Testimony

Of

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Hearing on Funding Challenges Facing Pennsylvania Transit Agencies

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Good afternoon, Acting Chairman Mullins and members of the House Transportation Committee. Thank you for holding this important hearing on the funding challenges facing transit agencies in Pennsylvania and the need to take urgent legislative action to prevent a looming transportation crisis and ensure the sustainability of Pennsylvania's public transportation systems.

As CEO and General Manager of the fifth largest transit system in the nation – and the largest in the Commonwealth of Pennsylvania – I am grateful to the Committee for holding this important hearing in Philadelphia at SEPTA. I am pleased to be joined by my counterparts from across the state – Pittsburgh Regional Transit CEO Katharine Kelleman; Executive Director of Rabbit Transit Rich Farr; and David Rishel, Interim