, and I think the
3 union has some excellent ideas and input there that
4 would be very helpful to the committee.

5 The committee may find it desirable to
6 look at the whole licensing issue, particularly the
7 criteria established for the suspension or revocation
8 of licenses. For example, should we be suspending
9 licenses now where someone earns a living by driving
10 for excessive parking violations? Or perhaps we
11 should find some other remedy to get at that
12 situation. Would it be appropriate to provide for
13 some type of limited licenses for those that must
14 drive for a livelihood and get at the problem that
15 way, the liability issue, because in dealing with the
16 liability issue and the liability criteria for a
17 common carrier, which is almost an absolute
18 liability, those types of things should be looked at
19 in terms of the susceptibility of SEPTA, and
20 sometimes through no fault of their own, or even
21 drivers for that matter, because PennDOT did not do
22 their job in notification and efforts to collect a
23 suspended license. It exposes the agency, it exposes
24 SEPTA to excessive liability. You may want to look
25 at that issue.

In another area, we believe it

1
2 appropriate for you to re-examine the provisions of
3 Act 101 of 1980 as amended by Act 49 of 1984, which
4 relates to grants for senior citizen transportation.
5 We found that SEPTA, under provisions of the amended
6 act, was able to reap a \$17.5 million windfall in
7 State Lottery funds, and this was done deliberately.
8 They'll admit that to you. But they changed their
9 base fare from \$1 to \$1.25 without increasing the
10 token rate used by about 70 percent of their riders.
11 That criteria enabled them to reap excessive money,
12 \$17.5 million, from State Lottery funds. I know that
13 is not the intention of the legislature. We all know
14 that the Lottery Fund and the concern that you have
15 for senior citizens to provide for help for them was
16 not supposed to be, by subterfuge, clever subterfuge,
17 and obvious and open, admitted subterfuge by SEPTA to
18 reap excessive dollars from the Lottery Fund through
19 this mechanism; and I would hope that you would look
20 at it and perhaps consider some changes there because
21 it was really based on a senior citizen ridership
22 fare issue.

23 Recognizing current legislative concern
24 over the drain on Lottery Fund revenues, we question
25 whether the legislature intended that Lottery money
for senior citizen transportation -- if you do, you

1
2 may want to look at the formula -- to be used, in
3 effect, to subsidize other elements of a mass transit
4 operation. That was the impact it had. What
5 happened here was, bottom line, Lottery funds were
6 used to provide operational revenues, general
7 revenues for SEPTA. That's really what it boiled
8 down to. That was not the intent, I don't think, of
9 your senior citizen ride program.

10 We suggest that you take another look at
11 the language of the act and close that loophole,
12 perhaps by basing reimbursement on average fares or
13 fares paid by the majority of the system's users.

14 Observation No. 3 of the report focuses
15 on a vehicle overhaul program that SEPTA has
16 initiated. This is a capital assets improvements
17 program. We believe it's a sound business practice.
18 We think SEPTA should be complimented for that
19 effort, and we know this is something that originated
20 with the legislature as a desire to increase, an
21 incentive to increase, the condition of capital plant
22 equipment of the agencies and like agencies, and I
23 think the legislature should be complimented. I
24 think you should look at that program. SEPTA has now
25 started to do it and are keeping the records
necessary to enable them to qualify, and from what we

1
2 can see, this is an outstanding program and an
3 outstanding idea to provide cost-effective mass
4 transit, as cost-effective as it can be.

5 Finally, I would direct your attention to
6 observation No. 2 of our audit report, which raises a
7 fundamental public policy question, should SEPTA
8 remain in the commuter rail system? Now, this is
9 perhaps a touchy area, but it's one that we've got to
10 be very honest with ourselves about, the Commonwealth
11 of Pennsylvania. Our understanding is that the
12 union, labor, was approached and asked to make
13 concessions and to back up so that when the
14 disinvestment, if you will, on the Federal level took
15 place, SEPTA was encouraged, we understand, to assume
16 the responsibilities of that rail system.

17 While SEPTA's capital means are
18 increasing, Federal funds which account for about 75
19 to 80 percent of a project's funding are not meeting
20 the increased demand of what it takes to run that
21 commuter rail system. A determination has to be made
22 by all concerned parties - SEPTA, Federal, State and
23 local governments - whether a commuter rail system is
24 necessary in the Philadelphia region. If a commuter
25 rail system is necessary or desirable, it's got to
be paid for. It's extremely expensive. A long-term

1 capital commitment plan needs to be made to it. I'm
2 sure that's not a new question for you, but it's one
3 that really does burden SEPTA, it's one that we think
4 has perhaps been unfair to union members, to labor,
5 to the people that work there, and it needs to be
6 looked at in that context.

7
8 We urge you to examine the commuter rail
9 system question separate and apart from other issues
10 that you're considering in these deliberations in an
11 attempt to define what's in the best long-term
12 interest of the commuting public in the Philadelphia
13 region and Pennsylvania taxpayers as a whole. The
14 monkey needs to be put on the back of the Federal
15 government, where it belongs. They have either got
16 to help because of the huge amounts of money involved
17 in this effort, or they have got to share in the
18 responsibility somehow. We honestly don't see how,
19 given the pressures on the State government,
20 pressures on the commuter rates, et cetera, how those
21 costs can be borne locally or by the Commonwealth of
22 Pennsylvania in toto, and that seems to be the trend.

23 We would also like to add that we do have
24 a finding in there. I know that Representative
25 O'Brien, I believe, had introduced legislation
dealing with advertising and advertising rates on

1 SEPTA, how they could make more money. We did not
2 find an overly strong response or reaction from SEPTA
3 in that regard. That disappointed us. We're
4 familiar with this issue from our work on Port
5 Authority Transit in Allegheny County which we have
6 done. They can definitely maximize revenues, and
7 when you're dealing with a system that subsidizes the
8 extent that SEPTA is, every penny is valuable, and we
9 think that the legislative interest in advertising
10 revenue is a strong feature and something that should
11 be examined, something that someone should respond
12 to.
13

14 Mr. Chairman, I would be very happy to
15 answer questions of you and the members of the
16 committee.

17 CHAIRMAN LINTON: Thank you very much,
18 Mr. Bailey, and I'd like to start off the round of
19 questions from the committee.

20 BY CHAIRMAN LINTON: (Of Auditor General Bailey)

21 Q. You noted in your remarks the liability
22 problems of SEPTA, and I think, as you indicated
23 earlier, we've heard about many of those issues,
24 particularly those that relate to legislative reform
25 that's necessary at the State level to correct some
of the problems that members of the board and members

1 of the staff have identified. But you also made
2 reference to there are in fact many issues, I guess,
3 that go beyond legislative changes in tort reform,
4 but there may be in fact some measures that the
5 system or the authority could take to correct some
6 problems in-house.

7 The one that you talked about the most
8 today was the one that relates to drivers who are
9 driving with suspended licenses. Are there any other
10 recommendations in regards to in-house reform or
11 things that the authority could do to handle or to
12 get a better fix on these tremendous liability costs?

13 A. Yes, Mr. Chairman. The beginning or
14 first step that SEPTA can take is to learn how to
15 identify their problem. They don't even keep, at
16 this stage, the right kinds of records, they don't
17 collate or keep records together. They have no
18 concerted focus, in our opinion, on really keeping
19 proper and adequate records so that they can identify
20 their problem.

21 It is impossible for them to deal with
22 the issue of liability, particularly given the extent
23 and the nature of common carrier liability, which is
24 a very high negligence standard, when they don't even
25 know in any kind of a concise or succinct way what

1 their problem is. Their records are kept in a
2 haphazard way, I should say, at least in an
3 organizational sense, throughout the organization,
4 and the auditors can comment further.

5 So problem identification and statistic
6 identification and an analysis of accidents, how
7 accidents happen, the implementation of that program
8 with and working with drivers. Again I believe the
9 union stands ready to work on or work with those
10 issues.

11 I'll give you one example. They had a
12 case where we were discussing a briefing yesterday
13 where SEPTA was being sued, and the way the situation
14 worked out was an individual left the bus, I believe
15 crossed in front of the bus, coming across the
16 street, was hit by a car that, as I understand it,
17 came from behind the bus. The liability was assessed
18 in terms of 50 percent driver, 25 percent or
19 something like that pedestrian, SEPTA ended up in
20 there at 15 percent. Under joint several liability
21 rules in this State, in all likelihood I think in
22 that case somebody sat back and said, well, we know
23 where the deepest pocket is, we're going to go after
24 them, et cetera.

25 What SEPTA doesn't do and what they have

1 not done is really gotten together to concentrate on
2 this liability problem as a policy issue, and it's
3 taken like -- correct me if I'm wrong, 8 to 10
4 percent of their revenues are being paid out in
5 damage claims. Now, that's absurd. And management
6 that, you know, overall does a reasonable job. I
7 mean, you can nitpick SEPTA and you could be unfair,
8 and that doesn't serve any end either.

9 By and large, you've got an excellent
10 work force, by and large you've got an excellent
11 management force. But they need some fresh outside
12 looks, and that liability problem is some area where
13 they can pick up a ton of money, if they do it right.
14 Mr. Chairman, in-house they are not examining the
15 problem, evaluating the problem, and they're not
16 exploring how to deal with the problem adequately. If
17 they had better internal practices and internal
18 controls, they may even be able to help write law,
19 pick and choose the cases to fight, help discipline
20 the system. They're not doing that.

21 Q. Further question along those lines, and
22 maybe even some members of your audit staff might
23 want to comment. If they feel necessary to do so,
24 feel free to do so.

25 In regards to the liability claim, was

1 there any way that you can ascertain a procedure that
2 the authority used to approach accident victims in
3 efforts to negotiate settlements? Any procedures on
4 their part to try to reach the victims at the point
5 of accidents to try to see if they can negotiate out-
6 of-court settlements? Do they have procedures to try
7 to cut into those costs in that way?

8 A. Let me let the auditors respond to that,
9 Mr. Chairman. I don't know. Probably at the point
10 an accident occurs they refer to counsel probably at
11 that point, I would assume. Whether they're working
12 with counsel to try to mitigate damages in that
13 respect or not, I'm not sure. Let me ask, maybe Mr.
14 Kryder could respond.

15 MR. KRYDER: In that area they seem to
16 have a fairly adequate system. I mean, what's really
17 decided is the claim comes in and it goes through
18 it's Claim Management Department, and based on the
19 severity of the claim or their estimate of the
20 severity of the claim, it may be settled, you know,
21 right away. The specific dollar amounts elude me
22 right now, but they do have a system that is set up
23 by dollar amounts that it would get settled
24 internally. If not, if it's over a certain dollar
25 amount, then it would go to their legal counsel in-

1 house, their team would look at it, and if they felt
2 it was something that they could handle themselves or
3 settle out of court, that would be done. If not, it
4 would go outside to one of their outside legal
5 counsels.

6 I think when we were there, at the end of
7 the audit period, they probably had in the
8 neighborhood of like maybe 3,500 active cases, and
9 only about approximately 200 were outside SEPTA,
10 being handled by outside legal counsel.

11 BY CHAIRMAN LINTON: (Of Mr. Kryder)

12 Q. So only about 200 were being handled by--

13 A. Approximately.

14 Q. So that's what percentage of their
15 overall accident case, would you say?

16 A. Well, it's obviously less than 10
17 percent.

18 AUDITOR GENERAL BAILEY: Incidentally,
19 we're talking about damage claims, injuring damage
20 claims, expenses of about \$41 million I think were
21 what were outstanding at the end of the fiscal year?

22 MR. KRYDER: That was actually the amount
23 of cash in essence that was paid out during the year
24 ending 6-30-85.

25 AUDITOR GENERAL BAILEY: Is that for a

1 one-year period?

2 MR. KRYDER: Yes, for a one-year period.

3 AUDITOR GENERAL BAILEY: \$41.5 million in
4 claims.

5 MR. KRYDER: And that represented
6 approximately 8 percent of their total operating
7 budget, so 8 cents out of every dollar in the year
8 ending 6-30-85 went to pay an injury damage claim.

9 BY CHAIRMAN LINTON: (Of Auditor General Bailey)

10 Q. We often hear from the system that their
11 accidents are going down and that the dollar amounts
12 of the claims are what's increasing at rapid rates.
13 Was that your findings or what -- well, I guess you
14 had reviewed information that was given to you in
15 that regard.

16 Q. That's correct, Mr. Chairman. What we're
17 in the process of doing right now, in a desire to get
18 better information for you and for SEPTA and for
19 PennDOT, et cetera, we are surveying the entire
20 country. We are in the process of contacting -- I
21 think we just sent a survey out to 16 or 20 of the
22 top systems in the country to get figures from them,
23 ideas from them, how they deal with it, et cetera.
24 At this stage we're not sure, as I'm sure you're not,
25 you know, how accurate. We can look at dollar

1 amounts and make comparisons and come up with ratios,
2 of course you can't hide that.

3 But we know that they're so far out in
4 front in this category they've got to have a problem
5 they're not dealing with. If you read their audit
6 report, for example, we did check with the second and
7 third respective percentages, and the next highest
8 one was 6.1 percent. Now they're, you know, roughly
9 2 percent or so above that. And proportionately
10 speaking, you'd say they're 25 to 30 percent above
11 the closest one to them.

12 So you really hit on the main issue.
13 We're just not so sure even how accurate that
14 information that we're getting is, so we're going to
15 look at it and we think SEPTA needs to start studying
16 this in more detail also.

17 CHAIRMAN LINTON: Okay.

18 Representative O'Brien.

19 BY REPRESENTATIVE O'BRIEN: (Of Auditor Gen. Bailey)

20 Q. Thank you, Mr. Bailey.

21 I appreciate your comments on the
22 exterior advertising issue. I just briefly read over
23 a part of that report and in there it states that the
24 Port Authority of Allegheny County earns
25 approximately the same amount of advertising revenue

1 as SEPTA, although its fleet is about half the size.
2 In your audit, did you look at the issues that were
3 raised by SEPTA, the graffiti issue, the issue of
4 damage, the maintenance damage that would be caused
5 to the brushes by the frames on the buses, the joy-
6 riding of children, et cetera?

7 A. Go ahead.

8 MR. KRYDER: Yes, we specifically did,
9 because I think SEPTA, while we were there, did
10 receive an unsolicited proposal, and that is
11 mentioned in our finding, approximately \$16.5 million
12 over 10 years. But that was for exterior advertising
13 that was with the frames, and that is their concern
14 over liability of someone hanging on the frame and
15 possibly being injured by the bus, or a frame coming
16 apart and catching someone, you know, in the eye or
17 the face or whatever, and what we recommended was
18 that they go to direct application advertising. We
19 felt that -- they also mentioned to us that the
20 frames damage the brushes in the bus washes, that
21 they can't get around the frames, they need
22 individual washing, and so forth, and we felt that
23 direct application advertising would really eliminate
24 a substantial dollar amount of its costs.

25 AUDITOR GENERAL BAILEY: For the record,

1 what is direct application advertising?

2 MR. KRYDER: That would more or less be
3 like a decal that is actually affixed directly to the
4 bus. If you look at some New Jersey transit buses,
5 they do have these. Walking around center city
6 Philadelphia, you may have seen some.

7 AUDITOR GENERAL BAILEY: We think the
8 attitude that SEPTA had towards it from a management
9 point of view, and we discussed this later, was
10 negative. It is a good revenue source and it should
11 be maximized, and our opinion is that SEPTA should be
12 directed to do it if they don't decide to do it on
13 their own.

14 BY REPRESENTATIVE O'BRIEN: (Of Auditor Gen. Bailey)

15 Q. They maintain that it's an insignificant
16 amount of revenue and it's insignificant in that the
17 exterior advertising on the buses is unpleasing to
18 the eyes of the people in southeastern Pennsylvania.
19 Do you have a comment on that?

20 A. Well, the only comment I suppose I could
21 have with that, I don't have some deep aesthetic
22 appreciation for neon light advertising or billboard
23 advertising or this wonderfully educational stuff we
24 see on television all the time and its tremendous
25 contribution to American art and education and

1 culture and all that good stuff, but practical things
2 being practical things, and given the amount of stuff
3 that's thrown out that's commercially out there, I
4 don't think that's a cogent argument. I think that a
5 significant amount of dollars can be raised, and I
6 don't think the revenues are insignificant from an
7 aesthetic point of view.

8 I mean, we're talking about money and
9 hard dollars, and when SEPTA has to turn around and
10 dip into State Lottery funds for senior citizens
11 because they see a loophole to pick up \$17 million, I
12 think that they ought to be made responsible for
13 maximizing other dollars to reduce those kinds of
14 burdens, and I don't think that -- they could
15 maintain control over advertising content to some
16 degree. They don't have a problem there, and I think
17 that's what they ought to do.

18 REPRESENTATIVE O'BRIEN: Thank you.

19 CHAIRMAN LINTON: Further questions?

20 I'd like to acknowledge the presence of
21 Mario Civera, Representative Civera from Delaware
22 County, who's also joined the committee.

23 REPRESENTATIVE CIVERA: Thank you, Mr.
24 Chairman.

25 BY REPRESENTATIVE CIVERA: (Of Auditor Gen. Bailey)

1 Q. Mr. Bailey, after some of your comments
2 and on your report, I was just wondering. I'd like
3 to pose this question just to get your feelings,
4 because you did an extensive audit and research
5 involving this particular report that we have in
6 front of us. In the State of New York they have a
7 gentleman in the Governor's Office that the mass
8 transit answers to as far as expenditures, like on a
9 daily or monthly kind of -- not investigation, but an
10 oversight of what's going on with the mass transit
11 system. In Pennsylvania we don't have any person
12 like that to watch some of the expenditures and the
13 overall process of mass transit. And I think you did
14 a fine job with the report, and I was wondering, you
15 know, with you involved with this report and looking
16 at some of the problems of SEPTA, would you, whether
17 it would come under your office or whether it would
18 come under the Governor's Office, would you support
19 the idea of having a person, and I don't know what he
20 would be identified as, to watch over the
21 expenditures of mass transit and the overall
22 operation?

23 Right now in Pennsylvania, in the
24 Commonwealth, we don't have anyone like that, and it
25 keeps on coming back to the General Assembly when the

1 increase in the budget has to be made and they're in
2 financial difficulty. And when you have an
3 organization like that, the magnitude that it is, I
4 think that we should -- I personally would support
5 something like that, but you would know a little bit
6 better than I do, based on what your report is.

7 A. May I take your concept or idea and take
8 it a step further?

9 Q. Sure.

10 A. I would recommend to this committee that
11 post haste you look at the issue of Pennsylvania
12 transportation in a collective sense in a way that
13 it's never been looked at in the past. When I came
14 into office, one of the things that I found, and it
15 was absolutely, it was incredible to me, was that no
16 one in terms of detail -- now the legislature can
17 only, you can only do so much, you have a certain
18 constitutional function. I'm charged, well I
19 consider myself your servant, and I believe that
20 genuinely. I understand how difficult it is for you
21 to make decisions, the information that you need as a
22 body, and I have a great deal of respect for you.
23 I'm charged under the Constitution and statutes of
24 the State to do a particular job in a particular way.
25 When we came in, and transportation was

1 an area in which I had an interest, I could not
2 believe that the respective transportation
3 authorities we had in the State hadn't even been
4 looked at for countless years. They were initially
5 looked at during the Benedict administration, not
6 anywhere near the extent to which we looked at them,
7 and I brought our folks together and I said, "We're
8 going to study these things and we're going to
9 provide the legislature with a tool to look at
10 things."

11 We sat down, we did Erie, we did Port
12 Authority, we did the Allegheny County area out
13 there, we did this one here. We consider that a
14 beginning. There's a lot left to be learned, but I
15 think we have made a tremendous contribution. But
16 all we can do, basically, is study and do post-
17 expenditure audit work. My advice would be that the
18 legislature look at the functions and coordination of
19 transit policy in this State, and at intrastate
20 traffic, with a totally new emphasis to organize it
21 and direct it.

22 If you look at corridor traffic and you
23 look at population concentrations in the United
24 States, the regional role and the corridor type role
25 that Pennsylvania plays in two ways, we are the major

1 commerce and travel corridor to the western part of
2 our country in land transportation, Pennsylvania is.
3 The majority of the traffic goes through us, over our
4 ground.

5 In terms of commuter traffic, when new
6 technologies, like we're beginning to see with
7 superconductors that will yield technology to enable
8 us to do mass transit, we're going to find ourselves
9 the major hub again of transportation along the
10 coast, and we're going to be at the core of it.

11 I think what you ought to do is look at
12 the possibility of legislation that would combine a
13 -- look at a super-State authority kind of concept.
14 I really think that it would help to marshal
15 resources. We look essentially at mass transit as a
16 local commuter problem. We need to start looking at
17 things in terms of Pittsburgh and Philadelphia, and
18 the Harrisburg-York-Lancaster triangle there, the
19 northeast, Erie, and start taking perhaps a
20 statewide approach to these things.

21 I think the concept you're talking about
22 would be an excellent beginning. The Governor does
23 make an appointment, incidentally, to the SEPTA
24 board, okay?

25 Q. Yeah.

1 A. You do have, of course, local political
2 figures that have appointment powers also to that
3 board, and I don't want to get down on SEPTA, and I
4 don't want to get down on that work force, because I
5 really think, all things considered, they're doing an
6 excellent job. They really are, and that needs to be
7 said. The public needs to be told that, you know.
8 But I think that we don't understand, because we deal
9 in a haphazard budget-by-budget process. We do not
10 have long-term mass transit plans for the State of
11 Pennsylvania, and I think this committee could be a
12 beginning, if you were of mind to, to really
13 consolidate, to provide some focus, get folks
14 together, talk about common problems, and when the
15 day comes that we -- and it's going to come, in 25 or
16 30 years at the most, you know, we're going to be
17 talking about beating airplanes across this State
18 between Pittsburgh and Philadelphia. It's going to
19 come. The convenience, we're going to be moving
20 cars by rail. We're going to do a lot of things like
21 that. You're going to be right at the center of it,
22 and my advice would be that you can't begin too soon
23 to look at statewide plans. And folks, we're not
24 doing that. Uncle Sam's taking a walk away from us.
25 I think it's an excellent idea.

1 REPRESENTATIVE CIVERA: Thank you, Mr.
2 Chairman. No further questions.

3 CHAIRMAN LINTON: Thank you.

4 BY CHAIRMAN LINTON: (Of Auditor General Bailey)

5 Q. I'd like to follow up with some various
6 questions. You mentioned that as the Auditor General
7 you do the post audits, post expenditure audits. The
8 Act 101 required, a number of years ago, the SEPTA
9 authority to appoint a controller. To date, this
10 still has not been complied with. What is, in fact,
11 your opinion, because I notice in your own audit
12 study, and even your remarks this morning, that you
13 made some reference in terms of management, in terms
14 of controls, tightening up controls. What is your
15 opinion of terms of part of Mr. Civera's questions in
16 terms of getting a better feel of what's going on in
17 transit authorities? What's your opinion?

18 A. Absolutely outstanding question on
19 internal controls, and I'd like to have Mr. Kryder
20 respond to it. But Mr. Chairman, you put your finger
21 on absolutely a key issue. At any time we approach
22 an organization and look at an organization's
23 responses to things, now we work with them as they go
24 along. I mean, they were changing things and
25 improving things as we moved along here in responding

1 to criticisms that we made. But 9 times out of 10
2 when we bumped into a problem of the nature, for
3 example, of the liability problem, we'll bump into
4 internal control weaknesses or criticisms, and you
5 really put your finger on an issue here. I'd like
6 Mr. Kryder, and maybe Frank would like to respond to
7 that.

8 MR. KRYDER: Well, basically overall we
9 found SEPTA's management and their accounting systems
10 to be, you know, very good, competent people, and so
11 forth, and overall despite what's in the report, a
12 well-managed organization.

13 More specifically about the controller
14 issue, I think you should really get a response from
15 SEPTA, but it's my understanding that their position
16 is, and I somewhat agree with it, is that internally
17 they have an individual who more or less fulfills the
18 responsibilities of what the actual controller would
19 do on the board, and I think they feel that that
20 would really be more or less like a duplication of
21 effort. They have an assistant treasurer who they
22 feel handles those responsibilities, and I guess it's
23 their opinion that they do not need someone else on
24 the board, because this person does go to the board
25 and does handle the reporting functions of the

1 controller.

2 AUDITOR GENERAL BAILEY: Frank, do you
3 have anything?

4 CHAIRMAN LINTON: I want to add to your
5 comment. At the same token I'm hearing from you, I
6 guess from the Auditor General, that there's a need
7 for the Commonwealth to have a better fix on what's
8 going on in transit authorities overall, and quite
9 frankly, the reason that this committee is conducting
10 a study, the reason that SEPTA is probably the most
11 studied authority in the country from both the State
12 and Federal and city level, and the county level, is
13 that there seems to be constant questions as to
14 whether or not what's said is going on is actually
15 going on.

16 AUDITOR GENERAL BAILEY: Mr. Chairman,
17 I'd like to add, so there's no misunderstanding here,
18 I give my auditors; I give them license to do an
19 audit, complete and total freedom to do an audit, and
20 they do that without my interference. I mean, that's
21 something that I have given to them. And this is not
22 a major issue of contention. I do disagree with my
23 auditors from time to time, and so that there's not a
24 misunderstanding here though, I think in terms of
25 internal controls, and I wanted Frank to respond, or

1 Frank and Chuck to respond, I think that basically I
2 would agree with what Chuck is saying. But I think
3 you're talking two different questions here, and I
4 would like to say that from the standpoint of policy,
5 and particularly in terms of the creative aspect of
6 managing money, managing resources, evaluating
7 resources and their policy implications, that the
8 point that you are raising is a very proper and good
9 one.

10 It's not just a proper and good one in my
11 eyes because I sit in a place that the people in my
12 organization don't see. I've got to sit there and
13 answer your questions, and if a budget issue comes
14 up, I've got to respond to it. And in terms of
15 internal policy in the Auditor General's department
16 where we have done exactly the same thing in terms of
17 our comptroller function, my personal feeling, very,
18 very strongly, is that although in terms of
19 accounting records and internal controls, et cetera,
20 SEPTA does all right, in terms of the focus that
21 you're talking about, in terms of policy, they
22 absolutely should comply, and I think they would be
23 better served if they did, and I think they would be
24 much better able to respond to overall resource
25 allocation questions, et cetera, make comparisons

1 involved in policy considerations, et cetera, if they
2 did what the act says. I agree very strongly with
3 the position where I believe you're coming from.

4 Frank, do you want to comment?

5 MR. McCORMICK: My only comment was, I
6 agree with Chuck, we were at the audit site and I
7 feel that they have the controls there that are
8 necessary and it would really probably just be a
9 matter of a change in someone's title. They have a
10 couple assistant treasurers, they all have their own
11 responsibilities, and what they would probably do is
12 make one of those controller. I think that's really
13 all we're talking about.

14 AUDITOR GENERAL BAILEY: Mr. Chairman,
15 let me add to that, because one of the things that's
16 vitally important, in terms of writing legislation,
17 et cetera, and one thing that is so important about
18 oversight hearings like this, is that you can get to
19 a certain point in terms of questions raised, and
20 this is a classic example of that. My personal view
21 is that a change in title, a change in at least the
22 concentration or even the nature of authority can
23 have a stupendous, can have a tremendous impact on an
24 organization. My personal view is that it would
25 serve very well, it would be a very important policy

1 step to take, and it would be one that would improve
2 the operation.

3 We went through precisely the same thing,
4 exactly the same thing, in the Auditor General's
5 department, and it has increased our efficiency
6 tremendously. So I, to the extent that we are
7 talking apples and oranges here, and we are, I think
8 that it would be a much better step for them to take.
9 It would increase the attitude of accountability, and
10 it would make it possible to sit down and look, in my
11 opinion, in a more effective way, just like you sit
12 down and look at the liability issue.

13 And while auditors will go in, and in
14 terms of guiding this agency of mine in a direction
15 of program audits, auditors will go in and they will
16 look at an issue like liability, but they won't look
17 at that issue in terms of its authority within the
18 organization where one person might concentrate on
19 this as a dollar-and-cent issue and really get out
20 there and get it done. I think that they would be
21 well-served -- there's some organizations in this
22 country, incidentally, one of them I believe is the
23 New York system, that operates under a very strong
24 comptroller kind of a system, and if I'm not
25 mistaken, that's the one that I looked at in prior

1 years. I think they'd be well-served to maybe look
2 at some of these internal organization issues, as
3 opposed to simply the accounting and internal control
4 functions that the auditors are talking about.

5 CHAIRMAN LINTON: I think the point that
6 Representative Civera was dealing with, quite
7 frankly, too related to the need for some controls
8 and at least some independent feeling on what was
9 happening with the transit authority, and it's our
10 feeling that the controller would in fact provide
11 that.

12 You also made reference to a statewide
13 transit authority, to some degree. That is
14 interesting to me. We have a neighboring State, New
15 Jersey, and New Jersey Transit for the most part
16 operates that way. With SEPTA being the largest
17 transit authority in the Commonwealth, and one in
18 which we provide the vast majority of operating
19 assistance of all those that are there, I think, and
20 we're constantly looking at hearings and
21 investigations and there's constantly questions and
22 concerns about the authority, and as you mentioned,
23 the need for us to look at transit overall, it might
24 not be a bad idea for the committee to begin to look
25 at what other kind of mechanisms that we can put in

1 place at the State level to get a better fix on
2 transit authorities around the Commonwealth.

3 AUDITOR GENERAL BAILEY: Mr. Chairman,
4 it's like your comments on the idea of this
5 comptroller that from an internal view may appear as
6 a minor change. It's not a minor change. It's a
7 change in emphasis, policy, direction, et cetera, and
8 in almost the same context I think I'd recommend the
9 same kind of approach to it. I think that would be a
10 good idea.

11 CHAIRMAN LINTON: Representative Clark.

12 REPRESENTATIVE CLARK: Thank you.

13 If I might, Don, it's probably better
14 directed to your auditors who were on site.

15 AUDITOR GENERAL BAILEY: Sure.

16 REPRESENTATIVE CLARK: I think it touches
17 on another issue. It came to light because of the
18 advertising issue that's gotten so much attention in
19 Harrisburg and here. My question is more the
20 relationship between the SEPTA board and SEPTA
21 management. I keep hearing that this advertising is
22 a policy decision of the SEPTA board, and everything
23 I've reviewed and looked at and tried to obtain, I
24 didn't see where the SEPTA board actually decided to
25 discontinue the advertising process, and I believe

1 it's a management decision. Maybe the board had
2 knowledge, but I don't know that it was done in a
3 formal meeting, and I think it touches on this
4 management issue. It's a different angle than the
5 controller, but I think a better relationship.

6 When you were at the site, did you find
7 that policy decisions were made without consulting
8 the board, or maybe perhaps just the chairman of the
9 board? Did you see any evidence of that?

10 MR. KRYDER: I can't say so directly. I
11 think that basically it's run the way any other real
12 big organization would be run. Internally,
13 obviously, some management decisions are made, but I
14 think the key management decisions the board is well
15 advised that, in my opinion and in matters that we
16 did look at, they seemed to be, you know, well
17 advised of what was actually happening and going on.

18 AUDITOR -GENERAL BAILEY: We did not
19 study, I think it's fair to say, that we didn't
20 really study -- I mean, maybe you fellows could
21 comment more -- but we did not study in terms of, you
22 know, I gave them an open book. I just said, I want
23 details, I want information. But I don't know, and
24 maybe they could respond, did we actually study that?

25 MR. KRYDER: No, we didn't do an indepth

1 study, but like with the advertising or whatever, we
2 did go into board minutes. We reviewed board minutes
3 for about a three- or four-year period, and I can say
4 from just looking at that and being aware of some key
5 issues, I mean in my opinion they seem to be, you
6 know, in tune and reviewing the key management
7 decisions. Obviously, you know, in a big
8 organization there may be some decisions that just
9 are made by management.

10 AUDITOR GENERAL BAILEY: Without going in
11 and looking in a detailed way at either, you know, at
12 a point-by-point policy implementation approach, it's
13 sort of difficult for us to respond in detail. We've
14 done that, we're doing that with an agency out west
15 right now where we're looking more at that key issue,
16 but I can't say that we concentrated on it here. But
17 I don't think that many issues of divergence of
18 difference arose that really caused us -- that led us
19 into it either.

20 MR. KRYDER: No.

21 REPRESENTATIVE CLARK: Well, I know it's
22 more of a performance audit function--

23 AUDITOR GENERAL BAILEY: Yeah.

24 REPRESENTATIVE CLARK: --and I think this
25 was basically financial. But this issue has been

1 such a strange issue in my mind. I remember last
2 year when we had your folks out at the Port Authority
3 of Allegheny County, and I might add you folks did a
4 great job of helping us put that agency on better
5 footing. We went into more of a performance audit
6 there.

7 AUDITOR GENERAL BAILEY: Yes. Well, we
8 did performance work here too. I think in terms of
9 what was done, there are always things that, you
10 know, my people, in terms of the emphasis that I have
11 given them on these areas, are also in a learning
12 process too. The interesting thing about this audit
13 and the interesting thing about the Port Authority
14 Transit audit is that no one really could take issue
15 with it, and that's when I know these people did
16 their job, which is why I'm proud of them. I think
17 they do a superb job.

18 But this would qualify. I mean, in terms
19 of performance auditing or governmental auditing
20 standards, they were met here. You certainly would
21 call this, or certain aspects of it, performance area
22 auditing. I don't think there's any question about
23 that. It goes far beyond what you would normally do
24 in just cost work, but a lot of it's compliance, and
25 maybe they can comment more. But Brian, we did not

1 go in as a major study to do, and we could possibly
2 do this for you if you wanted us to do it, we would
3 have to go back in and do this.

4 But we didn't stumble into major
5 problems, I don't believe, and we probably would have
6 taken up on it if we did where there was a great
7 glaring issue of board policy and management being so
8 opposed to or maybe having such a problem of board
9 policy that they were at polar ends. I don't think
10 we found that.

11 REPRESENTATIVE CLARK: The only interest
12 I had here is sometimes when you deal with
13 authorities, let's face it, the appointees to the
14 board on the public's input--

15 AUDITOR GENERAL BAILEY: Very weak and
16 sometimes--

17 REPRESENTATIVE CLARK: --through their
18 elected officials.

19 AUDITOR GENERAL BAILEY: Right.

20 REPRESENTATIVE CLARK: The management
21 generally ends up running the show.

22 AUDITOR GENERAL BAILEY: Yeah.

23 REPRESENTATIVE CLARK: And I was a little
24 concerned, particularly with this advertising issue,
25 that management employees were making policy

1 decisions for the board, and rather than -- I think
2 it's the flip side of the controller issue. Rather
3 than having someone in-house and management having
4 better control, I think there might be a need for a
5 better relationship between the board and management,
6 and that's what I was looking for evidence of that.
7 Thank you.

8 Thank you, Mr. Chairman.

9 BY CHAIRMAN LINTON: (Of Auditor General Bailey)

10 Q. Mr. Bailey, I was also looking in one
11 other area. In terms of recommendations, you talked
12 about revenue controls, particularly related to the
13 high speed rail lines, and talking about the
14 collection of fares and maybe in fact a better way of
15 getting a handle on those collections to make sure
16 that all revenues were being collected by the
17 conductors. I know that was an issue that I've also
18 been able to talk to some members of the union, and
19 they've raised some concerns and views about the
20 reductions of staff and what in fact those staff
21 reductions have on their ability to collect all
22 revenues that came into the train at any given point,
23 with the additional duties as required by one
24 individual because of staff reductions. I see you
25 made a number of references to better ways that the

1 system could hold on to all of the revenue that's
2 available.

3 A. Mr. Chairman, that is correct. I'd like
4 to have the auditors respond because we actually went
5 out to some collection points, you know, on-site and
6 looked at these things, and I think that the story
7 that you're getting sounds to me like it's probably a
8 pretty accurate list. Accountability is very poor,
9 cash transfers, et cetera, need to be looked at.

10 Would you fellows like to comment?

11 MR. KRYDER: Okay. Basically, I'm sure
12 you read the report, but I can just highlight some of
13 the areas for you. I think basically from an
14 accountability standpoint one of their biggest
15 problems is that on the high speed lines, we're
16 talking about Broad Street subway, Market-Frankfort
17 L, those fare boxes that you go through when you go
18 through the turnstile don't accommodate dollar bills.
19 What happens is you go in and hand a dollar bill
20 directly to the cashier, and that cashier then puts
21 that money into an envelope, which is subsequently
22 collected by a collection person.

23 I think you can see for yourself that
24 with that process and the fact that they cannot
25 reconcile them to the turnstile, because people are

1 going through the turnstiles and showing a pass or
2 whatever, and they're just collecting and collecting,
3 and no one really knows how many people went through
4 with a pass, how many people went in with a dollar
5 bill, and that just leads to an overall
6 accountability problem as far as the dollar bills are
7 concerned. They are taking some steps, but I think
8 basically what needs to be done is, you know, as we
9 mentioned in here, possibly different types of fare
10 boxes.

11 The other thing, going out, we did note,
12 as the Auditor General noted, we did actually observe
13 collections at the individual bus depots. When we
14 went out there, what we did note was that there was a
15 great system unloading the little bus vaults out of
16 the buses, dropping them in, emptying them into a
17 secured vault area. That was great up until that
18 point. But when it came time to actually empty some
19 of these, they were actually being emptied by hand.
20 Individuals would go in and open up a locked vault.
21 Up to that particular point in time, unless there was
22 a small amount of spillage, no human hands would
23 touch the money. But then they would go in and take
24 money out of these secured vaults and just shove them
25 into cans, and it really defeated the whole purpose

1 of the system, and that was obviously one of the
2 major problems that we had with the collection of
3 revenues from the buses, and I think--

4 AUDITOR GENERAL BAILEY: Where did the
5 cans go? How were the cans handled? What happened?

6 MR. KRYDER: After that, the cans were
7 supposed to be locked with more or less like a
8 padlock and loaded onto the truck and taken back to
9 the Second and Wyoming facility, back to the account
10 room.

11 But I think you can see for yourself,
12 when money like that -- obviously there's a problem
13 as far as the individuals just dealing with the
14 money. The adequate controls weren't there to
15 possibly identify one container that may have been
16 missing. There's probably -- you know, there was
17 obviously problems there as far as theft, or
18 whatever. I think SEPTA may have informed us in
19 their official written response that they stopped
20 this practice, and obviously it's a good idea.

21 BY CHAIRMAN LINTON: (Of Mr. Kryder)

22 Q. In regards to the commuter lines, did you
23 check with -- do any operation audits in terms of the
24 actual conductors on the commuter lines who receive
25 tickets and may sell tickets on those lines? Did you

1 check out that operation in terms of the adequacy of
2 internal controls there and whether or not there was
3 adequate manpower to handle both the collection of
4 fares and those other kind of duties that are
5 required by those conductors?

6 A. We really didn't do a real indepth review
7 there, but I think I can tell you, it's obviously one
8 of the problems is that you have peak times, and I
9 guess it's really more or less a cost efficient
10 approach. You have peak hours in the morning and the
11 afternoon, and I think that they felt that at times
12 although the trains may be overcrowded and they may
13 have problems getting to the individual patrons, to
14 possibly put additional staff on, they'd have to
15 remain on all day. We didn't look indepth at that.
16 We focused more on the high speed lines and the
17 buses.

18 CHAIRMAN LINTON: Scott Casper

19 BY MR. CASPER: (Of Auditor General Bailey)

20 Q. Mr. Bailey, you had touched upon briefly
21 new concepts in governing mass transit operations
22 throughout the Commonwealth, and a reference was made
23 by Representative Linton to how New Jersey does it.
24 Another idea, just throwing it out, the SEPTA board
25 is comprised, as you say, of 11 members, 10 are local

1 - 2 from each county - and 1 from the State. The
2 local governments contribute, on an annual basis, \$48
3 million in local subsidy to the SEPTA system, and of
4 course it's a rather varying degree - \$39 million
5 from Philadelphia, down to about \$846,000 from
6 Chester County, which is, not getting into the
7 specific ratios, obviously Chester County has the
8 least SEPTA operations, and Philadelphia the most.

9 However, the State comes in -- will come
10 in this fiscal year with approximately \$148 million.
11 So presuming that the local contributions may come
12 up, still the State is contributing over \$100
13 million, or about \$100 million, more than the local
14 governments, and for that contribution the State has
15 one-half the board representation as each individual
16 county, even Chester County that contributes
17 \$846,000. And with \$148 million to \$48 million in
18 local subsidy, the ratio is reversed 10 to 1 in board
19 representation. Perhaps that would be another avenue
20 to think about. Perhaps the State is
21 underrepresented for what it contributes.

22 A. I don't know. A personal observation,
23 because I sit on the Delaware River Joint Toll Bridge
24 Commission, I sit on the Delaware River Port
25 Authority, among others. I don't know if a change in

1 board composition would make the strides that I
2 personally think you ought to make towards some more
3 highly evolved form of State control, if you will,
4 and planning, if you will, because you do control the
5 dollars and you do deal with the problems outside of
6 the four-county area. You have to deal with
7 statewide problems. And the only way you can really
8 do that is to put them into focus and compare them.

9 I don't think a board change would -- I
10 don't see how it could honestly do that much to
11 change policy directions down here. I happen to
12 agree that probably the better thing you can do there
13 is provide some focus within the organization along
14 the lines that Mr. Linton mentioned in terms of a
15 focus on a comptroller that is going to be there to
16 answer specific questions so that you don't end up
17 with a diffused response in some ways, although they
18 might be doing their paperwork okay this year.

19 I think that you ought to really look at
20 a relationship between SEPTA and the State and the
21 regional impact of the role that transportation has
22 in economic development in the area and highway
23 transportation in the area, et cetera. There's not
24 enough integration going on, if you will, and I don't
25 know if just changing the board members -- and it

1 might be a step in the right direction, but who would
2 control them?

3 Well if you control them from the
4 executive office, that's fine. I don't know how much
5 legislative oversight or control that gives you
6 though. I'm one that has a faith in that, and that's
7 no reflection on the gubernatorial function, don't
8 take it that way. But I think the executive office
9 is very busy; I think you're a committee that
10 specializes. I think you ought to look at some sort
11 of authority that can coordinate things in a better
12 way from a multitude of viewpoints in terms of
13 transportation across the Commonwealth, and changing
14 the board might be a step in the right direction in
15 terms of this composition to give you more of a
16 voice, but by the time you put in a long term or a
17 long appointment term for those board members, et
18 cetera, I don't know if you'll get that much
19 difference in policy direction out of that. You may,
20 and not to put the idea down, but I don't know if it
21 will solve that much more for you. I just don't
22 know.

23 Q. Another question that I had that was not
24 as general and much more specific with regard to the
25 report. On page 16 of the report you mention a very,

1 very interesting situation. Obviously the SEPTA
2 system has to consume a lot of diesel fuel to run,
3 and you mention that in fiscal year 1985 that amount
4 was \$11.7 million. And under current delivery
5 procedures, most of the fuel is delivered in
6 unmetered trucks, and the logic of that, from the
7 SEPTA viewpoint, is that, well, if we required it in
8 metered trucks, then fewer bidders could bid, bids
9 would naturally come in higher with less competition,
10 and we'd wind up paying a higher unit cost for diesel
11 fuel.

12 A. And they're liable to wake up and
13 discover next week that guess what, we have to buy
14 less diesel fuel too. I don't know.

15 Q. Sure.

16 A. But it's not an accountable system.

17 Q. Right. But what I'm getting to is a
18 situation that you mentioned in your report that the
19 fuel is being delivered in unmetered trucks, and some
20 of the storage tank dimensions are not actually known
21 by SEPTA. A method of control to make sure they're
22 getting the deliveries they're supposed to be getting
23 in capacity is getting a dip stick and putting it in
24 and measuring. There are problems obviously of
25 foaming, temperature within that storage capacity.

1 A. We audit, in the Commonwealth of
2 Pennsylvania, as you know, you've given us the
3 requirement to audit school districts, et cetera.
4 One of the most common problems we have, because it's
5 a valuable commodity, is the accountability of fuel.
6 I mean, you're using literally just hundreds of
7 thousands and millions and millions of gallons of
8 this stuff all across the State, and my personal
9 opinion is it's just not accountable enough. I mean,
10 it's glaringly obvious to us.

11 Q. So theoretically, to be penny wise and
12 perhaps -- we don't know, but that's the problem.
13 Perhaps it could be dollar foolish because perhaps
14 the amount that's on the invoice -- and you also
15 mentioned that the receiving documents aren't always
16 verified, aren't always signed by a responsible SEPTA
17 employee at the site.

18 A. Any time you deal with a material in the
19 fashion it's being dealt with here, you're just
20 inviting abuse, all kinds of abuse, and it needs to
21 be tightened up and made accountable, and that's one
22 way to increase it's accountability. I feel very,
23 very comfortable in saying to you here today there is
24 going to be no net increase in cost by making an
25 investment and making this fuel treatment issue more

1 verified, aren't always signed by a responsible SEPTA
2 employee at the site.

3 A. Any time you deal with a material in the
4 fashion it's being dealt with here, you're just
5 inviting abuse, all kinds of abuse, and it needs to
6 be tightened up and made accountable, and that's one
7 way to increase it's accountability. I feel very,
8 very comfortable in saying to you here today there is
9 going to be no net increase in cost by making an
10 investment and making this fuel treatment issue more
11 accountable at all, including the metering of trucks.

12 Q. And obviously it's not a small ticket
13 item. Well, the price of fuel is going up, we may be
14 talking \$15 million, or whatever now, possibly.

15 A. Fuel is -- some of us a little older
16 remember those 14 and 15 cent gas wars, and those
17 days are gone, and diesel fuel has climbed up there
18 from a time when diesel fuel was significantly
19 cheaper than gasoline. Demand for it's increased.
20 We don't have those disparities, and this is a very
21 expensive item. It needs to be controlled. We don't
22 have a finger pointed at any one individual. There's
23 no doubt in our mind that the potential for abuse
24 here is very, very significant.

25 Q. All right. Thank you.

1 out and contracted with someone to do the license
2 checking and all that kind of thing at \$8 a license
3 or so, and they had an in-house program in effect.
4 All they had to do was work with PennDOT directly on
5 it. I mean, there was no need to do it. It's
6 ridiculous.

7 Q. But there seems to be a lot of things
8 that--

9 A. Well, they never looked at the problem,
10 you see.

11 Q. Yeah.

12 A. They never examined. That's one of the
13 reasons why my personal view is getting somebody that
14 can answer to you directly on these dollar-and-cent
15 items that really has responsibility on all these
16 financial items on a penny, dime, dollar sense is
17 something that will improve operations.

18 Q. Like an independent auditor that the
19 statute has now?

20 A. Well, an independent auditor, you know,
21 that basically is what we are. That's what we did.
22 I mean, the way government audit standards are set up
23 and the way we're set up and supposed to function
24 under the law, the only thing I will say, and I don't
25 think you'll find very many private sector firms that

1 will disagree with this, the quality of the work that
2 these people do, the experience that they have and
3 the focus we have, I don't think you'll find anyone
4 in the private sector that can compete with us for
5 the quality of this kind of work. Most of them would
6 probably admit that, incidentally.

7 If you were just doing finance work, et
8 cetera, you know, they could probably do comparable
9 work and that sort of thing, but we, for what the law
10 means, we definitely fill those criteria and I think
11 probably do a much better job in most cases. I don't
12 think you could have gotten an outside firm to have
13 done work of this quality, to be very honest with
14 you. They're just not set up, they don't have a
15 focus to do it, although they could help. In fact,
16 we work with them on some things in some ways. We
17 perform that duty.

18 But I don't think that, for example, if
19 you took an approach of going out and setting up some
20 sort of requirement on a what you call an independent
21 outside audit on a yearly basis that was
22 nongovernmental, I don't think you would improve
23 anything, if that's where you're going. The
24 legislature and the questions you ask and the work
25 that we do I think is the best route to go.

1 Q. Okay. Off the subject of the independent
2 auditor for a minute, but still back on these what we
3 could call nickel and dime items that apparently add
4 up when you have a thick report like this, the \$8
5 fees that are paid in succession and mount up, the
6 double billing of the \$9,000 law firm bill that was
7 finally rectified. I'm not sure if it was done
8 after. I believe it might have been done after you
9 found it, is that correct?

10 MR. KRYDER: Yes. We pointed it out to
11 them and they did rectify the situation.

12 MR. CASPER: Fine. So they complied and
13 it was no problem. But you were the fellows that
14 pointed that out.

15 MR. KRYDER: Yes, that's correct.

16 BY MR. CASPER: (Of Auditor General Bailey)

17 Q. And then the microfilming, the
18 microfilming of the invoices. There are specific
19 time elements there that are sent out to be
20 microfilmed, but then some are missing and it's not a
21 complete set. There's a four-month turn around time
22 in microfilming the invoices that they have. It just
23 seems that there are a lot of loose ends that perhaps
24 aren't as dramatic as the fuel problem, but
25 nonetheless, when you start to add them up and start

1 to add up the liability problems, over and above what
2 the Chicago transit has of 2.1 percent of their
3 operating budget, New Jersey Transit has a 2.9
4 percent of their operating budget. You add all these
5 things up on a legal pad and then you find out that
6 SEPTA has a \$27 million unfunded deficit, and maybe
7 it could help to cancel that out.

8 A. I think that they can make significant
9 improvements. When I talk about not wanting to be
10 too hard on them it's almost because we see bright
11 spots where they'll pick a problem area here and
12 there, work on it, and appear to do a good job, and
13 do a good job. The difficulty with SEPTA, very
14 honestly, and that's where you play the most
15 important role and where we play a very important
16 support role, is that they're so involved in the
17 middle of the forrest, they can't see the forrest for
18 the trees. It's a day-to-day thing. An approach is
19 made as a reaction to a problem. Nothing innovative
20 or creative is really done with that over time.

21 It's typical of the way a large
22 organization is run. You've got to come in and kick
23 them in the pants, so to speak. You've got to point
24 at a problem because you're sort of fresh and new to
25 it, and SEPTA very badly, I think very badly, needs

1 that. I was appalled mostly by the liability problem
2 because I didn't feel they were doing what they could
3 to help resolve it.

4 The other things that you mentioned are
5 indications that I think would be best served by the
6 things that Mr. Linton was talking about, and I think
7 that what you need to do is you need to provide a
8 little more focus in there so there's some person
9 that you say, you know, it's not off this department,
10 off that department, that kind of thing. I think
11 that would help. Somebody that really is callable
12 upon the carpet.

13 Q. Instead of a diffusion of responsibility.

14 A. I think it's a little too diffused, yes.
15 I mean, when I run my outfit I got my comptroller and
16 we've tightened things up. We've saved hundreds of
17 thousands of dollars over the prior administration,
18 literally hundreds of thousands of dollars by looking
19 at penny-ante items. Printing costs that we've saved
20 \$60,000 just on internal printing costs. That might
21 not seem like much, but that hires two or three
22 people like these folks here that can go out and do a
23 quality job for you. And we start adding those
24 things up. That's what the outfit needs, and that's
25 why I think some internal organization changes might

1 be in order. You know, there are better ways to
2 provide for accountability.

3 The other thing is I think that the
4 method to my madness about an overall State, sort of
5 an alter ego, if you will, organizationally, would be
6 that I think it would increase accountability,
7 particularly for you folks, because you're the ones
8 that ultimately have to write the checks.

9 Q. That's right, and the members are hit
10 when they read the local newspapers, those members
11 that are from here.

12 A. Yeah, the members are the ones that get
13 hit with the criticism.

14 Q. Well, yeah, and they get hit with the
15 criticism because, well, there's an unfunded deficit,
16 and the State is not doing enough, but the State is
17 putting in \$148 million that these gentlemen are
18 voting on; and the locals, and I was a member of
19 local government myself. I know they have
20 responsibilities too, but so does the State. And
21 when the locals are putting in \$48 million and the
22 State's putting in \$148 million, how can you grill
23 people who are voting on things 100 miles away saying
24 they're not doing enough?

25 A. That's exactly right. The thing that's

1 difficult for a policymaker, and it's like coming to
2 Philadelphia. I made some comments at a press
3 conference that folks have become almost street smart
4 about SEPTA being a light liability, you know, a soft
5 liability touch so to speak, and you know, I think if
6 you talk to a lot of people down here, that's no
7 exaggeration. I mean, there are folks that know to
8 start moaning and groaning when they hear a bang and
9 a screech of tires, you know, oh boy. I mean, it
10 becomes almost a farce. It becomes a disrespect for
11 the system. And I think to some extent that's part
12 of the problem, that really is. And I think that
13 people don't understand that when you're talking
14 about a reimbursement for a deficit, and then you
15 have criticisms concerning although they may seem
16 like small items from an internal management point of
17 view, they are indicative of a bunch of small items
18 that add up.

19 You know, no one is going to sit back
20 with confidence and look at fuel oil accountability
21 here and have confidence in it. You're not going to
22 have confidence in it, I'm not going to have
23 confidence in it. I see too many of these problems
24 across the whole State. I mean, we bump into these
25 kinds of things in school districts on a regular

1 basis, so I know that when the public sits down and
2 reads that, you know, and they're paying this money
3 for a fare. You know, when someone sits down and
4 they're coming in and the base fare goes up to a
5 buck, a buck-twenty-five for infrequent riders, and
6 the token payers aren't paying, and then you pick up
7 and read the thing where the Lottery Department,
8 where you people are struggling to provide support
9 programs for senior citizens, everybody thinks the
10 Lottery is being mismanaged. Well, heck, the Lottery
11 is not being mismanaged. The problem is the demands
12 for its resources have just augmented and have grown
13 tremendously. We don't need to be handing \$17.5
14 million to a transit agency that in effect is taking
15 advantage of a formula in the law that was meant to
16 help them.

17 You know, those kinds of things don't
18 build confidence, and I think to integrate State
19 policy, to make sure that somebody knows they're
20 going to have to come and answer to you, hey, why did
21 this happen? Why did you let that happen? The
22 salaries are significant. They pay good salaries for
23 administrative positions. These are not underpaid
24 management people. They're being well paid to do
25 what they do, and you have a right to say to them,

1 hey, you perform. You do this job. I'm the one
2 that's got to write the check.

3 And I think in some ways, you know, the
4 question that Mr. Clark asked concerning, the
5 questions that you raised, Scott, concerning board
6 function relationship between management and board,
7 State representation on that board, are just, you
8 know, they're really people saying, hey, I want more
9 accountability, I want more answers, I want it done
10 the way we want it done. That's what you're saying
11 to me. So when we do an audit in this regard, that's
12 something that when I sit where I sit and I take my
13 audit product, that's something that I focus on when
14 we do our report, and that's why we're starting to do
15 more work in better ways.

16 I think the State ought to play an
17 increased role. I think that in terms of the money
18 you give to the city, the money you give the
19 surrounding counties, Philadelphia County and the
20 other counties, I think the role that mass transit
21 plays in an integrated policy of State
22 transportation, I think the State role ought to be
23 increased, and I'd be the first one to say it ought
24 to be.

25 CHAIRMAN LINTON: Mr. Landis.

1 BY MR. LANDIS: (Of Auditor General Bailey)

2 Q. Don, you're saying about these small
3 things add up to be big dollars. When you do an
4 audit with an entity such as SEPTA, they go in for a
5 fare increase in your audit period, and their
6 standard practice seems to be increase the fares and
7 reduce the routes. Do you look at that part of their
8 operation? That their fare increase was justified
9 and the reduction was?

10 A. No. No. We would not look -- I mean, we
11 might have comments or feelings, and I'd like these
12 gentlemen to comment. We would not, aside from a
13 comment or feeling that we would make, we wouldn't go
14 in specifically, or at least in this case did not go
15 in specifically, to look for justifications for rate
16 increase issues which are, you know, PUC issues and
17 that kind of thing. I mean, we have a certain -- I
18 mean, we might have opinions on things. I think
19 overall I'd say that you've got an organization
20 that's -- I say, you know, overall an organization
21 that's run pretty well. I don't want that to get
22 lost because it can be run a lot better, a lot of
23 money can be saved, and when you reach a certain
24 level of operating efficiency, the public pats you on
25 the head. We all know this, we're need achievers.

1 We're out there to serve the taxpayer, and the media
2 sits there and looks at us and they're going to pat us
3 on the head and say, okay, you're doing a reasonable
4 job, given the limits, and you're doing a, you know,
5 you get the job done.

6 I think there's a lot of room for
7 improvement here. I think that's why we made an
8 issue of the commuter rail system. You talk about
9 rate increases, you talk about capital costs, or the
10 overhaul program, which is something that originated
11 with you people, an outstanding idea. And SEPTA's
12 getting with it and starting to do what they're
13 supposed to do, and to the extent that we've
14 monitored and looked at what they started to do,
15 they'll probably qualify for some help in that
16 regard. That's what it was designed to do, that
17 program, increase the capital assets efficiency.

18 You know, I think that it's beyond our
19 scope. I mean, I would not want really to have my
20 folks go in on a given point and have them do an
21 evaluation to be the focus, at least, of a rate
22 increase question.

23 Q. Well, the reason I raised that question,
24 this seems to be where the public and SEPTA are
25 always at odds, that SEPTA is giving them poor

1 service and they're getting more money. Should there
2 be a level with SEPTA or a public transit agency
3 where the rate increase should be reviewed by an
4 independent?

5 A. I don't know how you could make -- I
6 don't know. If you look at a rate increase, and rate
7 increases of course get turned down. Some get
8 approved, some get turned down. If you look at how
9 the State PUC operates, for example, in a different
10 area, let's say, in electric rates or something like
11 that, that kind of thing is done. I don't know quite
12 how to answer you on that. I'd have to leave that to
13 your better wisdom.

14 Q. It raises an interesting question.

15 A. It does, and I don't know quite how to
16 answer you. I mean, it's not something that we go in
17 and look at to do. We basically go in to -- my idea,
18 to be able to sit here and defend these facts to the
19 point, and this is what we do. I mean, I tell my
20 people all the time, I want a quality product. I
21 think these gentlemen have done a superb job. And I
22 don't always agree with them on everything, by the
23 way, but I let them -- I say, hey, you go out and
24 tell your story. I want you to do that. And this is
25 the way we operate. This is very professional.

1 But what we basically want to do is come
2 and say to you, these folks come and testify to you
3 here today, they complain about things, but they're
4 not going to speak these facts, and that's why I
5 think we did the original press release. What SEPTA
6 basically had to say was, hey, by and by, it's a
7 pretty good product. We're going to try to work with
8 it.

9 But we also try to be fair and to do
10 things right, and I think if we ever took an approach
11 on a rate increase, which is their area to argue and
12 fight for based upon what they believe they're doing
13 right, I think would be beyond our scope, and I'd be
14 afraid to touch that. I'll be honest with you.

15 Q. But now you raised an interesting
16 question. I didn't know the PUC got involved with
17 SEPTA.

18 A. No, I'm not saying they do. No, no, I
19 was using that as an example.

20 Q. Oh, all right.

21 A. I'm sorry.

22 Q. I was just wondering. In other words, in
23 your agency you have--

24 A. No, we audit the PUC also, see, but I
25 would not go into the PUC, and even if I did a

1 performance audit on the PUC, I don't think I would,
2 unless I had public complaints or the legislature
3 told me to do it, or something of that sort, I would
4 not go in on a rate increase question unless it
5 related to their performance and get into the
6 justification of a rate increase issue in that
7 regard, because it's a judgmental area. I was using
8 that as a separate example.

9 Q. All right. Fine.

10 A. I didn't mean to infer--

11 Q. No, I was just wondering, since we're
12 providing the money, that maybe we ought to look at--

13 A. You're the boss. You're the boss. I
14 think we give you these facts and look at these
15 things. I don't want to, in light of criticisms, and
16 it's tempting to do this, sometimes we can go
17 overboard on criticisms. I think, you know, I've
18 said this before, and some of the media folks, I
19 don't know how happy they were with me, but you know,
20 I said to them, you know, all in all, this is a
21 pretty reasonably run outfit. I don't want to take
22 all the bad points and say these folks are no good.
23 I don't think that's right or fair to do. I think
24 you got an excellent work force out there, you got
25 employees that care. They got a terrifically

1 difficult job at times. You ride those buses and you
2 go out there and go to collection areas and see the
3 things these folks go through, it's easy to criticize
4 from time to time, it's an easy thing to do, but I
5 don't think it's fair. They do a good job.

6 We looked at the license issue, we looked
7 at that as a management problem. Even though the
8 union never gave us a complaint or difficulty on the
9 fact that -- they never took issue with the fact that
10 people should be responsible, capable drivers. And
11 that's a starting point. I mean, you've got
12 reasonable people here, you've got a good union,
13 you've got good management. I think you've got a
14 committee doing a terrific job here. I think you've
15 got a good starting point. I just hate to see it get
16 bogged down. I think this commuter rail thing is a
17 huge looming problem which we all know about, and I
18 think the Federal government ought to get in here and
19 pay for it, or do something to help out with it, and
20 I think that's the basic problem.

21 But I don't know about rate increases. I
22 leave that to you. You're the boss in that area.
23 You can comment on that one.

24 CHAIRMAN LINTON: I know I could go on
25 for about another 20 minutes--

1 AUDITOR GENERAL BAILEY: I've been known
2 to do that myself.

3 CHAIRMAN LINTON: --quite frankly because
4 there's a number of items here that I want to
5 address. There's questions as to PennDOT providing
6 clear guidelines for the use of capital expenditures
7 and some issues as to how to cap those expenditures
8 and whether or not the transit authority is clear on
9 what is in fact a capital expenditure and what is
10 not. Also the question I have, a long-going question
11 regarding SEPTA's capital budget programs and how
12 they derive their priorities, what kind of long-term
13 planning do they do in terms of trying to maximize
14 the availability of capital dollars or how do they
15 develop priorities for those capital dollars and how
16 does PennDOT provide some guidance in that respect?

17 Did you get into that in any way in your
18 audit?

19 AUDITOR GENERAL BAILEY: Yes. I'd like
20 to have Chuck comment on that. There are a number of
21 points raised in the audit in that area and perhaps
22 he can comment on it, he and Frank.

23 MR. KRYDER: You brought up a lot of
24 points there. Basically what the report addresses
25 here, I believe it's on page 85, is that really

1 PennDOT, at this particular point in time, doesn't
2 specifically define to SEPTA what they consider to be
3 a capital expenditure. And we feel that they should.
4 In other words, if SEPTA expends maybe \$2,000 or
5 \$3,000 to fix up a bus, and from an accounting
6 standpoint if that extends the useful life of the
7 bus, an accounting standpoint says that that's a
8 capital expenditure. SEPTA has their own internal
9 policies that say, I believe in here, I believe it's
10 something over \$50,000 is a capital expenditure.
11 PennDOT says, well, we're going here by the Federal
12 guidelines that more or less say that it's anything
13 over \$1,000. Well, PennDOT doesn't enforce that.

14 What we're saying is that there's capital
15 expenses that are being submitted to PennDOT that
16 really are being reimbursed at an operating rate. I
17 think you know that they basically get two-thirds
18 reimbursement for operating costs, and approximately
19 16.5 for capital expenditures. So the Commonwealth,
20 in essence, is probably in certain situations really
21 over-reimbursing SEPTA for capital expenses, and we
22 think PennDOT should hone in on that area and develop
23 some specific guidelines.

24 CHAIRMAN LINTON: So the Commonwealth is
25 over-reimbursing?

1 MR. KRYDER: Well, I think they are when
2 PennDOT really doesn't say what is a capital
3 expenditure. We think \$1,000 is too low, by the way,
4 but we think there should be some kind of middle
5 ground, and until they define that and enforce that,
6 obviously PennDOT is going to reimburse some capital
7 expenditures at an operating rate.

8 AUDITOR GENERAL BAILEY: Now, the reason
9 we think that ought to be looked at is that you've
10 got to start with objective evaluations on what's
11 going on before you can really respond to problems
12 and come up with answers. And like the reimbursement
13 that came from the Lottery funds, it's to some extent
14 subterfuge. Now, you know, legislatively I know
15 because in terms of the safe harbor leasing
16 provisions that I had written into law when I was a
17 Congressman, they were meant to help outfits like
18 this in capital cost recoveries. But it is honestly,
19 my amendment was, and some of the approaches taken
20 here in terms of accounting methods, et cetera, we
21 see the same thing, incidentally, in strip mining and
22 in mining reclamation funds, et cetera, a number of
23 areas. It's a subterfuge to an extent, and what it
24 does is distort, when you sit down as a policymaker
25 and look at what really costs, how it costs to do

1 things, et cetera, you don't end up with honest,
2 objective views of where costs are going, what they
3 should be, and how they're accounted for, and we
4 think it should be clarified. But it does lead to an
5 over-reimbursement, in our view.

6 REPRESENTATIVE CLARK: Can I follow up on
7 that?

8 CHAIRMAN LINTON: Sure.

9 Representative Clark.

10 BY REPRESENTATIVE CLARK: (Of Auditor General Bailey)

11 Q. Do you find that the reimbursement rate,
12 the differential between maintenance and capital,
13 would discourage SEPTA or any transit agency from
14 that fact to make capital expenditures that would
15 produce their operating costs? I'm thinking of the
16 rail lines, because when I came to Philadelphia a few
17 days ago, I mean, all I've seen in the news since is
18 the fact that the commuters have been stranded,
19 people have been stuck because of the failure of the
20 system to operate.

21 A. May I answer that in one broad sweep?

22 Q. Yeah.

23 A. This entire system, governmentally and in
24 the private sector, our tax system both in the State
25 and our Federal tax system, did not allow for proper

1 capital cost recovering, which has adversely affected
2 plant and equipment in all sectors of the American
3 economy and has been the major factor, although I
4 haven't seen a politician talking about it at a
5 national level, and I wish they would. They stopped
6 talking about it about four or five years ago. It's
7 been the major factor in American competitiveness, in
8 my opinion, and my answer to that question is yes,
9 but I don't think you are going to be able to solve
10 it. You might be able to impact it somewhat by
11 writing better law, better reimbursement law on a
12 State level. That was precisely the focus, I
13 believe, that the overhaul program was supposed to
14 accomplish and SEPTA started to get with it. It was
15 precisely that, it was to encourage the investment in
16 better capital equipment.

17 Q. Okay, but the question I think -- well,
18 you've answered my question.

19 A. It's yes.

20 Q. But is it evident that SEPTA is pursuing
21 that avenue of seeking as the highest State
22 reimbursement rather than doing what's good for the
23 system?

24 A. That's an outstanding question. Could I
25 suggest that we go back in and take a look at it and

1 focus on it and see if we could provide the
2 relationship there to see that -- and let's get some
3 SEPTA opinion and see that, you know, what you're
4 really saying is that, you know, does it provide not
5 only a lack of incentive to invest, but does it
6 provide an incentive to disinvest almost, or avoid?

7 Q. Well, I'm an accountant in real life too,
8 Don.

9 A. Okay.

10 Q. And I get real interested when we get
11 into these nuts and bolts types of things with
12 agencies, especially regional agencies that don't
13 have anybody to particularly answer to. And my
14 concern is if I'm living in Philadelphia and I'm
15 commuting back and forth to work, everything I've
16 read in the papers, everything I've seen in the
17 primitization study, I've read your audit, it seems
18 that the SEPTA management kind of has a tiger by the
19 tail.

20 A. I agree.

21 Q. That they're having a difficult time
22 running the day-to-day operations, let alone show any
23 initiative.

24 A. Exactly. Exactly. That's exactly what I
25 mean when I'm talking about the planning that you

1 ought to do at a State level. They are so deep in
2 the woods they can't see -- you know, it's almost
3 unfair to say to them, 10 years down the line, why
4 haven't you dealt with the long-range planning
5 problems? It's like when I made the comment on
6 commuter rail and we're saying, you know, government
7 needs to make a commitment, or policymakers, as
8 policymakers, or the public, or whatever. We need to
9 make a commitment so these folks as managers -- it's
10 too easy to criticize them for wanting to just look
11 at cash flow, to live for cash flow purposes tomorrow
12 only when we're not providing the incentives or the
13 structure or the direction to say you will build this
14 way or that way.

15 That's always been a problem with mass
16 transit. That's not SEPTA management's fault. That
17 is the problem. I mean, you're right at the hub of
18 the problem of mass transit policy in the United
19 States of America, and I would think that if you
20 would look at our report on balance, talk to SEPTA
21 management, talk to the union people, I think you'll
22 come to the conclusion that the answer to your
23 question is yes, and you take the little accounting
24 things that you're talking about, those are the
25 building blocks that prove the problem, because, you

1 know, they look at the accounting problem as a way to
2 respond or to solve a cash flow problem or, you know,
3 get me more money right away to do X, Y, or Z, and
4 that's precisely what the problem is.

5 Q. Well, I think if we look at the private
6 sector applications that have been made when
7 financial people got in control of our major
8 corporations, we've seen the effect on employment,
9 and particularly in western Pennsylvania and
10 throughout the nation, where when they can find a
11 better rate of return by not making any good than
12 making a manufactured product, and I think that's
13 what we're forcing this public agency to do here--

14 A. Yeah.

15 Q. --play these kind of accounting games
16 where they get a windfall from the State Lottery
17 Fund, or they can beat PennDOT out of their money for
18 a six-month period. And I don't know whether it's
19 our law forcing them to do it or the fact that
20 they're just so far behind and trying to catch up.

21 A. Well, in fairness to them I think they
22 respond to an environment. They respond to a tax
23 environment. In all fairness to you, it's not just a
24 State issue. If you're talking about plant equipment
25 in the United States of America, the fault lies at

1 the door of the Federal government. Financial
2 managers respond to what investment and tax
3 advantages in law in this country encourage them to
4 do. That's precisely why this country has lost its
5 competitive edge internationally. It is not because
6 of more productive work overseas and all this
7 nonsense that we see in the newspapers, but nobody
8 gets in and studies it. Very few people really do
9 understand it. It's not sexy enough to hit the 6:30
10 news, so you've got to study it and you've got to
11 know it, and I think you're right on top of it, and
12 that's exactly what these folks are doing at SEPTA.
13 They're never going to sit down and look at some
14 situation where they're operating with enough money
15 to provide the needs and the demands that are placed
16 on them by the public and by the press and the
17 ridership and all that kind of thing.

18 So they sit down to say, you know, I come
19 up with money to pay the bills tomorrow, and yeah, we
20 don't plan and we don't structure properly because
21 we've never really made the investment as a society
22 in mass transit. We never have. And we never come
23 up with a good policy in mass transit. We've never
24 done that, which is why we just took the rail system,
25 and in a lot of ways SEPTA was probably pressured

1 into taking something I don't think they particularly
2 wanted to, and they've taken it over, and it's a
3 lousy, poor, anemic, capital asset. That's what it
4 is.

5 And we come up and, you know, from a
6 public or media point of view we complain that, you
7 know, why aren't the trains running on time, why
8 aren't they running adequately? You know, the union
9 takes pay cuts, they do their bit to try to
10 contribute to this thing to make it work, as I
11 understand it, but it's not their fault. You know,
12 it really isn't their fault, and I think as a public
13 we've just got to become educated to the problems and
14 I think that the State legislature -- I really do
15 think that some focus, some large authority or some
16 superauthority, so to speak, would do a much better
17 job of letting you work with and control them on
18 developing State strategies on mass transit, and I
19 think it's time we understood the interrelationship
20 of our regions, it's time that we started looking at
21 the interrelationship of mass transit with our
22 highway systems, et cetera, and I think I would feel
23 more comfortable with more legislative control and
24 oversight. As a policy matter, I really believe
25 that's the step you ought to take, in my view.

1 But these are very general things, you
2 know, far beyond this right here, but you've touched
3 it.

4 Q. Everything I've seen in all the reports
5 points--

6 A. They point the same way. I don't know if
7 there's anything new about it, but I think they point
8 the same way.

9 REPRESENTATIVE CLARK: Thank you, Mr.
10 Chairman.

11 CHAIRMAN LINTON: If there are no further
12 questions, I'd like to thank the Auditor General and
13 his staff for providing us with testimony this
14 morning. It was excellent testimony, as well as the
15 report provides some stimulation, at least for me,
16 for some more thinking on some things that this
17 committee could do to try to better serve the
18 constituents in this five-county area and make sure
19 that they have a safe and adequately functioning
20 transportation system. So we'd like to thank you for
21 taking the time to come before us today.

22 AUDITOR GENERAL BAILEY: Thank you, Mr.
23 Chairman.

24 CHAIRMAN LINTON: Scott Casper, on a
25 closing note, wanted to make mention that we'd like

1 to stay in contact with you and your staff as we have
2 some related questions that may come up regarding
3 your audit as we continue to go through the
4 investigation.

5 AUDITOR GENERAL BAILEY: I would be very
6 happy to help in any way, Mr. Chairman. Thank you.

7 CHAIRMAN LINTON: Thank you very much.

8 Next we have Charles Little, president of
9 Local 2013 Transport Worker's Union.

10 Mr. Little, it's been a request from the
11 committee that you read your presentation so we'll
12 have it in the record.

13 MR. LITTLE: Okay.

14 CHAIRMAN LITTLE: I'm the kind of chair
15 that would like to honor requests from members of my
16 committee, Mr. Little, so I'll request that you do
17 so.

18 MR. LITTLE: Okay. SEPTA has made an
19 error in their judgment on the leasing of cars from
20 Bombardier. The cars which SEPTA intends to lease
21 would be fine on long haul rides, as New York to
22 Washington.

23 In SEPTA's commuter rail system, the
24 stations are fairly close together and MU equipment
25 is needed. MU cars are designed for short haul

1 trips. The term "MU" means Multiple Unit, and in
2 fact each car is an engine. This gives the
3 capability of start-and-stop faster and each car has
4 its own air compressor system, which allows air brake
5 systems to be recharged at each stop. Also, in the
6 event that one of the cars breaks down, the remaining
7 cars can carry it back to the end of the run where it
8 can be repaired without stranding the passengers.

9 The Bombardier cars have a single engine
10 and a single compressor which charges the entire
11 train. This means a delay in recharging at each
12 stop. Also, a single engine, should power be lost,
13 the rescue train must be summoned, thus stranding the
14 passengers in mid-route. The Bombardier cars, like
15 all conventional trains, are meant for long hauls
16 with relatively few stops, thus the rate of
17 acceleration is slower and the top speed is greater.

18 That's about it.

19 CHAIRMAN LINTON: Thank you, Mr. Little,
20 for your brief statement. Any questions?

21 Representative Civera.

22 REPRESENTATIVE CIVERA: Thank you, Mr.
23 Chairman.

24 BY REPRESENTATIVE CIVERA: (Of Mr. Little)

25 Q. Charlie, the MU, and you explained what

1 it means, what's the MU cars verses the Bombardier
2 cars -- I'm not pronouncing it correctly. What's the
3 model and the year? I mean, does the system have
4 more of them than the MU cars?

5 A. This system doesn't have any of the right
6 now.

7 Q. They don't have any of them.

8 A. We have all MU cars. What they want to
9 get into is -- the train they want to lease is a long
10 distance train. It would be great if you were going
11 to give them the Harrisburg line, per se, but for the
12 short stops, it's just the wrong kind of equipment.
13 You'll just burn it up trying to use it that way.

14 Q. And they are now in the process of
15 writing specs and getting these types of cars? Is
16 that a fact?

17 A. Yes.

18 Q. What lines would they be -- are they
19 going to be on, involving?

20 A. I haven't heard exactly what lines they
21 were going to be on. I've heard they were going to
22 be run at some limited service on the Paoli line.

23 Q. On the Paoli line?

24 A. Yes.

25 Q. That would be from Philadelphia to Paoli-

1 A. Yeah.

2 Q. --on the main line?

3 A. Yes.

4 Q. Okay. And that's a lot of stop and
5 start, and stop and start.

6 A. It's quick start-and-stop traffic. For
7 that type of equipment, you'd want to run it like the
8 Harrisburg train runs, you'd go Philadelphia, then
9 you'd stop at Ardmore, then you'd stop at Paoli, and
10 you'd go on out. Where if you're going to go from
11 Philadelphia to Merion to all the way down the line
12 all the little stops, the train just can't do it.
13 It's just not designed for that.

14 Q. The cost factor between the two, do you
15 know any idea what one versus the other as far as
16 cost factor on new equipment?

17 A. No, really you're out of my line there.

18 Q. Well, what I'm trying to get at, is it
19 SEPTA's intent because maybe by going into this other
20 model that it would save dollars? It seems to me
21 that the MU car probably would be more expensive
22 since it has much more equipment on it. I'm just
23 roughly--

24 A. No, I think that the cost would be
25 relatively about the same because you have to

1 maintain the engine on the Bombardier car, and that
2 engine is a much more complicated system than on an
3 MU car.

4 REPRESENTATIVE CIVERA: That's all.

5 Thank you, Mr. Chairman.

6 BY CHAIRMAN LINTON: (Of Mr. Little)

7 Q. Mr. Little, where are we purchasing these
8 Bombardier cars?

9 A. They're leasing them from a Canadian
10 concern.

11 Q. Where, Montreal?

12 MR. CASPER: Montreal.

13 BY CHAIRMAN LINTON: (Of Mr. Little)

14 Q. What is your understanding of why the
15 decision was made to purchase or lease these
16 particular cars versus the MU cars?

17 A. Because these cars were available and
18 they got a good deal on them.

19 Q. And what you're saying, in essence, in
20 your testimony is that the cars that are going to be
21 leased are not appropriate for the kind of usage on
22 the short run system or short stop system of the
23 Philadelphia to Paoli line? This is not an
24 appropriate use for these particular vehicles?

25 A. No, they're definitely not the right car

1 for that job. They're the car for the northeast
2 corridor, New York to Washington, the long haul cars.
3 They're not the right -- they're a car that's good at
4 high speed with few stops. They weren't designed for
5 short, stop-and-start short haul. It's just using
6 the wrong equipment in the wrong place.

7 Q. What would you think would be the
8 likelihood of what would happen if you use such a car
9 on a line which is not designed for it? I'm not an
10 engineer and we don't have Rick Geist with us today,
11 so unfortunately we don't have access to his
12 knowledge in those areas.

13 A. We'd wind up with a lot more public --
14 the public would be a lot madder at SEPTA than they
15 are now because they'd never be maintaining any
16 schedules. When you get in there to the station and
17 the one car's got to sit there and charge up on the
18 air brakes, they'd have a delay there, they'd never
19 be able to maintain a schedule. And if you've ever
20 watched a train coming out of 30th Street how they
21 sort of ease out real slow, that's the same type of
22 equipment that they're talking about using on a
23 commuter line, and if you look at a commuter car, it
24 takes off like a jack rabbit. It gives you the
25 availability for the quick stop and start, and you

1 just won't have it with that long distance train,
2 despite the fact they'll probably burn it up in a
3 very short period of time.

4 Q. So it's your feeling that the trains were
5 leased because they were available, not necessarily
6 because they're appropriate?

7 A. Exactly.

8 CHAIRMAN LINTON: Further questions from
9 members of the committee?

10 Scott Casper.

11 MR. CASPER: Thank you.

12 REPRESENTATIVE CLARK: Scott's a
13 railroader from way back.

14 BY MR. CASPER: (Of Mr. Little)

15 Q. Charlie, on that, are the model names,
16 the locomotives, are they the AEM-7's I've been
17 hearing about?

18 A. I haven't seen the model numbers. I've
19 seen the locomotive and it looks like the AEM-7's.

20 Q. Okay. We can discuss that this afternoon
21 with Mr. Gould. But on the AEM-7's that I've heard
22 SEPTA was acquiring, they're called Swedish
23 Meatballs, designed in Sweden, I think built by
24 General Motors at La Grange?

25 A. Yeah.

1 Q. And I think that maybe Bombardier is
2 rehabilitating them and leasing them out. We'll get
3 a handle on that this afternoon.

4 But the reason that SEPTA may be doing
5 this, you said they got a good deal. Certainly
6 there's nothing wrong with getting a good deal, but
7 do you think it's a situation of short-term dollar
8 efficiency and long-term dollar inefficiency? In
9 other words, SEPTA has a \$27 million unfunded deficit
10 now in their operations. If they can save some money
11 now by purchasing this equipment it will look good on
12 this year's balance sheets, but maybe in the third,
13 fourth, or fifth year that's down the line we may
14 have some problems?

15 A. It won't wait that long to be a problem.
16 It won't wait till the third, fourth, or fifth year
17 to be a problem. That will be a problem that will
18 show up almost immediately.

19 To give it a rough scenario, it's like if
20 you had a job where you needed a bucket and somebody
21 gave you a wheelbarrow to do the job. It's just the
22 wrong equipment. It's no good at all for that type
23 of service.

24 Q. On the compressor, you can help me out.
25 I believe you were a car inspector, you mentioned,

1 for over 20 years, or whatever?

2 A. Yes.

3 Q. Does that have to do with the air brakes?

4 A. Yeah, that charges the whole air brake
5 system of the train. Now, on the MU cars, each car
6 has their own compressor, which enables you to
7 rapidly recharge the air brake system, where when you
8 get into the long haul train, the conventional type
9 of train that this is, you have one compressor on the
10 engine, and that has to charge all the cars. So it's
11 going to take you a lot longer to charge eight cars
12 with one compressor than it would eight cars with
13 eight compressors. And that's basically the
14 capability you need on the short stop-and-start
15 travel is to recharge the system rapidly.

16 Q. In questioning SEPTA staff prior to this,
17 in answer to some more limited questions on these
18 items, this equipment, they mention that they would
19 be utilized on selected routes, with the further
20 stations, such as the Trenton line, for example. I
21 think the Paoli line might have been another one, but
22 I know they talked about the Trenton line, where they
23 do have a little bit more space between the stations
24 and they can accelerate and utilize that speed that
25 these vehicles are capable of. What about the

1 Trenton line? Do you think that--

2 A. The Trenton line would be fine if they
3 were going to go nonstop from Philadelphia to
4 Trenton. That's about the distance that train's
5 supposed to go.

6 Q. But not service the intermediate points?

7 A. But not service the intermediate stops,
8 no.

9 Q. And with that, we're still going to have
10 the same problems?

11 A. With that you'd still have the same
12 problem. A little less of it than a closer station
13 stop, but you'd still have basically the same
14 problem.

15 Q. Because it was my understanding they
16 would be applied only to selected routes, not the
17 shorter runs, like Chestnut Hill, with a lot of
18 intermediate stations. But Trenton, and I think also
19 possibly Paoli.

20 A. Well, there's a lot more cars they're
21 getting than just for that limited type of service,
22 from what I'm gathering from.

23 Q. But do you think that is their
24 motivation, the fact that they're getting a good deal
25 on this? This year, this year they're going to save

1 some money than they would if they bought maybe the
2 equipment that they may like to buy, but then let it
3 show up later on?

4 A. What it looks like is they're getting a
5 new toy and they're trying to justify how to use it
6 by telling you they're going to use it on the Trenton
7 line.

8 Q. Well, if they got a good deal on the
9 locomotives, apparently rather than just going out
10 and trying to get space age equipment to ride on the
11 rails, it appears as though with that good deal that
12 you've mentioned that maybe they are trying to save
13 some money in the short run. There's nothing wrong
14 with that unless they cost some more money next year
15 and the year after.

16 A. And it definitely will cost them more
17 money in the long run. They're trying to justify the
18 use of that equipment by almost making new runs that
19 they don't have. They don't have a nonstop from
20 Philadelphia to Trenton. Now, if they're trying to
21 justify it by saying their going to use it on that
22 line for the long run, what good is it? It's not
23 going to solve their daily problem of getting people
24 from home into work and back to home again.

25 Q. And you feel there will be needed an

1 adjustment in the schedules?

2 A. Definitely. It would never maintain the
3 same schedules as an MU car.

4 MR. CASPER: That's all.

5 CHAIRMAN LINTON: Representative Civera.
6 BY REPRESENTATIVE CIVERA: (Of Mr. Little)

7 Q. Charlie, in your testimony here you say
8 on the second paragraph that the Bombardier car has a
9 single engine and it has a single compressor. What
10 do you mean by that? When the car comes into a stop
11 and it stops, basically what I see now when I take a
12 train to Harrisburg, and I've watched the other
13 trains, the compressors go on. Does that mean --
14 what do they charge when those compressors go on?

15 A. The air brake system.

16 Q. Okay. So on this new type of train, the
17 air brake system would only be where, where the
18 engine is?

19 A. The engine would have the only compressor
20 and it would be pumped back to the cars.

21 Q. Okay. So I'm looking at a safety factor
22 here, since when we have a situation I'm very
23 conscious of the 69th Street with P&W. If that
24 compressor fails, that means those brakes aren't
25 going to work?

1 A. The train is basically going to stop if
2 the compressor fails. They're not going to be able
3 to get it running. It's not the type of a system
4 that would give you no brakes as you're running down
5 the road. It's the type of system when it runs out
6 of air will put the brakes on, and you'd just sit
7 there.

8 Q. Would it stop?

9 A. It would stop. It should stop.

10 Q. And with the type of cars that we have
11 right now, each individual car has its own compressor
12 and its own braking system?

13 A. Right. So if you lost the one compressor
14 on the type of cars you have now, the other
15 compressors would make up the difference. It would
16 be slower but you'd still have other compressors
17 there to pick up the load for the one that went down.

18 REPRESENTATIVE CIVERA: Thank you, Mr.
19 Chairman.

20 CHAIRMAN LINTON: Other members of the
21 committee?

22 (No response.)

23 CHAIRMAN LINTON: Okay, Mr. Little. We'd
24 like to thank you for your testimony, and this is
25 some new information, at least to the chairman, I'm

1 not sure the other members of the committee, and
2 that's something that we need to ask some additional
3 questions for Mr. Gould when he comes this afternoon.

4 MR. LITTLE: Okay. Thank you for your
5 time, Mr. Chairman.

6 CHAIRMAN LINTON: Thank you.

7 We'd like to break now for lunch break,
8 and I would suggest that we return at 1:30.

9 (Whereupon, a recess was taken.)

10 CHAIRMAN LINTON: We'd like to call the
11 hearing to order. The recess is over.

12 I'd like to ask Lou Gould, the chairman
13 of the SEPTA board, to come to testify. I also might
14 add if you'd like someone else to be there with you,
15 Mr. Gould, and need someone else to accompany you in
16 your testimony, that's acceptable.

17 MR. GOULD: You're anticipating me,
18 Representative Linton. There are two other board
19 members who are here with me today, Miss Mary Harris
20 from the city of Philadelphia, and Brian Clymer from
21 Delaware County, and if it's agreeable with you, I'd
22 appreciate it if they could join me here at the
23 witness table.

24 CHAIRMAN LINTON: Sure. You may proceed.

25 MR. GOULD: I have presented to you

1 gentlemen a written statement for the record, and
2 there have been some attachments which you also have.
3 I would just propose to summarize that statement.
4 First of all by telling you that the statement
5 includes a portion which deals with the structure and
6 the composition and the functioning of the SEPTA
7 board. It has with it attachments of recent board
8 agendas so that you can see the kinds of things that
9 the board deals with on a regular basis.

10 In terms of other things that are in the
11 statement there is a portion which deals with the
12 issue which we most generally deal with you people
13 about, and that is with the issue of funding. And I
14 would like to state in the beginning that we at SEPTA
15 are extremely appreciative of the support that we
16 have enjoyed in the last couple of months from the
17 General Assembly in terms of funding for operating
18 assistance for the next fiscal year. We have had an
19 opportunity to work with the other transit
20 organizations in the Commonwealth and in turn through
21 that group to work with both the people in the
22 General Assembly and in the Casey administration to
23 try to emphasize the need for continued ongoing and
24 enhanced funding for operating assistance. Each of
25 you were very supportive as we sought to attain the

1 additional funding and we're very appreciative for
2 that.

3 CHAIRMAN LINTON: Mr. Gould, may I ask
4 you, in that we only have one copy of your testimony,
5 you have a lot of attachments here, which we
6 appreciate, but no copies.

7 MR. GOULD: All right.

8 (Whereupon, Mr. Gould handed copies of
9 his prepared testimony to the Chairman.)

10 CHAIRMAN LINTON: Thank you. You may
11 proceed.

12 MR. GOULD: You're welcome.

13 There are two areas in terms of funding
14 that I want to emphasize to you that you will be
15 facing I believe as the General Assembly reconvenes
16 in the fall. The first is the issue of the
17 legislation which deals with the change in the
18 formula by which mass transit authorities are funded
19 for their operating assistance by the Commonwealth of
20 Pennsylvania. As you know, the present funding
21 formula provides assistance to mass transit
22 authorities based on the deficit that those various
23 authorities may have. That has proved pretty
24 generally to be unacceptable or not highly workable
25 kind of a formula. There is legislation which would

1 change the funding formula to make it something akin
2 to a grant and it would provide for incentives for
3 the transit authorities to become more efficient.
4 That legislation, I believe, is in condition for
5 consideration by a conference committee, and we're
6 hopeful that it will be considered and supported when
7 you reconvene in September.

8 There is, in addition, legislation
9 proposed that would provide us additional capital
10 money that would be used to offset some of the
11 capital expenses that we fund out of our operating
12 budget. That was a proposal of Governor Casey when
13 he was campaigning and one which continues to be
14 something that enjoys his support and something that
15 would be very helpful to us.

16 Apart from the operating assistance,
17 which, as I've said to you, is very important, we on
18 the SEPTA board are becoming increasingly consistent
19 about our ability to deal with the very tremendous
20 amounts of additional money that we need to satisfy
21 the capital needs of the transit authority. It's
22 been known for at least the last several years, since
23 the time that former Secretary of Transportation,
24 Bill Coleman, completed his study, that the regional
25 rail system alone needs an infusion of \$1 billion in

1 order to bring it up to good operating condition.

2 This committee took the opportunity to
3 visit the commuter rail system not too long ago, so
4 you have firsthand experience and firsthand insight
5 into the needs that there are on the railroad. We
6 have 300 bridges, all of which need repair. The
7 signal system in many cases is the original signal
8 system that was put in as much as 50 or more years
9 ago. The power supply systems are equally in not
10 good condition. We've done some work on track but
11 there's a great deal more work to do on the track
12 areas. The same situation holds true with our
13 stations.

14 Just generally, in terms of the
15 facilities, they all need upgrading. The equipment
16 itself, the silver liner cars, are long past due for
17 major overhauls. In any event, in some we know that
18 the cost of dealing with the capital improvements on
19 the railroad is \$1 billion. Transit, what we spend a
20 lot of money on is capital improvements on the
21 transit side of the business, but there's still the
22 need to do more there. We have one new bus garage in
23 Allegheny, but we have many more bus garages that
24 need to be replaced, the same as that one was.

25 So that we know that we cannot deal with

1 our needs on the capital sides with the current
2 funding that we receive from Washington. Washington
3 has in the past paid between 75 and 80 percent of all
4 the costs of the money that's expended for capital
5 improvements, but funding on the Federal level is
6 declining. We know that in the northeast, our sister
7 States, Massachusetts, New York, New Jersey,
8 Maryland, Delaware, have all recently enacted
9 substantial funding measures for capital improvements
10 and their mass transit systems, in addition to the
11 money that comes from the Federal government.
12 Massachusetts has just enacted legislation providing
13 for \$800 million for mass transit capital
14 improvements. New York State, the number is
15 something like \$12 billion. New Jersey it's several
16 hundreds of millions of dollars, the same in Maryland
17 and in Delaware.

18 We know that in addition to solving the
19 problems that we have in our own infrastructure, an
20 investment made in capital funding in mass transit
21 here and other places across the Commonwealth does
22 not only attempt to deal with the problems that we
23 have in an operating point of view, but it also is a
24 great aid to the economy to the Commonwealth of
25 Pennsylvania. Whenever we use and expend our money

1 for capital improvements with businesses that are
2 located in the Commonwealth of Pennsylvania we get
3 good supplies and good services from those people and
4 we also help the economy in doing that. This region
5 is one that's undergoing a resurgence right now.

6 One of the things that we find that is
7 most interesting to us in dealing with a regional
8 transit authority is that we no longer, in terms of
9 bringing people into the city to work and moving
10 people around the city, are exclusively confined to
11 that kind of service. By that I mean we have the
12 phenomenon where in many lines we have as many people
13 on our trains and on our system going from the city
14 of Philadelphia to the suburbs to work as we do
15 coming into the city from the suburbs to work. What
16 we need is an ability to not only upgrade our
17 facilities and not only to keep the existing
18 facilities that we have in good condition and the
19 existing equipment in good condition, but we really
20 need to expand it. There is a need, for example, to
21 provide mass transit services for people who want to
22 get from the city of Philadelphia to our western
23 suburbs, and from our western suburbs to jobs in the
24 great valley corporate center, the new center that
25 Mr. Rouse is going to be building on the Church farm.

1 The same thing is happening in Bucks and
2 Chester Counties. As industry expands in the outside
3 confines of the city of Philadelphia, it needs people
4 from the city of Philadelphia to come out and work,
5 the same as people in the suburbs traditionally come
6 into the city. So we see it as a real opportunity
7 for us to be part of the economic growth which is
8 happening right now in this five-county region to the
9 benefit of our system, but more importantly to the
10 benefit of the people who live within this region and
11 who depend upon us to get back and forth to work, as
12 well as the other things for which they use SEPTA.

13 So that is kind of an overview and a
14 summary of the things that are in my written
15 testimony today. Again, I'd like to just close this
16 out by saying we do appreciate the support that you
17 have shown for our system. We appreciate the
18 interest that you have in the system by coming here
19 -- I think this is the second day of hearings that
20 you've held about our system. I know that you were
21 here to visit the system. We appreciate all of that
22 and we hope to be able to provide you with whatever
23 information you may want, and I and my fellow board
24 members would be happy to respond to the questions
25 that you may have.

1 CHAIRMAN LINTON: It's been a very good
2 beginning.

3 Any comments from any of the board
4 members before we pursue questions?

5 (No response.)

6 CHAIRMAN LINTON: Representative O'Brien.

7 REPRESENTATIVE O'BRIEN: Thank you, Mr.
8 Chairman.

9 BY REPRESENTATIVE O'BRIEN: (Of Mr. Gould)

10 Q. Mr. Gould, you made reference to a
11 funding bill that's currently before the House of
12 Representatives and the Senate, Senate Bill 516,
13 which is currently in a conference committee. Can
14 you tell me if you have any objections to that bill
15 in its current form, and if so, what they are?

16 A. Well, in terms of the change of the
17 formula, we certainly agree with that, and I believe
18 that the bill has in it a provision for the change
19 from operating to capital assistance, and we
20 certainly have no problem with that. I understand
21 that in addition to those provisions, and I'm not
22 sure whether these provisions originate in the House
23 or in the Senate, but I understand that there are a
24 provision in there with respect to a controller to
25 the board, and that there is a provision in there

1 with respect to exterior advertising on our buses.
2 I'm not familiar with -- not only buses, but I guess
3 our other vehicles as well. I'm not familiar with
4 the precise language of those provisions, but that is
5 my knowledge of what's in the bill. I haven't read
6 it any more carefully than that.

7 Q. And I guess the question recurs. Do you
8 have any objection to any of those provisions that
9 are in the bill?

10 A. I don't know what you mean by objection.
11 I mean, we want to cooperate with the General
12 Assembly in terms of what it is looking for from this
13 authority. If you want to deal -- we certainly have
14 no objection to the change in the funding formula, we
15 certainly have no objection to the additional money
16 that would come to us from the capital side as
17 opposed to the operating side. When you come to the
18 other two issues which I mentioned, exterior
19 advertising on our vehicles, and when you come to the
20 issue of the controller of the board, those are both
21 issues which we as a board in the past have
22 addressed.

23 They are issues which we would be happy
24 to again consider, and in fact in terms of the
25 exterior advertising, the board will be considering

1 that issue probably at its meeting in August because
2 the authority has presently on the street a request
3 that people who might be interested in providing that
4 service to us make proposals to us, and those
5 proposals are to be presented to the authority, I
6 believe, on the last day of the month of July, and we
7 would hope that the staff can go through those things
8 and come back to this board with a recommendation.
9 And then it will be up to us as a board to decide
10 whether or not there is sufficient income provided by
11 the people who would be interested in putting the
12 advertising on the buses to offset the costs that we
13 know which would be incurred in doing that, so I
14 believe that by the time that the General Assembly
15 reconvenes, the SEPTA board will have had an
16 opportunity to consider again the issue of exterior
17 advertising. I can't tell you what the reaction to
18 the board will be because I don't know what the
19 proposals will be.

20
21 With respect to the other issue, the
22 controller of the board, that's another issue which
23 we as a board are dealing with and probably will have
24 dealt with again before the General Assembly
25 reconvenes. Mr. Clymer, who is here on my left, is
the chairman of the board's Budget and Audit

1 Committee, and I have asked him to consider, with the
2 management, the issue of the controller of the board.
3 We believe that at the present time as a result of
4 actions which the board took a couple of years ago,
5 that we are in compliance with the legislation
6 dealing with the controller of the board right now.

7 I understand that there are people in the
8 General Assembly who feel that we are not in
9 compliance with that legislation. I can tell you
10 that it is the intent and desire of the SEPTA board
11 to be in compliance with the legislation, and I am
12 certain that by the time that the General Assembly
13 reconvenes in September that the board will have
14 again considered that, and that Mr. Clymer, under the
15 auspices of his committee, will be making a
16 recommendation to us as a board when we meet probably
17 in August.

18 So I think that in terms of both of those
19 issues you will have a position of the SEPTA board to
20 have as a framework when you consider that
21 legislation again in September.

22 Q. Okay. Mr. Gould, on the controller
23 issue, the Auditor General, Don Bailey, was here this
24 morning and there seems to be two schools of thought
25 on that issue. He said that he believes that there's

1 adequate functions within SEPTA right now that
2 perhaps a controller would be a duplicate function.
3 So I will anxiously await--

4 CHAIRMAN LINTON: No, I correct that
5 statement. That's not what the Auditor General said.

6 REPRESENTATIVE O'BRIEN: Oh, well, my
7 understanding of it was that he said that there is
8 someone in the body of SEPTA that currently performs
9 a controller function, and that he did not know
10 whether it would be necessary to duplicate that
11 function. But I know that you have another view on
12 that, and that's why I said there was two trains of
13 thought, and I have not come down on either side of
14 that issue, so I'll leave that to you.

15 CHAIRMAN LINTON: I think if we go back
16 to the testimony, and the stenographer will have that
17 testimony, it will be clear, very clear, that the
18 Auditor General was extremely clear on his position
19 on the controller.

20 A staff member made a position, and I
21 think that had to do with some interpretation of what
22 in fact a controller was versus an auditor. A staff
23 member made it pretty clear he felt there were some
24 internal controls of SEPTA to some degree were very
25 good, and therefore they had someone as assistant

1 treasurer that complied with that provision. But the
2 Auditor General made it very clear that in terms of
3 the need for the Commonwealth and in terms of needs
4 of the General Assembly to have a better feel for
5 what is in fact going on in the system, that he felt
6 a controller, an independent controller, would in
7 fact provide a very good function. If I'm correct
8 from the other staff. I see staff shaking their
9 heads. They seem to be in agreement with my
10 interpretation.

11 Denny, you may continue.

12 REPRESENTATIVE O'BRIEN: Go ahead.

13 MR. CLYMER: If I might make a comment.

14 In the broader sense in the terms of both of those
15 methods or whatever they are as part of the
16 legislation that's currently going to be considered,
17 I don't think we have a problem with either the
18 concept that the authority should in fact look at any
19 concept, such as exterior advertising, which would be
20 a revenue source to the authority. If you understand
21 in the past, there was very little incentive on the
22 authority to take such a cost saving measure because
23 under the old formula, which is deficit driven, it
24 would merely be an offset to an expenditure. Those
25 dollars would be in fact pulled back in under

1 PennDOT's formula and reallocated to the rest of the
2 State. So the incentive to do something like that
3 was minimal, or at least reduced.

4 Under this exact piece of legislation,
5 the incentive to do something such as the exterior
6 advertising is greatly enhanced because to the extent
7 that we're able to do that in Philadelphia, we're
8 able to keep those revenues in Philadelphia, and that
9 would be very beneficial.

10 So in concept, I don't think we have a
11 problem with that. I think, as I understand it and
12 as it's been told to me, not as I've read it, the
13 exterior advertising puts some fairly severe
14 penalties or some teeth into it in the event that we
15 don't carry forward or the event that we make a
16 decision other than the one that's being mandated by
17 the legislature, and that the decision as the outcome
18 of the advertising or how we implement it is really
19 going to be a business decision based on the results
20 of the requests for proposal and proposals as they
21 are presented. And really the people best suited to
22 make that decision is probably us at the local level
23 as members of that board. To put penalties on it for
24 deviating from that specified formula I think would
25 be unfair.

1 From the standpoint of the controller, I
2 have always felt, as a CPA, that the functions -- and
3 we have made some changes over the past years as to
4 the reporting of, for example, our internal audit
5 department, our assistant treasurer, in terms of the
6 functions they provided and the way they reported
7 within our system. We've changed that around so that
8 in some cases they reported actually directly to the
9 board, as a controller would.

10 The office of controller was something
11 that was set up under Act 101, or it allowed to exist
12 under Act 101. As I understand it as it exists in
13 the amendment, creates an animal different than a
14 classic controller. It would create a controller
15 that would in fact report back to the Secretary of
16 the Commonwealth. That creates a fiscal animal like
17 no other I've ever seen. I don't know of any
18 authority, -- either the Commonwealth or any
19 corporation, or anything anywhere, that has a
20 controller reporting outside of that organization.
21 The effect of that would be to create a mechanism, a
22 bureaucratic mechanism, that would be extremely
23 cumbersome to the operations of the authority.

24 I don't disagree with your finding that
25 perhaps we're not in technical compliance with the

1 fact that we have a controller. I think we can
2 remedy that. I think we can come into compliance
3 with the legislation. I think that the proposed
4 amendment may be correct in its intent, but perhaps a
5 little bit severe in the way that that language was
6 drafted.

7 MR. LANDIS: May I read you from the act,
8 or the bill?

9 "The controller," -- this is the part of
10 the report--

11 MR. CLYMER: Excuse me, is this the 516?

12 MR. LANDIS: 516. "The controller shall
13 conduct monthly examinations of the authority and
14 report the results of his or her investigation to the
15 board and the chief operations officer and the
16 Secretary of Transportation." So the Secretary is
17 the third person in line. The major players are in
18 your organization.

19 MR. CLYMER: Okay. Well, that was
20 probably a misunderstanding on my part.

21 MR. LANDIS: I have the bill here.

22 MR. CLYMER: Yeah. One of the problems
23 that is created and one of the things that we need to
24 examine is looking at that function and bringing
25 ourselves into the technical compliance with--

1 CHAIRMAN LINTON: Mr. Clymer, could you,
2 in response to Mr. Landis' reading of the exact
3 language, could you tell me what the problem is with
4 that particular language? I would go further than
5 Representative O'Brien, and to go beyond the
6 statement that he made. Mr. Gould made some very
7 good remarks in terms of the support that came out of
8 the Commonwealth, the desire of both SEPTA and all
9 the PAMTA members to have a new funding formula, and
10 the issue with the change in the concept of capital
11 dollars so that one of the concerns that SEPTA has
12 can be resolved, and hopefully we'll be able to go
13 forth in September to resolve that.

14 But quite frankly, the reason the bill is
15 in conference committee is because SEPTA decided that
16 the two amendments that they did not like, and led
17 the charge to nonconcur on the bill, twice
18 nonconcurrence on the bill. And the information I
19 had was that it was said that the board said that
20 these two amendments were unacceptable, and therefore
21 we cannot support the bill in its current form.
22 That's information that I have.

23 So in that response, I'd like to know,
24 has the board taken a position on these two
25 amendments?

1 MR. CLYMER: No, I don't think the board
2 has taken a position on that. We have had no formal
3 meetings or briefings on Act 516. Our position has
4 always been based on the actions that we've taken in
5 the past in terms of how we have structured the, you
6 know, the internal operations of the authority as it
7 now exists.

8 CHAIRMAN LINTON: Then it was
9 communicated from SEPTA that those two amendments
10 were unacceptable and therefore the bill should not
11 be passed in its current form?

12 MR. GOULD: Mr. Chairman, the SEPTA board
13 did not do that at all.

14 MR. CLYMER: There were no board meetings
15 held during the time, other than, you know, our
16 regularly scheduled board meeting at the end of June,
17 during the time you had your budget hearings.

18 CHAIRMAN LINTON: Then when your
19 assistant general manager made statements to
20 legislators at 3:00 or 4:00 o'clock in the morning
21 that that legislation is unacceptable because of
22 those two amendments, then who was he speaking for?

23 MR. GOULD: He's speaking for SEPTA.

24 CHAIRMAN LINTON: He's speaking for
25 SEPTA?

1 MR. GOULD: Yeah.

2 CHAIRMAN LINTON: For SEPTA management
3 without SEPTA's board approval? Is that what you're
4 saying?

5 MR. GOULD: I can tell you that whatever
6 time that occurred, there was no communication with
7 the SEPTA board as to what was going on in the
8 legislature at whatever hour of the day or night it
9 was. And there was no consideration by the SEPTA
10 board of 516 in its form as it sits there right now
11 or in any form in which it may or may not have been
12 amended by the House or by the Senate. So the SEPTA
13 board has not done that.

14 I'm certain that what my guess would be,
15 and I can't speak for the assistant general manager,
16 but my guess would be what Mr. Whooten was doing was
17 what he felt was the proper thing to do in terms of
18 the management of this authority and what he believed
19 would have been the intent and the desire of the
20 SEPTA board. But I can tell you that there was no
21 action by the SEPTA board with respect to that
22 legislation at all, in any of its form.

23 We don't have an opportunity, and I don't
24 know that we would consider legislation or amendments
25 that are -- you know, there are many times that

1 people make amendments or offer amendments in either
2 house that may or may not then become part of the
3 bill, and we don't sit down and try to analyze each
4 one of those or to have the position of the SEPTA
5 board on them.

6 CHAIRMAN LINTON: It seems to me that
7 there's nothing new in 516, okay? House Bill 1552,
8 which included, okay, the provision, particularly
9 around the controller, had been in the hopper for
10 quite a while, and I'm quite sure with the number of
11 hired people that you have on your staff as
12 lobbyists, including those who are staff members
13 themselves, that at least the chairman of the board
14 would have known what the issues were that were
15 surfacing in Harrisburg. Now, it would seem to me
16 that at some point some communication could have,
17 should have, or probably was made to the
18 representatives of this authority, whether it is the
19 board or it is the management, or what the position
20 is on various pieces of legislation. And if it was
21 1552, which was amended into Senate Bill 516, it
22 seems to me that the person who made a statement on
23 the Senate floor or outside the Senate floor
24 evidently had gotten some feeling from someone what
25 the position was on those amendments.

1 REPRESENTATIVE O'BRIEN: May I interject
2 one thing?

3 Just as a follow-up to Gordon's
4 questioning, I would like to know, since Rick is
5 interested in responding, I'd just like to add
6 another question before you respond, Rick, a follow-
7 up to Gordon's questioning on who you get your
8 information from on whether to support amendments
9 proposed by either the House or the Senate or to
10 oppose those amendments.

11 And Mr. Gould, in your recent testimony
12 you said that -- you referred to these amendments
13 coming up at 3:00 or 4:00 o'clock in the morning and
14 it's understandable that communication is a little
15 difficult at that time, although I know several
16 people that were on the phone across the Commonwealth
17 at 3:00 or 4:00 o'clock in the morning with various
18 legislators and they found their interests very
19 important. They stayed up throughout the evening.

20 In House Bill 1552 there was an amendment
21 that I can speak to, and it deals with the exterior
22 advertising on the SEPTA vehicles, and that was put
23 in in the beginning of June. And I would like to
24 know, since there was opposition by Rick and the
25 other people in Harrisburg to that amendment, who

1 gave them that authority to oppose that and whether
2 it came from the board, whether it came from SEPTA
3 management, so that I would know for my interests who
4 I would deal with at SEPTA to ascertain what's going
5 to happen with this exterior advertising and who's
6 going to be responsible for the implementation of
7 this policy or who's going to recommend against it
8 and why they want to make that recommendation.

9 I introduced an amendment to House Bill
10 1552, and basically that amendment read that all mass
11 transit authorities in Pennsylvania should explore
12 alternative sources of revenue, including but not
13 limited to exterior advertising on buses, and as a
14 result, if they did not comply with -- if they did
15 not have a contract in force, then their level of
16 funding would revert to the prior year. Which means
17 in effect that SEPTA would not get the advantage of
18 the change in formula of that increased funding.

19 That amendment went over in 1552. It is
20 still in the Senate Transportation Committee. House
21 Bill 516 before -- or Senate Bill 516 before it came
22 over to the House was amended in the Senate
23 Transportation Committee, and I understand that that
24 language was directed by SEPTA, and I'll just tell
25 you the difference in the language. It says, "To

1 explore alternative means of raising revenue,
2 included but not limited to real estate leases and
3 rentals, equipment leases and rentals, and contracts
4 for interior and exterior advertising on authority
5 equipment on which the public is charged a fare for
6 riding, provided however that on rail passenger units
7 only interior advertising shall be considered. The
8 award of contracts or leases under this paragraph
9 shall be made through the solicitation of competitive
10 bids, and the contracts or leases shall be awarded to
11 the highest responsible bidder, unless an authority
12 proves to the satisfaction of the Department of
13 Transportation that the utilization of this power to
14 raise nonfare revenue is not feasible or cost
15 effective. If at any time during its fiscal year an
16 authority does not have a contract in force to raise
17 advertising and other nonfare revenue, as is feasible
18 under this paragraph, financial assistance from the
19 Commonwealth shall be limited for that fiscal year to
20 the amount of funding received by the authority
21 during the fiscal year immediately prior to the
22 fiscal year in which this paragraph takes effect."

23
24 Now, I, in the interest of cooperation
25 with my colleagues in the Senate, took the language
from the accepted Senate amendment that described

1 alternative sources of revenue and readily admitted
2 that my language was deficient. But in the Senate
3 amendment, they said that they wanted further study,
4 and that SEPTA should make a report to the Department
5 of Transportation. The Department of Transportation
6 would then report its findings to the standing
7 committees, the Appropriations Committees and the
8 Transportation Committees of both houses as four
9 committees, to the Auditor General, and within 30
10 days those committees should approve or disapprove of
11 the findings, end of story. That means that it's
12 never going to get done. SEPTA advertising is never
13 going to happen in the Commonwealth of Pennsylvania.

14 So I assume that my brothers in the
15 Senate accepted the idea that SEPTA and other transit
16 authorities in the Commonwealth of Pennsylvania
17 should explore all alternative sources of revenue,
18 self-help measures of revenue. The House has voted
19 on two occasions, 148 in favor, 160 votes in favor on
20 the second amendment, which is incorporated into
21 Senate Bill 516. And since this idea of exterior
22 advertising has been on the table since 1984, I think
23 it's about time that the legislature know where the
24 SEPTA board stands on the issue of exterior
25 advertising. I don't know that this has ever been

1 brought to the board, and if it has been brought to
2 the board, I'd like to know that.

3 MR. GOULD: Well, Mr. O'Brien, I can tell
4 you, it was brought to the board. I can't tell you
5 exactly the year. It was '81 or '82, and the board
6 decided very clearly that it was not in our interest
7 to have exterior advertising on our vehicles.

8 REPRESENTATIVE O'BRIEN: There was a
9 formal vote?

10 MR. GOULD: Yes, there was a vote, and we
11 decided that it was not the thing that we wanted to
12 do, and the reasons were very clear, and that was
13 that we did not make sufficient revenue from it to
14 compensate for the costs that were incurred -- not
15 only the costs that are incurred in putting the
16 frames on our vehicles, which destroy the vehicles or
17 have the ability to destroy the vehicles, but the
18 costs that are incurred in maintaining those vehicles
19 and keeping them in the appearance that we feel is
20 important to keep them graffiti-free and to encourage
21 the ridership that we have gotten.

22 The board, the last time that this issue
23 was before the board, the board decided very clearly
24 that it did not want exterior advertising on our
25 buses, and we're not alone in doing that. The

1 transit authority in Boston has just decided that it
2 will ban exterior advertising from its buses. But as
3 Mr. Clymer said, this board will again consider the
4 issue and we have directed and the management has
5 gone out and is soliciting proposals for it.

6 Now, I told you when we started here
7 today I'm almost certain that we will have this due
8 to consider when we meet in August, so you will then
9 have another.-- the board will have and will make a
10 decision. Whether it will be the decision that is
11 recommended by the management or whether it will be a
12 decision which is not recommended by the management,
13 I can't tell you. As Mr. Clymer said, we are all
14 appointed by either the mayor, the county
15 commissioners or the county council, or by the
16 Governor, and we will have to consult with them. It
17 will have to be a decision which is going to be made
18 in concert with those people.

19 Now, those people who appoint us will no
20 doubt confer with you and your colleagues to
21 understand what your interests in it is, and I can
22 assure you that you will get a full and fair
23 consideration by the SEPTA board of this issue, and I
24 am certain that it will probably come about in
25 August, assuming that people respond to the bids on

1 the date that they are required to, which is July --
2 whatever the last day of business is in this month.
3 I think it's July 31. So you will get another
4 determination by the SEPTA board on this issue.

5 BY REPRESENTATIVE O'BRIEN: (Of Mr. Gould)

6 Q. If I can, let me just go through some of
7 the reasons that you stated that SEPTA had a problem
8 with exterior advertising.

9 Back in -- my history does not go back to
10 1981. I would be very interested in how the SEPTA
11 board arrived at that decision, what they used for
12 the basis of that decision and what the vote was and
13 who voted on that decision, because it's been --
14 we've been asking that question and up until this
15 point we have not been provided with any information
16 that SEPTA has ever taken any formal action on this.
17 But if you have that information, I would be glad
18 to--

19
20 A. We'll provide it to you.

21 MR. CLYMER: It happened with Dave Gunn,
22 who was the general manager when it came up. The
23 numbers were much smaller than they are now, which is
24 one of the reasons it's being reconsidered.

25 REPRESENTATIVE O'BRIEN: Okay.

MR. CLYMER: But it was done based on

1 that staff evaluation of the cost effectiveness of
2 the advertising at that time. The revenue dollars we
3 got in versus the man hours, the labor hours, and the
4 cost that SEPTA had in managing it at that time.

5 MR. GOULD: And you have to also
6 understand--

7 REPRESENTATIVE O'BRIEN: Okay. I know
8 it's a whole different proposal, and that's what I'm
9 getting to.

10 MR. GOULD: And the other thing that you
11 have to understand is, Mr. O'Brien, that we as a
12 board depend very heavily upon the professional
13 managers that run our system to give us advice and to
14 give us recommendations about what they think is in
15 the best interests of the passengers and the
16 vehicles, and I can tell you at the time that we last
17 looked at it, the professional managers who are paid
18 to run the transit authority and who do a very good
19 job at it, it was their recommendation that this
20 would not be something that was in the best interests
21 of the authority. And that's something that we will
22 again pay very close attention to, because we have
23 great confidence in their ability to do a job, and
24 they do a good job, and we will clearly listen to
25 what they have to say. But we will also listen to

1 what the proposer has to say, and if there is a cost
2 effective way that would bring this authority revenue
3 that will be in excess of what the costs are and it
4 makes sense to us to do it, then, you know, the board
5 will very clearly consider it.

6 But we're going to very clearly also
7 consider the recommendations and the information that
8 we get from the people who have to deal with this day
9 - in and day out as they're putting 2,500 vehicles on
10 the street every day and carrying a million
11 passengers a day. And I submit to you that that's a
12 more important function than is providing advertising
13 space. But the issue will get a full and fair
14 consideration based on the information that comes to
15 us from the national advertisers and the information
16 that comes to us from the people who do the job every
17 day.

18
19 REPRESENTATIVE O'BRIEN: In February of
20 1984, Mr. Mack, in a letter, said, "Our experience
21 with that advertising made it fairly clear that it
22 did not generate sufficient revenue to warrant
23 dealing with the negative impact it had on the
24 appearance of the vehicle."

25 As Mr. Clymer just pointed out, this new
proposal, they're talking in excess of \$16 million

1 over a 10-year period. And also on July 21, 1986,
2 Rick Whooten said that \$1.2 million that they're
3 willing to pay in 1987 for the right to advertise on
4 the exteriors is relatively insignificant. I would
5 like maybe for the members of the board to comment on
6 whether they think \$16 million over 10 years or \$1.6
7 a year or \$1.2 million is insignificant revenue.

8 MR. CLYMER: This isn't an entirely new
9 process to the board. I mean, it's not unknown to us
10 that a proposal will come up to the staff or come up
11 to where it will be rejected, because of either lack
12 of communication or understanding of the thing, will
13 come back to the board because somebody will complain
14 and write a letter and it will go back in for
15 reconsideration. And this has been a particularly
16 torturous route I think we've taken on this exterior
17 advertising in order to get everybody into an
18 understanding of just exactly what happened on this.

19
20 When this came up initially a year or so
21 ago, it was again the staff's opinion that based on
22 the costs as they saw them, that the cost of doing
23 it, and the \$16 million you refer to was a gross
24 number, that by the time they netted the expenses and
25 costs out of it that it would not be terribly revenue
generated from the authority and therefore wasn't

1 worth the effort and the manhours involved in doing
2 it, you know. And as you're well aware, there were
3 ensuing complaints from vendors that in fact it could
4 be made to work, at which point the staff was asked
5 to reconsider and in fact structure an RFP in such a
6 fashion that everyone's concerns could be taken into
7 consideration, and I think that process is what is
8 now culminating into what we hope will be a
9 successful revenue generating operation for the
10 authority.

11 REPRESENTATIVE O'BRIEN: If I -- I'll get
12 to that point in one second, Brian, but there was a
13 formal proposal, I understand, in March of 1986
14 whereby it was offered that the installation and
15 maintenance of the advertising frames and the
16 advertising copy would be maintained at the vendor's
17 expense, and that they would guarantee, guarantee
18 revenue of \$16,464,000 over a 10-year period. And
19 I've seen that proposal, I know other members of the
20 legislature have seen that proposal. It's been
21 commented by you, Lou, on that proposal, and I
22 just--

23 MR. GOULD: That was, I believe, a
24 proposal that was just sent into the authority. Now,
25 understanding that once we receive something like

1 that, to the extent that it is or isn't complete, the
2 staff would have to address that and formalize that
3 into an RFP, Request For Proposal, that would then go
4 out for public bid. Whether anybody else
5 participated or not, I think it's our legal
6 requirement to go out and offer something like that
7 for bid because we couldn't just act on a proposal
8 that came in unsolicited. We'd have to turn around
9 and actually bid that thing based on some
10 specifications, and I think that's where the problem
11 arose as to whether or not that proposal met the
12 specifications that the staff felt it required in
13 accepting exterior advertising. I can't speak for
14 the timing of all of this because I know this dragged
15 on forever.

16 BY REPRESENTATIVE O'BRIEN: (Of Mr. Gould)

17 Q. There was a letter, Lou, maybe you can
18 comment on this, in reference to the same proposal
19 that I saw. It was an informal proposal, granted,
20 but it was a letter to Carmel Sirianni that was
21 distributed through the House of Representatives, and
22 I'm not sure whether it was distributed throughout
23 the Senate.

24 But in your letter it stated that the \$16
25 million was not guaranteed.

1 A. That's right.

2 Q. And it says right in the informal
3 proposal that I saw, a letter that was sent to you,
4 that they in fact did guarantee that \$16 million.

5 A. Well, let me just say this. The company
6 that wrote that letter in 1985, or whenever it was,
7 Winston Network, Winston Network has an existing
8 arrangement with the transit authority where it is
9 responsible for the advertising space on the interior
10 of our vehicles.

11 My understanding, and we've had legal
12 counsel look at this, is that that letter which
13 purports to indicate that it is a guarantee is not a
14 guarantee and it cannot be interpreted as a guarantee
15 of \$16 million, or any other sum for that matter,
16 unless it is taken in context with the agreement they
17 presently have. What you had was Winston Network
18 attempting to circumvent the requirements that Mr.
19 Clymer just spoke of that we have of going through a
20 competitive bidding process and going to putting
21 exterior advertising on our vehicles without us going
22 through the competitive bid process, and I think
23 we're required to do that.

24 My advice and the advice I received from
25 counsel was that that letter is not a guarantee and

1 there is no way that you can interpret that letter in
2 terms of the existing agreement which would probably
3 represent an addendum to as a guarantee of \$1.6
4 million, or any other sum of money. So that the
5 proper way to do it is the way that we are doing it
6 right now, and that is to go through the Request For
7 Proposal route, at which time Winston Network can
8 compete on an equal footing with everybody else if
9 the authority is going to have exterior advertising.
10 That's what we do whether we're buying nails or
11 whether we're buying any other kind of product or
12 services. We go through a bidding process. And I
13 think that's what has to be done in this instance,
14 and that's what we are doing in this instance.

15
16 If in fact the people respond to the
17 proposal which is on the street, there will be in
18 that response a guarantee of X number of dollars to
19 ~~the authority, and that way~~ we as a board and the
20 management as management can weigh what we know to be
21 or what we can pretty easily determine to be the cost
22 of the advertising versus what is assured to us as a
23 minimum of income from the advertiser, and that way
24 we will be able to determine precisely the amount of
25 money that would be forthcoming the authority, if
any, in the event that we have exterior advertising.

1 So we will have a very firm, factual basis to work
2 on.

3 Q. In my conversations with, Winston is one
4 vendor, and other vendors, it's been never brought to
5 my attention by them that they are interested in
6 being a sole source bidder. They're interested in
7 having a competitive bid issue that they can comply
8 with without going into default. It was my
9 understanding, and I think we discussed this with
10 you, Brian, that the original specs that were issued,
11 not just by Winston but by other vendors that were
12 interested in bidding, said that they would certainly
13 go into default if those specs were adhered to. And
14 there was supposed to be a redraft of specs that was
15 supposed to be available in the second week of June.
16 Have those specs been reissued?

17 A. They have. And not only that, the
18 bidders, some of the bidders, asked to come back for
19 a second meeting. They've had that, and an addendum
20 to that will be going out -- it probably has gone out
21 today. So that that process is ongoing.

22 The normal process that we engage in in
23 the competitive bidding world is ongoing and being
24 fully satisfied.

25 Q. Well, Lou, if that is in fact the case,

1 if you read my amendment, it basically states that if
2 unless SEPTA can prove that it's not feasible or cost
3 effective, then they should have a contract in force,
4 and it just spells out that it should be done by the
5 competitive bid process. And I can't see where, if
6 that's the process that you want to adhere to, why
7 there should be any objection to the amendment that's
8 incorporated in Senate Bill 516.

9 MR. OLYMER: Well, we may be splitting
10 hairs because there's -- I mean, in a general sense
11 there should be any objection to your method. In
12 terms of it throws a compliance burden on us. In
13 other words, what would be unacceptable? How do you
14 determine whether it's acceptable or not acceptable?
15 You're saying whether it's cost effective or not cost
16 effective. Well, is it cost effective if you make a
17 dollar from it or not cost effective meaning it's
18 going to cost you money? You know, what point is it
19 cost effective or at what point could we come back
20 and say, hey, we're only going to net \$100,000 or
21 \$200,000 a year out of this process, and this is just
22 by way of example. I have no idea how this is going
23 to come out.

24 If SEPTA, by virtue of having no
25 significant advertising budget, would like to not

1 have the advertising on the sides of the buses for an
2 image sake, just because the clean look is a good
3 morale boost for our riders and our drivers and
4 because we have a nice piece of design, a nice bus,
5 and it looks nice without the exterior advertising on
6 it, you know, would that be acceptable, and at what
7 point would that be acceptable? And that doesn't
8 seem to be covered, just as one example, as to
9 whether it's cost effective or not cost effective, as
10 to would there be an option at some point where the
11 revenue is de minimis, or we might just say, hey, in
12 lieu of an advertising budget can we not, you know,
13 put these things on the sides of the buses? Can we
14 keep them clean?

15
16 You know, that might be an option with
17 which we'd like to come back to you and say, hey, you
18 know, is this something that we can consider, and at
19 what level.

20 REPRESENTATIVE O'BRIEN: Brian, keeping
21 that in mind, in my amendment I put in language that
22 established an arbitrator, the Department of
23 Transportation, so that you could plead your case if
24 it was not feasible or cost effective to the
25 Department of Transportation. They would then make
the determination as to whether it was feasible or

1 cost effective and whether your argument withstood
2 those objections. I think the Department of
3 Transportation would then use as a barometer -- all
4 they'd have to do is look at the Journal from the
5 debate in the House on this piece of legislation, and
6 it's clear that we are using the figures in this
7 informal proposal of \$1.2 million a year, \$16 million
8 over 10 years. We consider that to be a significant
9 amount of revenue. I think that unless SEPTA can
10 prove, or if they really consider \$1.6 million to be
11 insignificant because of aesthetic reasons--

12 MR. CLYMER: No, we don't.

13 REPRESENTATIVE O'BRIEN: You know, I find
14 that outrageous. But that's what we -- that's the
15 way it's set up. You can plead your case before the
16 Department of Transportation and if you can prove to
17 them that it's not cost effective or feasible, then
18 you don't have to do it.

19 MR. CLYMER: And I agree with that and I
20 don't consider \$1.6 million insignificant. You know,
21 certainly if we could guarantee revenues at that
22 level, you know, we'd be foolish not to consider it,
23 regardless of what it does to our buses that we love
24 so dearly the way they are.

25 It just seems that it's taking what

1 should be a routine business decision and putting it
2 up to a State level where it probably doesn't really
3 belong.
4

5 REPRESENTATIVE O'BRIEN: There were
6 comments made on the maintenance problems, and
7 Auditor General Don Bailey was here this morning,
8 and in their report they recommended that SEPTA -- in
9 fact, Don Bailey said here this morning that the
10 legislature should direct SEPTA to have exterior
11 advertising on the buses, that he considers \$1.6
12 million and \$16 million over a 10-year period to be a
13 significant source of revenue, as we did.

14 There are several mass transportation
15 companies in the Commonwealth of Pennsylvania -
16 Cambria, Butler, Lebanon, DuBois, Hazleton, Indiana,
17 Mid-County, Monroe, New Castle, Schuylkill, Capital,
18 the County of Lackawanna, Erie, Lehigh and
19 Northampton, Luzerne, Mid-Mon Valley, Port Authority
20 of Allegheny County -- incidently, the Port Authority
21 of Allegheny County gets the same advertising dollar
22 revenue as SEPTA with half the size fleet. And most
23 of their advertising dollars come from exterior
24 advertising. You have Red Rose, City Bus, York,
25 Altoona, Pottstown, GP, Berks, Warren, Westmoreland.

When you talk about the aesthetic

1 benefit, I'd like for maybe Lou or the other members
2 of the board to comment on what that aesthetic
3 benefit is that outweighs the benefit that SEPTA
4 would receive by considering this alternative source
5 of revenue or other alternative sources of revenue.

6 I've heard that the bus design is such
7 that, you know, it would cost a lot of money to
8 design that logo, and that, you know, it's offending
9 to people's eyes in southeastern Pennsylvania. In
10 response to that, as I drive around the city, I see
11 billboards that are owned by SEPTA, I see shelters --
12 there's one 30 yards up the street here on the
13 corner, and there's exterior advertising in that
14 shelter. There's advertising inside the buses. And
15 if it's offensive to the eyes of the ridership of
16 southeastern Pennsylvania, then why not take it out
17 of the shelters, why not take it off of the
18 overpasses, why not take it out of the interior of
19 the buses, and why not tell New Jersey Transit
20 Authority that if their buses are to operate on the
21 city of Philadelphia streets that they should take
22 the signs off because it's offensive to our eyes?

23
24 You talk about graffiti, and I'd just
25 like to know where the graffiti takes place.

MR. GOULD: Well, in terms of my personal

1 view of this, which I guess is what you're asking
2 for, I think there's a number of things that you have
3 to consider here. In terms of income, if there is
4 going to be substantial income, which we will know as
5 a result of the process we're going through, then I
6 agree with you that we have to consider whatever that
7 income is versus the costs. And if it looks like
8 something that we can make some revenue from, then
9 that's a serious factor in support of exterior
10 advertising.

11 I think to deal with the issue of the
12 image and to deal with the issue of revenues from
13 sources other than the passengers or from subsidy,
14 this authority, and I've been on the board now since
15 1979, has a long record of seeking to maximize our
16 revenue wherever we possibly can, and we are not
17 adverse to increasing our revenue through the mode of
18 advertising. As you have just mentioned, we have
19 advertising on the interior of our vehicles, we have
20 it in our stations, we have it on billboards, they're
21 on our property. We are not an anti-advertising
22 organization, and we are certainly not an
23 organization which is anti-deriving revenue from
24 wherever we can. We are being as creative as we
25 possibly can be. We are taking our facilities, we're

1 taking our stations, we're turning them over to
2 outside persons and we're deriving rental income from
3 that, we're deriving services from that, and we'll
4 continue to do that. We'll continue to be as
5 aggressive in that mode as we possibly can.

6 In terms of advertising on the exterior
7 of buses, however, you have to recognize where this
8 authority has come from. And if you come back and if
9 you are a resident of the city of Philadelphia and go
10 back to 1979 and before and conjure up in your mind
11 or just visualize, and I could have brought with me,
12 had you asked, slides that would show you what our
13 vehicles looked like, our buses, our trolleys, every
14 vehicle that we had with exterior advertising on it
15 not more than 10 years ago, in fact less than 10
16 years ago, and they were not vehicles that you would
17 even want to ride on, or number two, want to operate.
18 Because, number one, they were in deplorable
19 condition, and they were marked and they were dirty
20 and they were covered with graffiti from head to
21 foot, and anybody that knows anything about
22 advertising on the exterior of buses knows full well
23 that it is an attractive source, an attractive
24 nuisance, it's the kind of thing that kids who run
25 around, or other people who are putting graffiti, run

1 around with spray cans and the first thing that they
2 want to do is hit that poster. And they want to put
3 a moustache on that lady or they want to put a wig on
4 that man, or they want to do something else with
5 whatever is there.

6 We know, and we spend an awful lot of
7 money and an awful lot of time, and an awful lot of
8 effort that this organization goes into is making our
9 equipment look good so people want to ride it. And
10 we have been substantially successful at doing that.
11 Our ridership has returned in great numbers. Our
12 fleet is much more efficient. Our revenues are
13 greatly enhanced. You can't -- it's an intangible
14 thing, I will agree with you, but I don't think
15 there's anybody in the advertising network or outside
16 the advertising network who can tell you and tell you
17 honestly that advertising on the outside of a bus is
18 not an attractive nuisance--likely to attract -- more
19 than likely, very likely to attract the kinds of
20 things that we have been trying to get out of our
21 system.

22 We have a lot of people, we employ them
23 day in and day out, going throughout our system, not
24 only on our vehicles but through all of our
25 facilities, painting them, keeping them clean. We

1 want people to like our system, to ride on it because
2 it is a convenient thing to do, because it is a safe
3 thing to do, because it is an attractive thing to do.
4 It's intangible, I know, but it is very, very real,
5 and one of the things that we do with each and every
6 piece of our equipment before it leaves the shop each
7 and every day, we have a quality control program, and
8 that vehicle is gone over on the inside and on the
9 outside, and it is checked for mechanical and it is
10 checked for appearance. And if there is something
11 wrong with that vehicle, it doesn't go out on the
12 street. If there's something wrong with that vehicle
13 that develops while it's out in the street, it's
14 brought back and it's corrected. And that has proven
15 to be a great benefit to us.

16 And those are the kinds of intangible
17 things that this board member will keep in mind when
18 I look at whatever the results are of the bidding
19 that we're talking about that's going on. I will not
20 for one moment turn down the opportunity for this
21 authority to make money from an outside source. I
22 never have, I never will. But when you ask me what
23 am I talking about by the image, I'm talking about a
24 clean, safe, efficient image, and a fact that I know
25 and that is that signs on the outsides of buses are

1 very likely to take us on the course where we are
2 going to have the return of graffiti to our vehicles,
3 and that's something that I don't think is in the
4 best interest of this authority, and I don't think
5 it's in the best interest of the riders of this area.
6 But it will be considered.

7 REPRESENTATIVE O'BRIEN: Lou, where does
8 the graffiti take place? Does it take place as the
9 bus is driving down the street?

10 MR. GOULD: Yes.

11 REPRESENTATIVE O'BRIEN: Does it take
12 place in the yard? You mean somebody running
13 alongside the bus--

14 MR. GOULD: It does not take place in the
15 yard.

16 REPRESENTATIVE O'BRIEN: --and spray
17 paints it as it goes down the street?

18 MR. GOULD: Absolutely. Absolutely.

19 REPRESENTATIVE O'BRIEN: I find that a
20 little difficult to imagine.

21 MR. GOULD: It's not difficult to image.

22 REPRESENTATIVE O'BRIEN: And if in fact
23 that is the case, Lou, I understand in this informal
24 proposal that the vendor is willing to replace that
25 advertising and they're willing to hire 10 people to

1 do just that.

2 MR. GOULD: Well, they may have to.

3 REPRESENTATIVE O'BRIEN: Fifty percent of
4 which would be minority, and that they would replace
5 that exterior advertising before the bus leaves the
6 yard the next day.

7 MR. GOULD: We don't want it out there
8 the day that occurs. We don't allow our vehicles out
9 when they are dirty and we bring them back when they
10 are dirty. That is our policy, and it's worked well.
11 They may well be able to satisfy anything and
12 everything that we have as a desire in terms of
13 keeping what we know to be an effective way of
14 attracting riders. If they can and we can make money
15 on it, so be it. But we're going to know, as a
16 result of this proposal, whether or not that can
17 happen.

18 BY MR. LANDIS: (Of Mr. Gould)

19 Q. I just thought of a question, Lou. How
20 come CAT in Harrisburg doesn't have graffiti all
21 over?

22 A. Well, I think that may be a factor of the
23 difference between Harrisburg and Philadelphia.

24 Q. Well, they go big for political
25 advertising. It's a big source of revenue.

1 A. Well, I can't answer that.

2 Q. You're talking about exterior
3 advertising. There's a property down outside of
4 Newport News, Virginia, that rents whole buses for a
5 year.

6 A. I know that property.

7 Q. And they're making money, and they're
8 going to go more. Of course, if you don't want to
9 put anything on, you don't want to put a McDonald's
10 bus going down into a high school neighborhood or
11 anything like that.

12 A. No, I know the fellow that's the general
13 manager of that authority, and it works very well for
14 him. I think things that work well in one place may
15 not work well in another, and we know -- we have had
16 a great deal of support from this city and from this
17 region not only in terms of graffiti on our vehicles,
18 but graffiti throughout our facilities, and we've
19 made a real effort not only to keep it clean but to
20 apprehend those who are destroying and defacing our
21 property, and to bring them before the courts. And
22 we have been very successful. We've had a lot of
23 support from the city of Philadelphia, from the
24 courts in the city of Philadelphia, and we'll
25 continue to work on that effort.

1 But all I'm saying to you is, there are
2 things that you have to look at in this context, and
3 we will look at them, beyond just dollars and cents,
4 because there is more to this than dollars and cents.

5 BY REPRESENTATIVE O'BRIEN: (Of Mr. Gould)

6 Q. I'm just wondering why it would be more
7 attractive for someone to graffiti a sign on the side
8 of the bus. They might just as well run along and
9 graffiti the sides of the bus.

10 A. I can't answer that for you.

11 Q. And also, why not, if you're following
12 the train of thought that they're just going to be
13 attracted to the sign, then what about the
14 advertising on the interior of the buses? What's
15 going to stop them from graffitiing the inside of the
16 shelters? And if they do in fact graffiti them,
17 they're stationary, they're certainly just as
18 offensive, then why not remove the advertising from
19 those?
20

21 A. Well, first of all, shelters are not ours
22 but the property of the city of Philadelphia, and if
23 they are defaced, the city of Philadelphia will be
24 able to deal with it. But all I'm just telling you,
25 it's not -- this is not an issue that lacks
complexity. There is plenty of meat here to deal

1 with.

2 Q. Well, that's what we're trying to get to
3 the bottom of, because we have debated it for a long
4 time in Harrisburg. I don't think it comes as a
5 surprise to the members of the board that this was
6 going to come up.

7 A. And we're bringing it up.

8 Q. And what we're just trying to get to the
9 bottom of, you say if it's brought out in a
10 competitive bid and the -- I want to know whether
11 you're going to have any objections to it. I don't
12 see where my amendment causes you any difficulties if
13 you're going to do what in fact you're saying you're
14 going to do here today. I don't see why you would
15 have any problem with my amendment. It doesn't cause
16 you any difficulty. It calls for a competitive bid
17 process. If it is not feasible or cost effective, as
18 I pointed out, you can plead your case to the
19 Department of Transportation as an independent
20 arbitrator. If you don't want the Department of
21 Transportation to be that independent arbitrator,
22 then maybe we can make it the Insurance Commissioner
23 or the Secretary of Welfare, or somebody else. I
24 just don't know what the problem is with the
25 amendment.

1 MR. CLYMER: It's taking a decision out
2 of our hands and if it's a marginal decision, and
3 that's where the question really comes up, is we now
4 have an entire decisionmaking process, we have to go
5 through the State level, as opposed to the board
6 sitting down as it should and making a business
7 decision based on a proposal that's received. I
8 think that's really the objection, is that it really
9 is not something that probably should go through
10 State channels.

11 We should clearly consider revenue, a
12 revenue producing item. If we don't, then we clearly
13 have you at the State to answer to. I think all of
14 our concerns about the aesthetics notwithstanding, if
15 this thing produces any kind of revenue at all, we're
16 going to live with whatever we think we have to in
17 order to make the revenue. I know when we made the
18 decision five or six years ago when it came up it was
19 our honest belief at that time that the revenue
20 generated, and I think the number was less than
21 \$200,000, and that's where we made the decision on
22 the aesthetics of it. It was a very small amount in
23 relationship to our budget as a whole.

24 CHAIRMAN LINTON: I don't want to lose
25 this thought, but, you know, and I'm trying to

1 maintain some control here. But it seems to me that,
2 and I have to recall Lou's opening remarks, that
3 SEPTA comes to Harrisburg and says, you do a great
4 job when you give us the money, but when you start
5 talking about looking at what we're doing, then we
6 have some problems. And I think that there seems to
7 be a sense of arrogance that's displayed by the
8 authority when you say, well, you know, \$1.2 million,
9 a drop in the bucket. When you make those kinds of
10 statements, okay, and for someone who has tried for
11 his five years in the General Assembly to be an
12 advocate for the system and who's having a very
13 difficult time recently in being an advocate for the
14 system, and who stood on the floor of the House and
15 actually debated against Denny O'Brien's amendment
16 because I thought at that time that what you were
17 saying, Brian, was true, that there should be some
18 local control, that maybe we shouldn't take this up
19 to the State level. But the second time that
20 amendment came around, I believe I voted for it
21 because as I got finished listening to the arguments
22 from my colleagues around the State, it became very
23 clear I was on the wrong side on this issue.

24
25 And it's a sense of arrogance. Once
again we're saying New York, other States, are

1 providing additional capital funds for their transit
2 systems. We want Pennsylvania to get in line. When
3 you come up and do things like, \$1.2 million is
4 insignificant, when you come up with a sense of
5 arrogance that the system seems to have through its
6 representatives in Harrisburg, but also in statements
7 that are made in the paper, it becomes very difficult
8 for people to become advocates, it becomes very
9 difficult to convince other people around the State
10 that there's a need for money for mass transit in
11 Pennsylvania. You make that job real difficult, real
12 difficult.

13
14 And then when we're asked to have some
15 understanding of what's going on when we seek to have
16 a controller, when we seek to get some information,
17 as the new funding formula calls for some service
18 studies, and we try to get some information as to
19 what's going on, it's, well, there's too much control
20 that's going to Harrisburg. We should have this down
21 at the local level.

22 You can't have it both ways. You can't
23 have it both ways.

24 BY CHAIRMAN LINTON: (Of Mr. Gould)

25 Q. Question. One of the concerns that I
also have deals with the -- recently came up on the

1 issue that there was an article in the newspaper, and
2 the biggest thing about Pennsylvania is that
3 everybody reads the Philadelphia Inquirer, and every
4 legislator in Pennsylvania reads the Philadelphia
5 Inquirer. There was an issue about severance pay for
6 our retiring general manager, that there was a
7 proposal that was presented to the board by you, Lou,
8 in regards to a severance pay package for the general
9 manager. Could you comment on that? Because I had
10 to receive some questions, when we're trying to ask
11 for additional dollars for the SEPTA system because
12 it needs those additional dollars, and I have to
13 defend to all those people who read the Inquirer on
14 why in fact we provide such a nice little severance
15 package for someone who's decided they want to
16 retire.

17
18 A. Well, there is a proposal that will --
19 again, it's a proposal that has gone to the -- it
20 will go to the Personnel Committee, and the Budget
21 and Audit Committee I'm sure also will examine it.
22 Mr. Mack has been with the authority for in excess of
23 40 years. He has done what I consider, what I think
24 most people would consider, to be a very good job in
25 managing this authority in the last three years. In
addition to that, he has served the authority

1 extremely well in positions ranging from general
2 manager of the Red Arrow division to assistant
3 general manager of the authority, and to the
4 treasurer of the authority for a long time.

5 Mr. Mack, I believe, like anyone else, is
6 entitled to a reasonable retirement. He is leaving
7 before he would be due to retire at age 65. The
8 proposal to provide him with severance pay is not at
9 all unprecedented in the history of SEPTA. When the
10 last general manager retired, he was provided with
11 severance pay in the sum amount equal to one year of
12 his salary.

13 Q. Who was that?

14 A. His name was Eaton. It was before my
15 time. But in any event, he was provided with a
16 retirement package which included the equivalent of
17 one year's pay as a severance package.

18 Q. But, Lou, we used to pay drivers on the
19 rail lines much more money than we pay them now. We
20 can't use what we did in the past as justification
21 for what we plan to do now to tell me that somebody
22 who was the general manager -- and I don't even know
23 how long ago that was. I don't remember the name.

24 MR. CASPER: Yeah, I do.

25 MR. GOULD: He was. He was the general

1 manager.

2 BY CHAIRMAN LINTON: (Of Mr. Gould)

3 Q. Okay, and he retired and we gave him a
4 nice little severance pay because he needed the
5 retirement.

6 A. Well, anyway, this was something that the
7 board will consider, but I think in my mind it is
8 something that's justified and it's something that
9 Mr. Mack has earned, and it's something that we
10 should consider giving to him.

11 Q. Does Mr. Mack, is he to receive a
12 retirement based upon his years of service to SEPTA
13 as of now without the severance pay?

14 A. He is entitled to retirement right now,
15 yes, because of his years of service and because of
16 his age he is entitled to retirement.

17 Q. Okay.

18 A. The concept also was--

19 Q. Let me finish this.

20 A. All right.

21 Q. If that's true, is that retirement a
22 retirement pension plan that is in place in the
23 system or in place for the general manager as of now?

24 A. All the employees of the system,
25 including the general manager, there is a retirement

1 plan and a pension plan for all of them.

2 Q. Okay. So you're saying he has a
3 retirement plan, a pension plan, that is part of a
4 contract as the general manager for SEPTA--

5 A. He has no contract.

6 Q. Well, whatever he has. He has a
7 retirement plan.

8 A. Yes.

9 Q. Okay. And if he was to leave today, he
10 would in fact receive the benefits of that retirement
11 plan without any board vote on a severance pay?

12 A. That's correct.

13 Q. Based upon his years of service?

14 A. That's correct.

15 Q. As all other employees of SEPTA based on
16 their years of service?

17 A. Yes.

18 Q. --So now you're proposing on top of the
19 built-in retirement plan which he knew he had and all
20 of you know you have when you become part of the
21 system, we're going to decide now to give him
22 additional money because of his 40 years of service?

23 A. Well, not only because of his 40 years of
24 service, but because we want to retain the benefit of
25 Mr. Mack's wisdom. We would like to have him,

1 especially when we're undergoing the first stages of
2 the transition to a new general manager, to be
3 available to that general manager and to the
4 authority as a consultant to provide us with, you
5 know, someone who's got 40 years of knowledge working
6 in one place has got an awful lot to offer to the
7 authority and will have a particular lot to offer to
8 a new person coming in as general manager.

9
10 So the proposal is to have Mr. Mack serve
11 as a consultant to the authority for the first year
12 after he retires and be compensated for that. I
13 believe that's a reasonable proposal to advance.
14 However, again, it is something that will be
15 considered by the Personnel Committee and by the
16 entire board, and we will deal with it in that
17 manner, and whatever the board decides to do I'm sure
18 will be done.

19 Q. Why couldn't we have a contract on an as-
20 needed basis as a consultant?

21 A. Well, I'm sure there are many different
22 ways of dealing with that.

23 Q. It seems to be a more appropriate way of
24 dealing with that.

25 A. I'm sure there are many ways to deal with
it. In your view that may be more appropriate. I

1 can't, you know, I'm not going to debate whether this
2 would be most appropriate or whether the other way is
3 most appropriate. But in any event, I think the
4 thing is the board will, in its wisdom, decide that,
5 and I'm certain that whatever the board does in this
6 area there will be those who will agree and there
7 will be those who disagree.

8 Q. I can imagine who that will be.

9 If we look at -- it seems to me that the
10 effort the last time was bypassing the board process.
11 I was interested in reading in your presentation,
12 where you were very nice to point out what the board
13 committees are and how they function, and that there
14 is a committee system, which I'm glad to see, and
15 which those kind of proposals go through the
16 committee system for consideration. But as I
17 recollect from the newspaper article, and, you know,
18 newspapers don't always get things correctly, but it
19 seems to me that it was not a board committee
20 proposal, did not go through the committee, and in
21 fact was something that was presented by you,
22 chairman of the board, at the board meeting without
23 consideration by the members. Is that true?

24 A. That's not true.

25 Q. That's not true?

1 A. No. The way I made the proposal, yes, I
2 made it to the Personnel Committee, and the Personnel
3 Committee said that they were not ready to act on,
4 and that proposal was not made in any other fashion
5 than through any other committee, through any other
6 way than through the committee process. That's the
7 only way I work, and that's the way that worked.

8 Now, if there's any other -- if that is
9 not what's stated in the newspaper article, and I'm
10 not familiar with the article, then I cannot -- you
11 know, I can't answer for the article, but I can tell
12 you what I did, and what I did was give the proposal
13 to the Personnel Committee where it properly belongs.
14 And that committee will consider it and they will
15 make a recommendation, as all committees do, to the
16 entire board.

17 Q. Is there a formal motion that's done when
18 things are sent to committee at SEPTA board meetings?
19

20 A. No.

21 Q. It's just handed to the chairman?

22 A. Yes.

23 Q. Of the committee?

24 A. Yes.

25 Q. So the minutes wouldn't reflect anything?

 A. No. No.

1 Brian reminds me. If the committee had
2 met on this subject -- well, that would not have been
3 noted. That's a personnel matter. Brian was
4 reminding me that now our committee meetings are, for
5 the most part, in the open, unless they're on the
6 subject of personnel or litigation. But in any
7 event, the committee will meet and they will consider
8 it. But that's the framework in which that has been
9 dealt with.

10 Q. I don't want to kill a dead horse because
11 I still have some very strong feelings about this
12 severance pay proposal and I think we're going to
13 follow this throughout its process, but I suspect, as
14 other proposals have gone through, that this will get
15 voted through and we'll spend some more money at
16 SEPTA and which I will have to justify to Harrisburg
17 and I have to deal with as I try to get additional
18 dollars; at the same time I have to defend these kind
19 of decisions that are made by the board without
20 wanting to have the Department of Transportation or
21 the legislature have a better feel for what's going
22 on in the authority. I'm kind of sick and tired of
23 being tired.

24 Further questions?

25 (No response.)

1 CHAIRMAN LINTON: Well, I have a few
2 more. I have a few more.

3 BY CHAIRMAN LINTON: (Of Mr. Gould)

4 Q. One of the issues we have before us,
5 thanks to the wisdom of all those in the five
6 counties, a proposal for UMTA, a strategic plan
7 study, which gets hopefully to the heart of many
8 issues and concerns that I've had about SEPTA for
9 many, many years, and I know I've often heard the
10 rationale for the lack of planning for capital
11 programs because you've had no idea what kind of
12 moneys you're going to receive and when you're going
13 to receive them, and what have you. But one of the
14 things that concerns me is as we go after additional
15 capital dollars is that we have some type of clear
16 understanding of how capital projects are going to
17 relate to some cost effective means of maintaining
18 ridership, whether or not we are prioritizing our
19 capital projects based upon revenue recovery, based
20 upon ridership increases, based upon maintaining some
21 sort of cornerstone network of the system that's
22 going to be our most productive asset, and as I
23 looked at many of our capital projects, it doesn't
24 seem to me that that kind of understanding or that
25 kind of thought is put into place.

1 When I heard about the \$400,000 study, I
2 was very encouraged to see that those kind of things
3 would be given some consideration. Do you want to
4 comment on that?

5 A. Well, perhaps all of us could comment on
6 that.

7 MR. CLYMER: We, as recently as our board
8 meeting this week, made identical comments that we
9 need to examine that process a little bit more
10 closely I think because of the dollar magnitude of
11 our capital budget. I don't think it's because of
12 the lack of planning. I think we have a pretty good
13 idea of a lot of the magnitude of what our capital
14 needs are. We're very encouraged by the UMTA study
15 too. We're looking forward to receiving a strategic
16 plan that will hopefully help carry us into the
17 future. I think our own departments are in concert
18 with that, already working on their own long-range
19 planning. I think we need to define the magnitude of
20 our capital needs both on the rail side, as was done
21 somewhat by the Coleman Report, also to the transit
22 side in terms of our total capital needs.

23 In order for us to go forward with this,
24 we're obviously going to rely very heavily on you,
25 the State. They're our major funder.

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CHAIRMAN LINTON: Here we go again.

MR. CLYMER: That's right. We're going to have to come up with some kind of proposals, some kind of plan. I think that needs to come from us. It has to be something that first this board can live with that our local commissioners and mayor can live with and then something that when we're comfortable with we can bring to you, our legislators, and hopefully make you comfortable with it too.

In order to do that, there's no question in our minds that we're going to have to justify every item in that capital budget and put a priority on every item in that budget. I think our strategic plan will help for that. I think in the meanwhile we have also asked the staff to go into the system and do just exactly that. I think that was one of the purposes in tabling the capital budget is that it's obvious that we can't support the magnitude of our capital budget. We can't support large projects, such as the Frankfort L or the Ninth Street Bridge projects, and yet we can't do without them.

As a result of that, and we lose many of the smaller projects that go into our system, we lose the signalization that has to be worked on, these are things that cause delays to the commuters, that cause

1 no end of aggravation to the riders and the
2 complaints ultimately end up in your offices or ours.
3 And all those little things have to be addressed too,
4 not just the major projects. And when we see a
5 capital budget that currently has only two projects
6 in it this year and looks as though we'll currently
7 have only those same two capital projects in it for
8 the next three to five years, it's certainly very
9 distressing to us and causes us a great deal of alarm
10 in terms of what is going to happen to all those many
11 other, you know, hundreds of millions of dollars of
12 projects that we think need to be done.

13 I think it's very clear that we have to
14 prioritize those and very clear that we have to
15 address them, and address them in some fashion now,
16 and even more clear that we have to do it together,
17 that you have to concur ultimately with those
18 decisions.

19
20 CHAIRMAN LINTON: That raises a question
21 to me. This morning we heard from the Auditor
22 General, Don Bailey, and in his report he questioned
23 -- I don't think he questioned, but he in fact said
24 that the General Assembly and all those who provide
25 subsidies to SEPTA need to look at the commuter rail
line and the long term capital needs and begin to

1 look at whether or not that's an investment that
2 they're willing to make. And in the same context of
3 trying to make sure that we are vesting our capital
4 dollars in those parts of the system that will be
5 most cost effective, that will allow us to increase
6 ridership, that will also have the greatest return
7 for those investments, that may not fit the commuter
8 rail lines over some other areas of the system.

9 MR. CLYMER: I agree with you, and I
10 don't agree with you as an advocate of public
11 transportation and as a regional administrator of the
12 transportation system and as a resident because I
13 think the system on a regional basis affects all of
14 us. I think it affects the merchants in
15 Philadelphia, I think it affects the commuters out in
16 the suburbs. Everyone is affected by it in terms of
17 the businesses that move into our community because
18 of what they see here.

19 From a standpoint of the cost
20 effectiveness of it, I think you're correct, but we
21 get mixed signals. You know, we hear the legislature
22 talking about, you know, the line to Harrisburg and
23 talking about building a link from Philadelphia down
24 to Atlantic City. So on one hand they're talking
25 about building rail systems, on the other hand, a

1 week ago Friday when I sat with the county
2 commissioners of Delaware County and discussed the
3 capital budget, their response was to close the
4 commuter rail system. They would be prepared to do
5 it immediately.

6 On the other hand, whenever we have a
7 commuter rail shutdown for some reason, it seems that
8 the nuclear explosion that results from that emanates
9 from Market east and goes through all of the
10 businesses in Philadelphia and we hear nothing but,
11 "When is it going to open?" and "Do everything you
12 can to get it done." And when the bridge several
13 years ago shut down, we spent a number of millions of
14 dollars in order to get that thing repaired within a
15 several week time span and get it operating again.

16 So the signals are very unclear, and I
17 think we need to somehow get an indication of, you
18 know, where you, the legislators, are coming from,
19 where our commissioners and the mayor are coming from
20 in terms of where you would like us to head with that
21 question, because not given any other answer, my cut
22 and personally, as a regionalist, is going to be to
23 support that transit system forever, because I think
24 it's an extremely valuable asset to this region.
25

But from a cost effective standpoint, I

1 think you've raised an excellent question, and we
2 certainly need your guidance.

3 MR. GOULD: If you don't mind, I'd like
4 to comment on this issue too, and I'd like to comment
5 on something that you have said, Chairman Linton,
6 that concerns me, and that is that you've made
7 reference here this afternoon to what you view as
8 SEPTA's arrogance or independent attitude, and that
9 disturbs me, and I think that perhaps putting it in
10 context of the commuter rail lines may do something
11 to help alleviate those concerns on your part.

12 Because I want to tell you that as an individual, as
13 a board, as a transit authority, it's not our desire
14 or our wish or goal or anything else to appear
15 independent or arrogant when dealing with you people
16 who provide us with a large amount of our operating
17 assistance, or anyone else, for that matter.

18 But you have an institution here that is
19 constructed so that it is a regional compact, and the
20 people who are before you today as board members are
21 appointed by county commissioners and by county
22 council people and by the mayor of the city of
23 Philadelphia. I understand that the people who
24 appoint us may have a different point of view or they
25 may have the same point of view on any given issue

1 than do the people that sit in your seats in
2 Harrisburg. It is my impression, having lived with
3 this since 1979, that despite whatever differences of
4 opinion there might be between all the people who are
5 involved with SEPTA, there are a couple of givens.

6 One of the givens is, in my view, that
7 everyone believes in the mass transit system, and
8 everyone wants it to work. I think another one of
9 the givens is that there is not a firm understanding
10 about the authority and how it works and its many
11 complexities by any or all of the elected officials
12 at all levels that we have to deal with.

13 For example, last Saturday night I had an
14 opportunity to sit at the same table in the course of
15 the celebration of the 200th anniversary of the
16 Constitution with Congressman Larry Coughlin and
17 Congressman Jack Murtha, one a very senior Republican
18 in the U. S. House of Representatives, one a very
19 senior Democrat in the U. S. House of
20 Representatives, both of whom come from the State of
21 Pennsylvania, one representing the city of
22 Philadelphia and its suburbs, one representing
23 Johnstown, Pennsylvania, both of whom,
24 coincidentally, served in the Pennsylvania Senate and
25 the Pennsylvania House at the same time many years

1 ago, both of whom have viewed mass transit from very
2 different points of view, both of whom were present
3 when the legislation under which we operate today was
4 enacted, both of whom have today responsibility for
5 dealing with the funding of mass transit across the
6 country.

7 Their view was, in this respect, and they
8 were very much alike in their view. Their views were
9 that we have an incredible asset in the regional
10 transportation system that we have here, and that a
11 very heart of that asset is the commuter rail line,
12 because it is the glue, it is the fabric, that holds
13 the five counties together in terms of a mass transit
14 network. It is an asset that can't be duplicated for
15 less than many billions of dollars.

16 Both of those Congressmen are called upon
17 by cities such as Miami, Los Angeles, Houston,
18 Dallas, New Orleans, many places across the country,
19 to help them build what we have here and what we take
20 for granted. They want to help those cities as much
21 as the way they help and will continue to help this
22 city. But one of the things that they have said is
23 that wherever they go, whenever they are dealing with
24 funding with mass transit, they are saying to the
25 local States and the local cities that want it, you

1 must come up with a dedicated source of revenue so
2 that we know that you are committed at a State and a
3 local level as much as you want us to be committed to
4 your transit authority. And they say that it becomes
5 increasingly difficult to advocate that position,
6 which is a reasonable position, when the State from
7 which they come from does not have that kind of a
8 mechanism, and they feel that it's a very essential
9 mechanism for us to have.

10 I would also point out to you that there
11 has been a tremendous investment made in our commuter
12 rail system in the last 10 years. I believe the
13 number approaches \$400 million, which was put in less
14 than 2 miles in the commuter tunnel, and that's a
15 great benefit to this region and to the city of
16 Philadelphia, and it's a great benefit to our
17 commuter rail network. But it's one that just shows
18 how much money has to be put into the rest of the
19 commuter rail system if it is going to serve as that
20 means that continues to hold, I think, this region
21 together in terms of the mobility of people, both in
22 terms of their jobs, in terms of their entertainment,
23 in terms of their health concerns, all of those
24 things.
25

And I think that what I see as the most

1 frustrating part of sitting here as a board member
2 and listening to you people tell me, and I'm sure
3 you're accurate that you're frustrated and that
4 you're concerned and you're upset with the way you
5 see our authority being run is we have a great deal
6 of difficulty in knowing how and who we are to
7 respond to. I know that I depend upon my position on
8 this board from the Montgomery County commissioners
9 and I'm going to listen to the Montgomery County
10 commissioners when they have a desire and an issue to
11 take with the SEPTA organization, and I'm reasonably
12 certain that that's what's going to happen with my
13 colleagues on the board. Those county commissioners
14 and that mayor may or may not be in agreement with
15 you people in the General Assembly on a given issue,
16 and what I see that would be much more beneficial in
17 terms of us as an authority would be if there was a
18 closer working relationship, with respect to mass
19 transit, in any event, between the local elected
20 officials and the State elected officials.

21
22 And I think if there were that kind of a
23 more close relationship, and perhaps the study will
24 serve as the basis for it. I don't know. But I can
25 assure you it is not any intent on any of our part to
give you the impression that we are independent of

1 you, that we don't depend on you. We do all of those
2 things, but we have to live in the context in which
3 we are appointed. And, you know, this authority was
4 created as a compromise between the city and the four
5 counties. It was a good compromise. It's one of the
6 few things that I know of in which the city and the
7 four counties did sit down together and did form a
8 compact and did form something that has been
9 beneficial to this region, to this city, and to each
10 of the four counties.

11 I think the same thing could happen in
12 other issues. It could happen in education, it could
13 happen in trash to steam, it could happen in waste
14 removal, it could happen in the environment, all
15 those things. But it doesn't. The only place it's
16 happened is in mass transit.

17 CHAIRMAN LINTON: This is a poor example
18 of how it could happen, sir.

19 MR. GOULD: No. I think it has to happen
20 with the cooperation going. We have to cooperate,
21 but I think there has to be that communication at
22 another level too.

23 CHAIRMAN LINTON: I think there is need
24 for cooperation and I think in concept this could
25 have been a good example, but in reality I don't

1 think it's a good model to say it's a good example of
2 cooperation, because as you said, I think there are
3 different signals coming from Montgomery County
4 versus Philadelphia right now in SEPTA, if that's
5 what you're telling me.

6 MR. GOULD: I'm not telling you that.
7 I'm saying that from my point of view, in terms of a
8 SEPTA board member, I wear a couple of hats. One of
9 them is doing what I think is in the best interests
10 of the authority. And the other hat that I wear is a
11 representative of Montgomery County, and I am going
12 to listen to the people who appoint me, and I think
13 most of the members of the SEPTA board do that on any
14 given issue that comes before them.

15 CHAIRMAN LINTON: On any given issue?

16 MR. GOULD: On any given issue.

17 CHAIRMAN LINTON: You're not going to
18 tell us about the control in advertising as a given
19 issue?
20

21 MS. HARRIS: I think it's probably time
22 that I broke my code of silence, and it really was
23 not -- I was not being quiet for any particular
24 reason other than that I was not that familiar with
25 the issues that you were discussing previously,
although I am familiar with the controlling -- not

1 with the legislation or how it came about or any of
2 those issues.

3 I think that one of the things that
4 Chairman Gould has really touched upon to me is
5 probably the heart of what may be our difficulty.
6 You have mentioned that you feel that SEPTA, that we
7 as a board, that our management is at times arrogant
8 and is unconcerned with you at the State, and by the
9 same token I think that very often board members and
10 the management of SEPTA look to the State and say,
11 they don't understand what we're dealing with from
12 time to time.

13 One of the things that in my view what
14 has broken at SEPTA is not necessarily the fact that
15 we don't have enough money -- we don't, we never
16 have, probably never will. And I don't believe that
17 that's very different than any other transit system
18 that operates in the United States. We don't have as
19 many riders as we would like. They don't ride at the
20 time of day that -- we can't spread things out. It's
21 very difficult to manage a system this size. We have
22 far more riders than we can serve in one area and far
23 less than we have service for in another.

24 But one of the issues that comes up, as
25 Lou said, is that each of us is appointed. There are

1 ll members of our board, I'm sure that you have this
2 all before you, and each of us are appointed, with
3 the exception of 1, by the local government elected
4 officials. The city of Philadelphia and the counties
5 put in the least amount of money to SEPTA, however
6 our appointing officials represent the riders who put
7 in the most amount of money to SEPTA. We're
8 disconnected from the State, if you will, who is our
9 major funding beneficiary. The State of Pennsylvania
10 and the riders from this region put in the vast
11 amount of money that operates. Those who are making
12 decisions on how to spend that money every day, every
13 month, are those who are not connected to those
14 sources of funding in any very direct way.

15 And very often I think what we see is
16 that there is a real separation between the revenue
17 and the financial responsibility. It shouldn't be
18 that way, in fact it is that way. Ten years ago a
19 legislative committee much like yours met in
20 Harrisburg to discuss SEPTA and discuss many of the
21 same issues, and I happen to have been there. I
22 believe it was in 1977, and the then chairman of the
23 board expressed exactly the same sentiment as Mr.
24 Gould. At that time it was Mr. McMurray, and he said
25 -- the chairman of the committee, who I can't

1 remember at the time, but I believe it might have
2 been Representative Rocks--

3 REPRESENTATIVE O'BRIEN: Then that was
4 not in '77.

5 MS. HARRIS: It was in '77 in the House.

6 MR. CASPER: No, I think you may be
7 referring to 1979.

8 MS. HARRIS: 1979.

9 MR. CASPER: I'm sure the chairman was
10 Representative Joseph Pitts, but at the time
11 Representative Rocks, now Senator Rocks, was a member
12 of it.

13 MS. HARRIS: Was a member of the
14 committee. And he asked, he said, "Who is SEPTA
15 responsible to? Who are you responsible to?" And
16 the chairman answered back, "Everyone and no one."
17 And in effect, that's more or less the way that we
18 conduct our business, I believe, on a regular basis.
19 When the elected officials have some business with
20 us, I think that we meet with them regularly. When
21 there are issues that they're concerned with or
22 appointing agencies, we deal with them. When there
23 are issues that they're unconcerned with, we deal
24 with them ourselves. And when they're issues that
25 the State or the Governor is concerned about -- very

1 often we're left to our own devices.

2 I think as a board we've done the region,
3 the legislature, the Governor, perhaps a great
4 disservice over the past five years, and I don't
5 believe that it was intentional. I don't believe
6 that anyone did it with malice aforethought. But in
7 a sense we saw our jobs as protecting local budgets
8 and State budgets, if you will, from the really
9 horrifying deficits of our regional rail division.
10 It wasn't that we wanted those deficits to be there.
11 The fact is that we have a system that costs a
12 tremendous amount of money to operate, too few
13 riders, and we decided we will raise fares, we will
14 do other things, we will try to avoid having to
15 recognize that too much in any one place. And we
16 come back time after time.

17 I think that one of the things that your
18 committee should be looking at, really clearly should
19 consider, is whether or not the structure that exists
20 at this time is the appropriate one to provide the
21 service and to be responsive to the funding agencies
22 that you've set up. We are an instrumentality of the
23 State. We're very fond of saying it. We say the
24 vast majority of our money comes from the State.
25 There is only one State appointee on our board of

1 directors. The rest are the local governments. That
2 may be something that -- I don't have a fixed opinion
3 on it and I certainly don't have any guidance, but I
4 think that it's something that right now as a board
5 member I feel a frustration. I think that we work
6 well together on some issues, but there are so many
7 external factors that affect our ability to operate
8 that perhaps there is another structure that would
9 work better.

10 CHAIRMAN LINTON: You know, everybody but
11 nobody. And that tends to see how I see the system,
12 and that's the frustration that I feel, and I think
13 that's why we're going to continue to have hearings
14 like this from all levels because there's a real
15 feeling that we don't know what's going on. And
16 quite frankly, earlier today when the Auditor General
17 was with us, there was some discussion about looking
18 at the structure. ~~In fact,~~ there was some discussion
19 about looking at maybe a State-run transit authority,
20 such as New Jersey Transit, or some system that more
21 parallels the revenue sources that's provided to
22 support the system.

23 There was even discussion about the
24 disproportionate number of representatives from the
25 Commonwealth of Pennsylvania being appointed by the

1 Governor or the General Assembly, whatever way we
2 want to look at that, but in that providing a vast
3 part of the share of your dollars, but having one
4 member of the board. And I think Scott Casper even
5 calculated some figures in terms of the amount of
6 money that each one of the board members represents
7 to the authority, and the disproportionate amount
8 that comes from the Commonwealth, compared with the
9 overwhelming amount of money that's provided to
10 support the system.

11 So I think that's something that the
12 committee has not, although it was part of our
13 discussions in the past, I think we're going to look
14 a little more at that, particularly when we hear
15 about the capital needs of the system, looking more
16 and more to State government to come up with those
17 overwhelming dollars, and we're saying, if you're
18 going to keep coming to us and looking for more and
19 more dollars, as Chairman Gould has said earlier,
20 even for the future needs of the system, then maybe
21 we better look more closely at how the system is
22 structured, and maybe the structure should more
23 closely parallel the kind of financial means we're
24 making today and also the kinds that we're being
25 asked to make in the future.

1 I think that's something that this
2 committee needs to look at, and I also would hope
3 that the UMTA study would look at that and its
4 consideration of its measures.

5 I think our stenographer needs to take a
6 five-minute break. She's giving me some very strong
7 signals to that effect, so why don't we stop for five
8 minutes so that she can--

9 REPRESENTATIVE O'BRIEN: Can I make one
10 comment? Just to follow up. It's only going to be
11 very brief, because it just follows up on what your
12 last comment, and it involves the cooperation and
13 communication. I find it very interesting that
14 during this past session that we had a visit from
15 Brian Clymer, and I must say that he did a yeoman's
16 job in our caucus in a meeting of the southeastern
17 Republicans in addressing all the questions that were
18 put to him. And at that meeting it was also brought
19 up that the members of that caucus and maybe members
20 of the Democratic caucus in the House and the Senate
21 would like to meet with Lou Gould and the other
22 members of the board. We found it very interesting,
23 and I think that was early in June, it was around
24 June 7, and nobody else came up.

25 And that kind of leaves an empty feeling

1 in the legislature that perhaps the members of the
2 board are insensitive to the concerns of the
3 legislature. And in response to that, then why
4 should the legislators be responsive to the concerns
5 of SEPTA? If you're talking about being earnest in
6 establishing a system of communication and some kind
7 of empathy factor with the legislature, either in
8 Harrisburg or in Washington, for your funding needs,
9 then I think it's necessary for the members of the
10 board to take the time to meet, on a formal and an
11 informal basis, with the members of the legislative
12 bodies in both Washington and Harrisburg. There's
13 been several incidents over the years, and I know
14 they leave permanent scars. They're not big issues.
15 And if the information has been provided on several
16 issues, then I'm sure there wouldn't be a residual
17 negative effect.

18
19 One issue, I don't have to get into it,
20 but it was asked of David Gunn several years ago, and
21 his flat out response to all the legislators present
22 in our caucus was, "It's none of your business, and
23 I'm not going to tell you." And the legislators
24 said, "Well, I thought that was public information?"
25 And he said, "Well, I'm not going to tell you." And
that was the end of it and nothing ever happened

1 after that. But I think when you're talking about
2 establishing corroboration, I think it's important
3 that the members of the board come up to Harrisburg,
4 or meet -- and most of the legislators that are going
5 to be the advocates of SEPTA are in southeastern
6 Pennsylvania. You don't have to travel all the way
7 up the turnpike. You can have it right down here.

8 Like I said, on this issue of exterior
9 advertising or on the controller issue, we've been
10 trying to find out what the real concerns are. I
11 mean, we're getting besieged with letters from
12 everybody under the sun, okay. And on the surface,
13 nobody has a problem with it, okay. But when in fact
14 the legislation is proposed or a remedy is tried, we
15 try to effect a solution to this, not by legislation
16 but by a meeting of the minds, that doesn't take
17 place. And when we put the legislation on the floor,
18 everybody publicly says, "We have no problem with it,
19 as long as it conforms to this, that, and the other
20 thing." Then everybody runs around the whole way
21 trying to kill the legislation.

22 You know, so this is the kind of
23 communication that I think is necessary and I think,
24 like I said, I want to applaud Brian. He came up, he
25 answered I think everybody's question. There were

1 some -- I think Brian thought he was, and he probably
2 was for a good period of time in that caucus, under
3 intense questioning, but I think he answered those
4 questions well. And I think most of the questions
5 that are brought up by legislators don't require real
6 -- they're cosmetic issues or they're issues that can
7 be explained away or worked away on a very deliberate
8 basis. And so if you want that kind of response--

9 MR. GOULD: I'd like to respond.

10 CHAIRMAN LINTON: We'll wait until she
11 changes her paper.

12 (Whereupon, a brief recess was taken.)

13 CHAIRMAN LINTON: Okay. We may proceed.
14 Chairman Gould had a response to Representative
15 O'Brien's remarks.

16 MR. GOULD: Well, I have a couple
17 responses, one to your's, Mr. Chairman, and one to
18 Representative O'Brien's.

19 When you spoke last, one of the things
20 that you mentioned was that your aide, Mr. Casper,
21 had been considering the board members with respect
22 to compensation flowing to the system, and I was
23 afraid for a moment that Mr. Casper was talking about
24 compensation which we as board members might get from
25 the service that we provide, and as you know, we get

1 none. But I understand the comment was not directed
2 that way.

3 MR. LANDIS: Well, you and every school
4 board member of the Commonwealth too.

5 MR. GOULD: Well, the school board
6 members where I come from do get compensated. It's
7 not much, but they do get compensated. But
8 nevertheless, we're volunteers and we do it
9 willingly, but I wanted to make sure that the record
10 was clear that we are not compensated for the
11 services that we provide.

12 But in terms of board members coming to
13 Harrisburg, a lot of the things that I have
14 encouraged our board members to do since I became
15 chairman five years ago was go to Harrisburg, and
16 many of us have on many different occasions, and many
17 of us have been in Harrisburg in the last nine
18 months. We've had meetings with different county
19 delegations. We have not, as board members, met with
20 caucuses as a whole.

21 I think there is, you know, occasion for
22 us to do both. I think there's occasions for us as
23 board members to meet with individual legislators, I
24 think there are occasions for us to meet with
25 caucuses, and I think there are occasions for us to

1 meet with the delegations from our respective
2 appointing authorities. I'm all in favor of our
3 board members going to Harrisburg as often and as
4 much as they can within their schedules and as often
5 and as much as the Representatives wish to have us.
6 And I agree with you, we can meet here as well as
7 there. So that's certainly something that I have
8 advocated, I've encouraged our people to do, and many
9 of our board members have. In fact, I believe most
10 of our board members in the last six or nine months
11 have been to Harrisburg on at least one occasion to
12 meet with not individual members, their own county
13 delegations or their city delegation, or in one
14 instance as you mentioned Mr. Clymer met with the
15 caucus, the Republican Caucus. So that's something
16 that we're very anxious to continue to do and I can
17 assure you we will continue to do.

18 CHAIRMAN LINTON: Scott Casper.

19 BY MR. CASPER: (Of Mr. Gould)

20 Q. Yes. Chairman Gould, I had planned to go
21 over a number of things in the Auditor General's
22 report, but I have modified my plans. Since you
23 mentioned my name, I'm glad that one misunderstanding
24 that you had was somewhat cleared up.
25

What I had mentioned and discussed

1 earlier, threw out to the Auditor General and
2 legislators on the committee, was the idea that if
3 it's a matter of contention that who's out there, is
4 anyone there, is anyone listening, back and forth
5 between the State government and the regional
6 authority, perhaps it would be a benefit to have more
7 State board members on the board, not for purposes
8 just for a tug of war in any power struggle,
9 whatever, but something to reflect the area of
10 commitment.

11 I brought up the examples of what the
12 counties contribute on their own, and I know that it
13 is a rather sensitive item as far as city membership
14 vis-a-vie suburban membership, et cetera. However,
15 looking at the five counties as a group, they put in
16 \$48 million in contributions, and that will probably
17 rise this year. But the State is putting in \$148
18 million. For \$148 million, the State has one member
19 of the board. Chester County, admittedly Chester
20 County has the least SEPTA service of any of the five
21 other counties, but they put in \$846,000. That's one
22 board member for \$423,000, while the State has one
23 board member for \$148 million.

24 And perhaps it's something to think
25 about. It's not exactly that we're rushing through

1 this proposal and no one dare stand in our way, but
2 to throw out ideas, at this point, perhaps is a way
3 to weave the State government in with the local
4 officials here, the local board members appointed by
5 the county boards of commissioners, the county
6 council in Delaware County, and the city
7 administration. Perhaps this is a way of weaving
8 things together, maybe it's not. But at least I
9 wanted it thrown out.

10 A. Well, I understand that and I think it is
11 something that could and should be thought about. I
12 think in terms of the governance of the authority and
13 the structure of the authority, obviously it was an
14 authority that was created by the State and I'm sure
15 it was created as a result of compromise by the then
16 mayor and the then county officials and the then
17 State officials. And in my view it is those people
18 who are elected, be they at the local level or the
19 State level, that have the responsibility to the
20 people who elect them, and we as board members are
21 not elected, to create the structure which they think
22 best serves their interests of their constituents, be
23 they taxpayers, be they riders, or be they both
24 riders and taxpayers.

25 So that from an operational point of view

1 I am sure that the authority could function with a
2 board that was composed of representation from -- of
3 greater representation from the Commonwealth of
4 Pennsylvania.

5 My experience is that, and I've been on
6 the board since 1979, that the board members try very
7 hard to work together and to work for the best
8 interests of the riders and recognize that they wear
9 different hats in carrying out that responsibility.
10 I think that the board individually and collectively
11 is not in the position to be deciding the structure
12 of the organization. I don't think we have -- we
13 think that is not our role. Our role, I think, very
14 clearly is to deal in reflecting those who appoint us
15 in terms of how the system operates, but I have no
16 personal problem, in fact would support, if your
17 committee, if the General Assembly as a whole, if the
18 study that 'is going to' be carried out in an UMTA
19 funding, if all of those things come together and
20 decide that there is a need to look at the structure
21 of the SEPTA organization from the viewpoint of the
22 composition of the board, I think that's fine.

23 And I think -- as a matter of fact, I'm
24 sure that if that were to occur, you would have the
25 same kinds of compromises taking place in

1 restructuring the board as took place when the
2 authority was created 25 years ago. And the only
3 thing that I see is that sometimes people don't
4 recognize the fact that the authority is the creation
5 of the State legislature and that it is a creature
6 which was created out of the compromise of all the
7 people who you're talking about right now who would
8 necessarily have an interest in reorganizing the
9 authority, if that is what is to occur. You wouldn't
10 have any problem, I'm sure, from either SEPTA or the
11 current members of the SEPTA board if the General
12 Assembly wants to look at and consider other
13 alternatives in terms of the organization of the
14 authority.

15 Q. I wasn't thinking in terms of a large
16 number of State appointments where obviously the
17 majority would shift, by no means, but merely perhaps
18 a -- going at what the number is now, perhaps two
19 additional seats, or something of that nature.

20 But again, as for purposes of discussion
21 and how they are to be divvied up and how they are to
22 be appointed is a subject for further discussion, as
23 you said, perhaps compromise itself. Perhaps Auditor
24 General Don Bailey's concept is superior. He has a
25 view similar to that that has been exercised in New

1 Jersey that they take a more statewide superboard or
2 Pennsylvania Transit Authority, or whatever you want
3 to call it. Again, it wasn't structured. It was
4 just an idea that he threw out there. New Jersey
5 does have that type of setup.

6 This is an exchange of ideas because what
7 we don't want is a situation that if we can coalesce
8 on the committee and have a good degree of input from
9 local officials, we certainly would find that it
10 wouldn't be productive to be stopped in our tracks at
11 10 minutes to 4:00 in the morning of any particular
12 legislative session day.

13 So again, I just throw it out there and a
14 possible discussion. It's obvious, it's obvious that
15 the State is involved in a tremendous amount of
16 financial participation, both in operating assistance
17 and the capital items, and I have, by the way, a
18 listing of capital items that the State
19 Transportation Commission just adopted last Thursday
20 in Huntingdon, Pennsylvania.

21 The State does have a commitment, and
22 maybe it should be greater, and maybe it's great as
23 is. But nonetheless, there is a continued
24 frustration in the members of the General Assembly,
25 and you have two members here, by the way, from the

1 city of Philadelphia. We've had other members here
2 from the greater surface area, and one gentleman from
3 Allegheny County. And speaking with the upstate
4 legislators and the upstate taxpayers, they count
5 too, they have a feeling of frustration because they
6 don't get to see the system work. They don't get to
7 see the Frankfort L's riding up and down Kensington
8 Avenue at rush hour packed with humanity and how
9 would these people get up to northeast Philadelphia,
10 down to center city, how do people get to west
11 Philadelphia, Media, et cetera? They don't have that
12 appreciation, so maybe it's for the good of the order
13 to discuss it.

14 A. No, I think it is. I think it's also
15 good that not only do you have sessions like this,
16 but your Transportation Committee and other
17 committees of the House. I know the Transportation
18 Committee has been here a year or so ago and visited
19 our property. You were here just the last couple of
20 months. I am all in favor of getting as many people
21 as we can from across the Commonwealth to come down
22 here and see the system and see what it means to the
23 people. This weekend that we've just gone through
24 with the Congressional delegation from Washington,
25 Senators and Congressmen from all across this

1 country, every one of them spoke extremely positively
2 about the transit authority that we work here and the
3 way that we were able not only to carry them, but the
4 benefit that they can see that we provide to this
5 region and to its economy.

6 So I am a firm believer in, to the extent
7 that we possibly can, having the elected officials
8 from all levels of government see our system,
9 understand it, use it, visit it, as many times as we
10 possibly can. And I think that is a necessary
11 ingredient in discussions of the nature that you and
12 I are just talking about that would look at how this
13 organization might be structured differently, or
14 indeed how mass transit across the Commonwealth might
15 be structured differently.

16 Q. A general question on the Auditor
17 General's report. I had several pages of specifics
18 which I'll hold for a later time. But generally
19 speaking, and as we commented on this morning, the
20 Auditor General's report we think is a good report
21 and it has a number of items in there, many of which
22 are of themselves lower costs. In the aggregate,
23 they amount to real dollars, and an observation was
24 made perhaps even as much as your unfunded deficit
25 for the fiscal year ending. How does the SEPTA

1 board, you as chairman, management of SEPTA, view the
2 report? Is it a situation -- I know some items were,
3 smaller items, were corrected on the spot, and that
4 was reflected in the report. But does the SEPTA
5 board view that possibly the Auditor General's report
6 is a form of one of several working documents that
7 might be utilized to do something about the unfunded
8 deficit that you have?

9 A. Well, Mr. Casper, we viewed the report as
10 a positive document and something that reflects a
11 great deal of effort that the Auditor General and his
12 staff put into their examination of the SEPTA system.
13 I have not, I must say, focused on it from the point
14 of view of perhaps containing recommendations that
15 would deal in totality with our unfunded deficit. I
16 must tell you, I have not viewed it in that context.
17 That has not been pointed out to me that it can do
18 that.

19 I can tell you in addition, the report
20 contains, in addition to the comments of the Auditor
21 General, the comments of the SEPTA management with
22 respect to each and every one of the findings that
23 are set forth by the Auditor General. As you say,
24 several of those things we have dealt with already.
25 Those which we have not dealt with, the management is

1 going through the effort of trying to deal with them,
2 and trying to deal with them in a positive fashion so
3 that the direction that we would see as board members
4 is that we would try to use this as we do any product
5 that comes out of someone looking at our organization
6 as something that is positive for us, something that
7 is beneficial for us, something from which we can
8 learn from, something from which we can adopt
9 wherever possible and as quickly as possible to aid
10 us in running a better transit authority. I can
11 assure you this is not something that's been put on
12 the shelf to be dusted off 10 years from now when
13 we're trying to move from one place to another.

14 Q. Or rebutted for the sake of rebuttal.

15 A. No, no, no. It's something that will be
16 dealt with in a positive way, and the benefit that we
17 can get out of it, the extent we can get that out, we
18 will do, and I can assure you that, you know, the
19 management is hard at work in doing that. We have a
20 great many people from a great many places,
21 jurisdictions, looking at us, and we try as
22 diligently as we can to cooperate with each and every
23 one of those organizations and entities because we
24 know that to the extent that we do that, we get
25 something positive back from it and we can learn from

1 it and we can be a better organization as a result of
2 having been there.

3 So I can assure you that this will be
4 dealt with and is being dealt with in a very positive
5 light and we will look for whatever benefit we can
6 get out of it. I can't, as I said, I don't know that
7 it will quantify the sum of our unfunded deficit. If
8 it would, you know, that would be much to our
9 benefit.

10 Q. Fine. Well, rather than continue with a
11 lot of questions now then when obviously it's a
12 relatively recent report, it perhaps might be more
13 productive at some time in the future to sit down
14 with your staff, members of the board, and discuss
15 the progress at that time.

16 A. Fine.

17 Q. Thank you very much.

18 A. Thank you.

19 CHAIRMAN LINTON: Scott, you let him off
20 easy. I had about 30 or 40 questions.
21 Unfortunately, if you're willing, Mr. Gould, I think
22 we're going to need another meeting to discuss some
23 other issues.

24 Before we depart today, though, I have a
25 couple that I'd like to go over.

1 BY CHAIRMAN LINTON: (Of Mr. Gould)

2 Q. One regarding the search for a general
3 manager, some understanding of where that is, what
4 the time line is, what has been the instructions to
5 the search committee in terms of -- and I can only
6 speak from my own experience serving on the search
7 committee at one point, that I understand you have an
8 outside search consultant.

9 A. That's correct.

10 Q. Generally when an outside search
11 consultant is hired, that one of the things, from my
12 own experience, one of the things that happened in
13 the search that I was involved in is that the search
14 consultant asked the board to give them some idea of
15 what characteristics they were looking for in that
16 position, what skills, what the needs are of the
17 particular agency, what they were looking for in
18 terms of the general manager. Can you give this
19 committee some idea of what SEPTA's looking for in
20 terms of general manager, what you think your needs
21 are and what you think needs to be the top manager in
22 that system?

23 A. Well, let me address it from a couple
24 points of view, if I may, Mr. Chairman.

25 First of all, the SEPTA board, by the

1 statute that governs us, provides us with the
2 responsibility for the hiring of only one employee in
3 the authority, and that is the general manager. And
4 I think I speak for the entire board when I say that
5 we consider the search for a general manager the most
6 important thing that we can do and we can lend to the
7 authority at the present time, because it is the
8 general manager who is responsible for the day-to-day
9 operation of our authority, carrying the million
10 passengers a day that we have, and spending wisely
11 the money that's provided to us by our fare-paying
12 passengers and by our subsidizers.

13 In terms of process what we have done as
14 a board, when Mr. Mack announced his intention to
15 retire, we sat down as a board and we talked about
16 the kinds of people that we would like to look at
17 first of all in terms of who would be conducting the
18 search for us, and we interviewed a number of
19 prospective search firms, and that was done by all of
20 the board members, and most of the board members
21 participated at each of the interviews that were held
22 with the prospective people to conduct the search.

23 Once that was done, there was a meeting
24 of the board, a public meeting where we selected the
25 search firm that was responsible for helping us find

1 a general manager. Subsequent to that, the search
2 organization has had the opportunity, the person
3 who's doing the search, to meet with each of the
4 board members, to meet with the members of the senior
5 staff at SEPTA, to meet with elected officials at all
6 levels of government, and from that we believe there
7 has been a very, very good start at reaching a
8 consensus in terms of what it is that all of those
9 people think should be the characteristics of the
10 person who is going to be the next general manager at
11 SEPTA.

12 There is going to be another meeting in
13 the near future between the board and the person
14 responsible for the search just to make sure that
15 there is a uniformity, if you will -- it's been
16 reduced to writing -- a uniformity of the things that
17 we're looking at generically in terms of the
18 qualities and characteristics of a new general
19 manager. It's been said that, you know, the general
20 manager of SEPTA probably would be a person who could
21 walk on water. I don't think that we will find the
22 person that has that ability. I do think, however,
23 that as the fourth largest transit authority in the
24 country and one which has a reputation throughout the
25 country of being a good transit authority, one which

1 has a reputation of providing good service, we will
2 find that there will be a number of candidates both
3 within the transit industry and perhaps from outside
4 the transit industry who are interested in working
5 here.

6 Obviously, the person has to be one, I
7 think, who has skills, first of all, as a manager.
8 There are 9,000 people that work for SEPTA.
9 Secondly, the person will have to have a knowledge or
10 familiarity, I think, with transit operations. It
11 will have to be a person who has had responsibility
12 in leading large numbers of people, I believe. It
13 will have to be a person who has an ability to
14 communicate, communicate with many different
15 constituencies. You have to communicate with riders,
16 communicate with board members, communicate with
17 legislators, communicate with mayors and county
18 council people and county commissioners.

19 There are a whole host of things that
20 have been talked about as the search person has met
21 with us and has met with all of the other people that
22 I've spoken to. In terms of timing, I believe that
23 we ought to be able to have a new general manager
24 within the next two to three months, I would think.
25 There have been no candidates that have been brought

1 to us yet by the searcher. He is not ready to do
2 that. But I can assure you that each and every one
3 of us on the board are determined that this process
4 be conducted over as wide an area as we can in terms
5 of looking both in terms of geography and in terms of
6 industry and in terms of previous experience, and
7 that we have the opportunity to bring to this
8 organization the best person to lead us and to direct
9 our operations in the future, and that's what we will
10 do.

11 I'm very confident that the process that
12 we're using is a good process and that it will result
13 in us bringing to this authority a very, very strong
14 general manager.

15 Q. A comment that it seems to me that one of
16 the things that's extremely important in whoever
17 becomes the next general manager to have some sense
18 of credibility and to kind of reassure members of the
19 General Assembly, and that's all I can speak for at
20 this moment, that the person comes with some
21 credentials and some skills and some sense of feeling
22 that there is somebody in charge at the authority
23 that knows exactly what they're doing so that when it
24 comes down to asking for additional dollars, we can
25 feel very comfortable in knowing that the person in

1 charge is running the system and is doing it well. I
2 think that's extremely important, and I will, because
3 this is a public meeting, I will not comment on
4 previous general managers, but I had some very strong
5 feelings about those who have come before. Some of
6 whom I felt were very good and there were some I felt
7 were very poor.

8 So I tend to disagree maybe in terms of
9 your assessment of previous general managers, but I
10 think it's very important that that kind of candidate
11 is looked at, and hopefully that that kind of person
12 is in fact chosen by the board.

13 A. Well, I appreciate your comment, but I
14 can assure you that that, you know -- I say
15 communicate, you say credibility, but that's clearly
16 one of the things that we're looking at in terms of
17 the capabilities of the man or woman who will be
18 selected as the next general manager.

19 Q. I have a whole number of questions
20 relating to more specific management issues, also to
21 some recent agreements that you have with the city of
22 Philadelphia, some questions about reverse commute.
23 I think I can go on for another at least three hours,
24 and I know some other members of the staff have to
25 journey on.

1 MR. LANDIS: It's too late now. You can
2 go on for another 45 minutes now.

3 CHAIRMAN LINTON: I can go on for another
4 hour now. The train is gone. Okay.

5 MR. LANDIS: You can go for at least a
6 half an hour.

7 CHAIRMAN LINTON: At least another half
8 an hour? Okay. Well, let me ask one or two
9 questions since I've gotten that kind of support from
10 the staff.

11 MR. GOULD: We're at your pleasure.

12 BY CHAIRMAN LINTON: (Of Mr. Gould)

13 Q. One of the things that concerns me
14 relates to proposals of fare increases. Even though
15 I know that the current proposal is not for the cash
16 fare and it deals with those prepayment instruments
17 that we have at the authority, I'm concerned that our
18 reaction to deficits does not become a knee-jerk
19 reaction that we either go increased fares or
20 decreased services. And it seems to me that that
21 seems to be the reaction to the authority over the
22 last several years, that let's cut services or let's
23 increase fares.

24 I have not seen any real discussions
25 about, you know, where are we in terms of our

1 administration, whether or not we've talked. Where
2 are we in terms of money to spend for our legal
3 services? Where are we in terms of looking at some
4 other areas of the authority where in fact some cost
5 cutting measures can be made?

6 You know, I look at things, and that's
7 why the issue such as severance pay hits me, that's
8 why when I see additional outside lobbyists being
9 hired by the authority, when I start seeing those
10 kind of things going on, I begin to question, you
11 know, whether or not we are internally looking at
12 other ways of reducing deficits. Also, whether or
13 not the deficit that we have, which is \$27 million,
14 is a short-term deficit, or whether or not it could
15 in fact be a long-term deficit, or it could be dealt
16 with over a long-term period of time, or whether
17 there's some need to come up with a resolution of
18 trying to close out that deficit within one year, and
19 whether or not there's other ways of doing it over a
20 period of time.

21 So there's several things around our
22 reaction to this increased fares that I'm concerned
23 about. Before you answer, also when we talk about
24 reducing services, I'm also concerned as to whether
25 or not we have these across-the-board kind of shotgun

1 approaches to eliminate the services and whether or
2 not we look at revenue enhancement, whether or not we
3 look at the most cost effective services, and what
4 kind of reasoning goes into decisions that we make
5 related to our financial problems.

6 A. All right. That's a long -- there are a
7 number of things that form a part of an answer to
8 those questions.

9 Clearly, in addition to revenue
10 enhancement, be it increased revenue from the
11 passengers or increased revenue from the passengers,
12 there is the issue of cost containment and cost
13 control. It is a mistaken notion, if there is a
14 notion that the authority and the management does not
15 deal with cost control. In fact, as a part of the
16 budget that we had this year, there is a table that
17 shows that as a result of efforts that the authority
18 has made in the last couple of years, we have reduced
19 the would-be deficit by something over \$60 million.
20 And that includes, for example, such things as having
21 an early retirement program, which resulted in the
22 nonhiring of 150 people who were selected to elect
23 the early retirement from our management ranks.

24 So that we are very interested, the
25 management does take a very aggressive view of

1 controlling costs, and I think has a good record in
2 doing that. In fact, it is known that this
3 authority, at least in terms of 1985 numbers, has the
4 lowest cost per passenger of any of the major
5 authorities in the country. Our cost per passenger
6 to operate in 1985 was \$.86, compared with \$1.53 in
7 our sister city of Pittsburgh, and \$2.75 in the State
8 of New Jersey. So I think that speaks well of our
9 ability to control our costs and our determination to
10 control our costs.

11 In terms of fare increases, I don't
12 recall, in fact I am certain there has been no
13 occasion in which this board has adopted a fare
14 increase when it has done so with a desire to do so.
15 It is not the desire of the board to enact fare
16 increases. It's the desire of the board, because we
17 know as a transit authority our goal is to operate at
18 as low a cost as we can to our passengers and provide
19 as much service as we can to our passengers. We see,
20 instead of the need to cut service, a need to
21 increase service. But we simply do not have the
22 funds to do that, and I don't think that we are
23 likely in the future, unless things change, to have
24 the funds to increase our service, although there is,
25 in the current budget, a start at increasing certain

1 levels of service.

2 It's very hard, I think, to make the
3 balance or to set the balance for what passengers are
4 to pay in terms of their share of the costs of the
5 ride that we provide. This authority, like every
6 other authority, does not recover the costs of the
7 ride that it provides from its passengers. We
8 recover, on average, something close to about 60
9 percent of the cost of the ride here in this region.
10 That is a number which is extraordinarily high in
11 terms of what happens in other places across the
12 country. I think that the industry goal is something
13 like 50 percent and the median recovery is something
14 closer to 40 percent. So with those two numbers in
15 mind you would see that we do recover an inordinate,
16 almost inordinate, cost of the service that we
17 provide from our fare-paying passengers.

18 It's a very difficult thing for us to do,
19 it's a very difficult balance for us to make. We, I
20 think, though find that the service that we provide
21 is sufficiently needed and sufficiently desirable
22 and sufficiently good that when we have, as we have
23 in the past, enacted fare increases in order that we
24 have a balanced budget, and that is a requirement of
25 the statute -- and it's more than a requirement of

1 the statute, it's a requirement of us doing business.

2 You mentioned an unfunded deficit this
3 year of something like \$27 million. We have already
4 an accumulated unfunded deficit of over \$70 million
5 that we've inherited. When I say we've inherited,
6 I'm talking about the current board has inherited,
7 from previous administrations. We have, in the last
8 four years, have had balanced budgets, I believe in
9 each and every year, with the exception of the year
10 we just closed, and by this fare increase, the money
11 that we get from that and the money that you provide
12 as an addition to the money that was proposed
13 initially, we will have a balanced budget for the
14 current fiscal year and the immediate past fiscal
15 year. And that's tremendously important to us
16 because we have done many things as the result of
17 very creative and thoughtful management in terms of
18 financial. -- taking advantage of the financial
19 opportunities that are available to us in the
20 marketplace, things that were never done before in
21 this authority.

22 When I first became chairman of this
23 board, I was asked to go with my treasurer because he
24 wanted to borrow \$200,000 from a bank that we had
25 dealt with 20 years. They said, "We'll loan it to

1 you if you have cash collateral." We now have
2 secured lines of credit in an amount of over \$70
3 million, and that's come about only because of the
4 fiscal prudence of this board in making sure that we
5 have a balanced budget each and every year for the
6 last four years.

7 We have gained the credibility and the
8 respect of the financial institutions both within
9 this Commonwealth, and in fact around the world,
10 because of the way we manage this authority. And we
11 only go to you and ask for more money, and we only go
12 to our passengers to ask for more money, so that we
13 can continue to enjoy that credibility and that
14 respect, and therefore get ourselves in the position
15 where we can do creative things financially, as we've
16 done in the last four years.

17 So there are many things that fit into
18 the picture. It's not just a matter of saying, okay,
19 we need more money, we're going to go out there and
20 raise the fares and make the passengers pay it again
21 because they've done it in the past. That's not the
22 way we operate. We try to operate as a prudent
23 business, and yet we know that we are all the time
24 part of the public sphere and the public atmosphere
25 in that we're a quasi-governmental organization. But

1 I think that if a careful look is made at what we
2 have done over the past four years in terms of
3 budgets and in terms of fare increases and in terms
4 of the way we manage the business, you'll find that
5 we've done very, very well with the resources that
6 have been provided to us, and we've only gone to our
7 passengers where it is absolutely necessary to do,
8 and we try to minimize that, and we'll continue to do
9 that, at least as long as I think the board is
10 constituted the way it is right now.

11 Q. What specific proposals have been put on
12 the table at the board meetings to internally cut the
13 deficit?

14 A. Well, in terms of things that the board
15 has acted on, we of course approved the early
16 retirement program, which was, as I said, saved us--

17 Q. Over a year ago? Two years ago?

18 A. No, it was last year. Four million
19 dollars.

20
21 It was the board of SEPTA acting at the
22 behest of, in fact the instructions of, the elected
23 officials in the five-county region that incurred a
24 savings of \$25 million a year in operating costs when
25 we took over the commuter rail line.

One of the things that's overlooked is

1 that this authority did not go out and seek to
2 operate the commuter rail line. We were told by the
3 elected officials, Federal, State, and local, that we
4 want that commuter rail line to operate, and we want
5 you to operate it. And it was this board, and it was
6 this management, that for the first time in over 100
7 years achieved new labor agreements with rail labor.
8 We're the only place in the United States that did
9 it, at a savings of \$25 million a year. So that's
10 something that this board has done.

11 This board directed that the authority
12 have the quality control program, which saves us \$2
13 million a year. This board is the board that
14 directed that we engage outside legal counsel to
15 litigate with the Philadelphia Electric Company
16 before the PUC for a separate power rate, a separate
17 electric rate cost. We got that after two years of
18 litigation and a savings of \$3 million a year.

19 It's this board that has directed that we
20 have more people in our legal staff, which has helped
21 us reduce our claims costs. We've also been
22 benefitted by some judicial interpretations that have
23 been said that we are entitled to operate under the
24 cap that is provided to municipalities, which is
25 going to help, I believe, in the long term, that

1 we're seeing it operate already, to reduce our claims
2 cost.

3 It is this board which has adopted fare
4 programs which provide for prepaid fares, which do a
5 couple of things. They make it more convenient and
6 less expensive for our riders to ride on our system,
7 but they also save us money each and every year, and
8 they encourage more and more people to ride on our
9 system, to the point where right now over 70 percent
10 of our riders use one form or another of a prepaid
11 fare.

12 Q. Mr. Chairman, I'm familiar with many of
13 those proposals. In looking into next year's fiscal
14 budget, which I understand that SEPTA has already put
15 together to present to the General Assembly and to
16 the Department of Transportation, what proposals,
17 looking into the future, as you're looking into the
18 future--for increase in your prepaid instruments, what
19 proposals are you putting forth into the future in
20 terms of internally cutting your budget? Internally
21 cutting your deficit?

22 A. Well, all I can tell you, Representative
23 Linton, is that the management is instructed to, at
24 all times, do whatever it can do to keep its costs
25 down, and that it will do. In terms of -- we don't

1 have plans, for example, to continue to reduce large
2 numbers of employees, because the people that we have
3 are necessary to provide the service that we have on
4 the street right now. We don't have a situation
5 where there is a top-heavy management. The vast
6 majority of our employees are engaged in the day-to-
7 day delivery of service, either as operators or
8 people who are out there providing maintenance.

9 One of the things that we look at
10 constantly, which is a tremendous burden for us, and
11 one where we deal with our people all the time, is
12 the area of cost of insurance.

13 Q. Could you give us some figures on what
14 has been provided -- what kind of expansions have
15 been made at the upper level of management which does
16 not relate to the day-to-day delivery service?

17 A. There hasn't been any. It's been cut
18 back quite a bit.

19 Q. It's been cut back?

20 A. By 150.

21 Q. By 150.

22 A. Last year. And we will continue to look
23 at that. But I'm saying, I don't see the opportunity
24 for another large reduction in service. It may be,
25 but I'm not aware of it.

1 But let me go back to the insurance
2 issue. I mean, our insurance costs have risen
3 dramatically as a factor of the general increase in
4 insurance costs everyone has found. What we have
5 done as an authority is we have formed captive
6 insurance -- we've been part of groups within the
7 transit industry which have formed captive insurance
8 companies. We have become self-insured more than we
9 have before. And we have used the most aggressive
10 tactics that we can possibly use in terms of dealing
11 with the people who provide us insurance to make sure
12 that we get the lowest possible rates. And that has
13 had an effect of reducing what would have been even
14 more extraordinary increases in our insurance costs.

15 Q. You're not totally self-insured?

16 A. We are not totally self-insured.

17 Q. What percentage of insurance costs?

18 A. Well, I can tell you -- let's just put it
19 this way: In terms of liability in the city transit
20 division, and I believe on the railroad, I think we
21 are self-insured, it's either the first million or \$2
22 million. I'm not sure of the number. I think it's
23 \$2 million. It has changed from time to time.

24 And we then have various layers of
25 insurance beyond that up to totally catastrophic

1 numbers, and it is within those upper layers where we
2 have done numbers of things such as either become
3 parts of captive in companies or parts of a self-
4 insurance plan that includes members other than the
5 SEPTA organization. But those costs of insurance are
6 one. That -- claims costs and power costs -- were
7 the most rapidly growing items in our budget, and
8 they were the items where we directed tremendous
9 amounts of effort, and we have been successful in
10 reducing the increase in those elements of expense.

11 Q. Since you're dealing with the insurance,
12 and that was an issue, particularly the claims area,
13 it received a lot of attention by the Auditor
14 General, if I remember correctly, wasn't there some
15 sort of self-study or study done of the liability
16 claims in SEPTA by an auditing firm?

17 A. One of the things that our insurance
18 carriers require of us is that the extent of the
19 liability of the authority be estimated. I may not
20 be using the right word there. And there have been
21 and there are, on an ongoing basis, reviews made of
22 the claims which are filed against the authority by
23 outside concerns, both at our request and at the
24 request of the people who provide us with insurance.
25 And there are reports that are available that will

1 show you what those people have found in terms of the
2 potential liability based on the claims which are
3 presently made against the authority and not resolved
4 either through settlement or the litigation process.

5 Q. Do any of those reports reflect the
6 operations in your liability claims department and
7 the procedures and any suggestions as to how those
8 could better be handled?

9 A. You're talking about the operation of the
10 claims department?

11 Q. Yes. Have you had those kinds of studies
12 done by the committee at your own request to see
13 whether there are some internal things that could be
14 done to get a better fix on that?

15 A. Yes, both us and in conjunction with the
16 outside people. And there are two things that I know
17 of that I can tell you right now that have been done.
18 There may have been others, but there are two that I
19 am familiar with.

20 One was, first of all, hiring more
21 attorneys inside so that we could reduce the caseload
22 that each individual attorney has to deal with. And
23 the second was to computerize much of the claims
24 process. Both of those things -- we have hired the
25 additional attorneys, and the computerization process

1 either is or soon will be complete in terms of being
2 able to have a better handle on it. And there may
3 have been other things that I don't know, that I
4 can't recall at the present time, but at least those
5 things have been done in terms of dealing with the
6 claims area.

7 Q. Since there is so much interest in that
8 area, particularly looking at the large percentage of
9 your budget that are your claims, I think it's about
10 9 percent?

11 A. Yes. It's \$50 million out of \$550
12 million. It's 9 or 10 percent.

13 Q. And if you've had some sort of studies or
14 some recommendations, could this committee,
15 particularly in light of the Auditor General's report
16 and the emphasis that was placed on that area today,
17 could we in fact see copies of those studies and the
18 suggestions and recommendations that were made?

19 You just mentioned two. I suppose there
20 are many others.

21 A. There may well be. I don't know.

22 Q. If there are some others, could we in
23 fact see those and could you have your staff provide
24 that to Scott Casper and to Paul Landis of our
25 committees so that we can get a feel of that?

1 A. Certainly. Sure. You know, and it may
2 be also that in terms of doing that, that, you know,
3 our general counsel might want to sit down with these
4 gentlemen too. And if you have counsel, perhaps
5 maybe they can meet and deal with that. I know that
6 we have -- there have been conversations, I believe,
7 in the past between PennDOT and our people with
8 respect to claims, and so maybe, you know, there's
9 some information there that could be shared as well.

10 MR. CASPER: Was that legal division?

11 MR. GOULD: I think so.

12 MR. CASPER: Bureau of Mass Transit?

13 MR. GOULD: Yes, I believe so.

14 MR. CASPER: Okay, I was asking either
15 legal or Bureau of Mass Transit?

16 MR. GOULD: No, I think it was legal, but
17 I'm not positive.

18 MR. CASPER: Okay. We can follow up on
19 that.

20 MR. GOULD: Yeah.

21 MR. CASPER: I have some additional
22 questions.

23 BY MR. CASPER: (Of Mr. Gould)

24 Q. A quick question on the equipment. A
25 member of your staff provided me with some additional

1 information, after we heard an earlier witness today
2 who is a TWU president, was talking about new
3 equipment purchases from Bombardier. And this brings
4 it into clearer focus. I'm appreciative of it.

5 But I also read and heard of purchases of
6 AEM-7's on the system. I know Bombardier doesn't
7 make AEM-7's, but I thought they might have
8 rehabilitated it. In any event, the gentleman, who
9 was Mr. Charles Little, who is president of a TWU
10 Local, mentioned the problems of the new equipment
11 being high powered, meant for a northeast corridor
12 service and would not really be applicable to service
13 other transit lines.

14 We have here, "The Bombardier equipment
15 would be push-pull transit equipment," and obviously
16 this is not northeast corridor trains but rather
17 commuting trains that are on other systems, and
18 that's fine. The question is, you are getting AEM-
19 7's, and AMTRAK, for example, uses them on the
20 northeast corridor.

21 A. We are. I believe we are acquiring seven
22 of those.

23 Q. Seven, yes. And that will be on service
24 on the Trenton line, I believe, and Paoli?

25 A. I can't speak for which lines they would

1 this is not northeast corridor trains but rather
2 commuting trains that are on other systems, and
3 that's fine. The question is, you are getting AEM-
4 7's, and AMTRAK, for example, uses them on the
5 northeast corridor.

6 A. We are. I believe we are acquiring seven
7 of those.

8 Q. Seven, yes. And that will be on service
9 on the Trenton line, I believe, and Paoli?

10 A. I can't speak for which lines they would
11 be on. My guess would be that they would be on those
12 lines because those are the lines which would have
13 the longest distance.

14 What the authority was faced with in
15 terms of the desire and the need to acquire both the
16 AEM-7's and the Bombardier cars is that we have a
17 fleet in excess of 300, 325 silver liners. When we
18 acquired those when we took over the railroad, we
19 found that they had been sorely neglected, terribly
20 neglected, as had the rest of the rail property, by
21 the predecessor railroad. They are in great need of
22 overhaul. In fact, if we delay much longer in
23 providing the overhaul we may have cars that will be
24 beyond being overhauled.
25

However, we don't have the luxury of

1 taking a substantial number of those cars out of
2 service for the overhaul process and still be able to
3 provide the cars that are needed to carry the
4 passengers which we have. We have the opportunity to
5 acquire the AEM-7's and the Bombardier cars under a
6 very favorable financial arrangement. Together with
7 a facility which will maintain them which will be
8 erected in Frazer, which will give us an ability to
9 retire cars temporarily from the silver liner fleet
10 so that we can overhaul them and return them to more
11 reliable and good operating condition, and at the
12 same time have the opportunity to use this new
13 equipment to provide service to our riders.

14 The AEM-7 locomotives are in tremendous
15 demand. We have the experience of sister authorities
16 using like equipment in New York and New Jersey and
17 Massachusetts so that we think that it's going to be
18 equipment that will be certainly useful and adaptable
19 to the environment that we have here, and we're very
20 hopeful that, you know, that it will work well for us
21 here.

22 Q. Excuse me. You said the other
23 authorities, they had equipment such as the push-pull
24 equipment, right? Not the AEM-7's.

25 A. I don't know whether they have the AEM-

1 7's or not, but I'm sure they have those cars.

2 Q. Yeah, they do have this.

3 A. I'm sure they have those, and I think
4 that some of them may well, in fact, use the AEM-7's.
5 Those locomotives are manufactured by General Motors
6 and they have a--

7 Q. At La Grange?

8 A. Yes. And they have a power system which
9 is provided from Asea. But they're a very well-known
10 piece of railroad equipment which will provide us
11 with a very reliable piece of equipment to use.

12 Q. They are. They are regarded as basically
13 a high performance long distance equipment. Now, we
14 did discuss with your staff, we did break that up and
15 get a short answer on it. We frankly didn't ask for
16 a lengthy one, but the gentleman earlier today
17 alluded to the fact that you did get a good deal on
18 them; so obviously if you get a good deal, it will
19 get your attention. Nothing wrong with that.

20 But the problem is -- I think I know what
21 your answer might be, but I have to ask it anyway.
22 Is it a situation that the purchase agreement is so
23 attractive that in the near term it gets you some
24 really good high performance equipment, but that
25 perhaps in the long run, the maintenance, there may

1 be a problem there with the high performance AEM-7's?

2 A. I really don't know. I mean, I am not
3 familiar with maintenance of those vehicles. I think
4 you'd really have to -- you'd have to ask our chief
5 of operations, because I can't--

6 Q. That's fine. I understand.

7 A. I can't speak to that.

8 Q. I understand. It's tough to be an
9 attorney, an engineer, a lawyer.

10 A. I can't do it.

11 Q. Attorney, engineer, and whatever else,
12 administrator. I understand.

13 Thank you.

14 BY CHAIRMAN LINTON: (Of Mr. Gould)

15 Q. In the recent agreement with the city of
16 Philadelphia, there was reference to a Service
17 Standards Committee that was to be established to
18 look at, I guess, service standards for the city
19 transit division. What has been the product of that
20 committee and where do we stand?

21 A. Well, the Service Standards Committee has
22 as its origin the document which is called the
23 lease/lease back, which as I understand it has
24 something to do with the arrangement which exists
25 between the city of Philadelphia and SEPTA with

1 respect to the ownership and operation of the Broad
2 Street subway line, and I believe the Broad Street
3 subway cars. There is a provision within that
4 lease/lease back agreement that calls for what is
5 identified as a Service Standards Committee. That
6 language in that agreement defines the composition of
7 the Service Standards Committee as being five in
8 number, two appointed by the chairman of the SEPTA
9 board, one appointed by the mayor of the city of
10 Philadelphia, one appointed by the city council of
11 the city of Philadelphia, those four then selecting
12 the fifth.

13 The lease/lease back agreement says that
14 the Service Standards Committee shall review, I
15 believe that's the word, the service that's provided
16 by the authority, or review service standards. I
17 don't have the precise word, but there's very little
18 in the agreement that says what the service standards
19 committee should do or what its responsibilities are.

20 I am told that historically in the early
21 '70's there was an attempt to incorporate the Service
22 Standards Committee, and that in fact there were two
23 appointments made by the chairman, the then chairman
24 of the SEPTA board. There was an appointment made by
25 the then mayor and then president of city council.

1 Those four persons met, and they met I believe on two
2 occasions. They met first to organize, the second to
3 hire the fifth. They hired the fifth and they
4 ultimately never met subsequent to that.

5 The most recent agreement between the
6 city and SEPTA with respect to funding of SEPTA by
7 the city calls for the reactivation of the Service
8 Standards Committee, and I am certain that within the
9 next few weeks that service and the members who are
10 appointed will be appointed by the various persons
11 responsible for appointing them, and then that
12 committee will meet to organize and to, I assume,
13 follow the dictates which are in the lease/lease back
14 agreements. So that's where it stands as far as we
15 are right now.

16 Q. So as of now it's not in existence? It's
17 a proposal to be met but has not -- appointees have
18 not been made?

19 A. Appointees have not been made, but I am
20 confident that they will be made within the very near
21 future by both me and by the mayor and by the
22 president of city council.

23 Q. One of the questions I asked earlier in
24 regards to rationale or the issues in making service
25 cuts, I was trying to find out if in fact, and I had

1 a chance to review some other information from the
2 city, and one of the requests that's been made is for
3 information on revenue by routes and ridership by
4 routes, and I understand that this is difficult in
5 your ascertaining that information, therefore it's
6 not done?

7 A. I don't know. I mean, I could look into
8 either. I don't know whether we have such
9 information or whether we don't. I mean, if we do, I
10 would certainly be happy to provide it to you, but I
11 don't know that we do or don't at this point.

12 Q. The information I have is that it is not
13 -- that it's something that you do not obtain because
14 of difficulty in trying to extract the specific
15 information in terms of which riders you can charge
16 to a particular route.

17 A. Well, I'm sure that could possibly be so
18 because I know that -- well, what I'm reasonably
19 certain that I understand is that a very substantial
20 number of our riders, for example, ride on SEPTA on
21 what is called a two-trip ride. They will start off
22 on the Broad Street subway and go to a bus, or the
23 Market-Frankfort L, or some combination thereof. And
24 it may be that because of that complexity that it is
25 very difficult to ascribe certain riders to a

1 specific route. I mean, I don't know that that's the
2 fact, but I do know that people do use more than one
3 mode within our system very often when they ride, and
4 whether that has an effect on what you're talking
5 about, I don't know. I'm sure we can try to answer
6 your question.

7 Q. I know you also -- because I know some
8 people who work as checkers, that you have checkers
9 from time to time who their jobs are to check
10 ridership.

11 A. One of the things, we're required to do
12 that, for example, in terms of the reimbursement we
13 get for the rides that we provide to senior citizens
14 in the off-peak hours. I know there are such people.
15 How many of them we have, you know, I don't know. I
16 would suspect that we probably do not have a great
17 many persons who would fall into the category of
18 checkers, but I don't know the number.

19 Q. I'm just wondering if that's also a way
20 in which you can try to get some feel for it, because
21 I'm trying to get a feel for -- one of the questions
22 that often comes to me when there's these reduction
23 of service proposals, such as one that was made last
24 year, the question, is that in fact an effective
25 route in terms of cost recovery, whether or not there

1 is a high level ridership, if that is in fact some
2 criteria that's used in making decisions to eliminate
3 those routes. And the question I have is, do we have
4 a mechanism in place that allows us to collect the
5 information so that such criteria could be used if in
6 an event there was some rerouting or discussions
7 about elimination of routes?

8 A. I know that there was very clearly a
9 criteria which was used by the management in making
10 recommendations for the routes which were to be cut,
11 if in fact routes were to be cut. I don't remember
12 it. Do you? What is it, Rick?

13 MR. WHOOTEN: Well, there are a number
14 of things. First of all, on a financial basis it was
15 divisional so that one of the first goals was to
16 reduce deficits proportionately by division. So you
17 looked at city transit, you looked at railroad, you
18 looked at suburban transit as separate entities in
19 reference to their deficits. So when we're looking
20 at the city transit division, there are a number of
21 criteria. One obviously was ridership. And where
22 the difficulty is, Mr. Linton, with revenues, it's
23 not so much that we cannot count the riders on a
24 particular line. It's how do you ascribe revenues to
25 that particular line if the person is on a trans-

1 pass, or two, if he has a transfer rate? Is that the
2 initial ride or is that the transfer ride? That is
3 the difficulty in specifying those revenues.

4 The other criteria, of course, was if you
5 took, in selecting a route, was there alternate
6 service nearby? In other words, could you minimize
7 the loss of ridership by selecting a route that you
8 could presume that a significant number of those
9 people who would lose that particular service could
10 avail themselves rather readily of remaining SEPTA
11 service? And a prime example would have been the C
12 bus and the Broad Street subway.

13 CHAIRMAN LINTON: Okay. Rick, I don't
14 want you to go any further with that, but I want to
15 ask a question. Is that a policy that is a route
16 elimination policy by the authority that you have
17 across the board, or is that a response to what you
18 perceived in a crisis at that time? Do we have in
19 fact a policy on what we would do and what variables
20 would have to be in place to eliminate a route?
21

22 MR. GOULD: To my knowledge there would
23 be no such thing as a route reduction or elimination
24 policy.

25 CHAIRMAN LINTON: Do we also have a
policy in place in terms of increasing services or

1 creating a route?

2 For instance, we're talking about the
3 reverse commute, okay, just using that as an example.
4 Do we in fact have a policy at the authority where we
5 say this is in fact an area in which we can receive a
6 tremendous amount of ridership revenues and therefore
7 because of these criteria, this is an area we need to
8 look at in placing a route in that particular--

9 MR. GOULD: We have a whole department
10 called, and I believe it's title is Operations
11 Planning.

12 CHAIRMAN LINTON: I understand that. I
13 know about the department, I'm asking for the policy.

14 MR. GOULD: Well, the policy would be to
15 the extent that we had the wherewithal to extend our
16 service or to expand our service we would be guided
17 by the recommendations that would come from that
18 group as to where it would be desireable or feasible
19 or successful to extent. For example, we just had,
20 at our meeting in June, a resolution before the board
21 that was called for short-hand Northeast 3, which
22 contained in it routes, I believe that did not exist
23 before. Now, those routes were -- I mean, where they
24 should go and how they should go and the streets
25 which they should cover and that kind of thing was

1 provided to us as a board by the Operations Planning
2 Department, and that is where we would look.

3 In terms of the broader question of the
4 reverse commute, from my point of view, we are at a
5 position where we have to involve more than our
6 Operations Planning Department in deciding how, when,
7 and if we can deal more extensively with that. And
8 by that I mean, we have the very pleasant experience
9 right now of one developer within this region
10 providing the subsidy, and he has for a couple of
11 years, to provide bus service between our Paoli line
12 and his corporate development. I believe that we are
13 going to have to have more such relationships and
14 that we should be working with the business community
15 and with the elected officials to inspire developers
16 to work with us and help fund that kind of expansion
17 and that kind of growth.

18 So to the extent that there is a policy,
19 it is where and when proposals are made to us that we
20 can afford or we can engender proposals and come up
21 with people who are willing to help us afford them,
22 we will attempt to fill an expansion need. But I see
23 that as one of the great challenges that we face, and
24 one of the things that I hoped that the study which
25 the Federal government is going to be funding to the

1 tune of \$400,000 will help us in consolidating all
2 the people and all of the interests that are going to
3 be necessary to allow us to deal with that reverse
4 commute in a positive way.

5 CHAIRMAN LINTON: Okay. I think we're
6 going to adjourn the hearing for today. I can see
7 all kinds of signals that makes this necessary.
8 Everybody's packing up but me, in essence.

9 MR. CASPER: They have to get the next
10 train.

11 CHAIRMAN LINTON: I got the message,
12 Scott.

13 I would like to, I think, Mr. Gould, at
14 some later point, because we're going to be
15 continuing with this quite a bit, as some things
16 surfaced today, I think there's more interest in
17 trying to do some longstanding looks at both our
18 board composition and a number of other things that's
19 going to entail I think a lot more work by this
20 committee, and I will suspect that we will have many
21 more additional hearings. At one of those I would
22 probably like you and other members of the SEPTA
23 board and our staff to attend.

24 MR. GOULD: Well, we'd be happy to.

25 CHAIRMAN LINTON: Thank you very much for

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your time and your testimony.

MR. GOULD: Okay. Thank you for having us.

CHAIRMAN LINTON: This will end our hearing for today, and I declare the hearing is now adjourned.

(Whereupon, the proceedings were concluded at 4:57 p.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me during the hearing of the within cause, and that this is a true and correct transcript of the same.

Ann-Marie P. Sweeney
ANN-MARIE P. SWEENEY

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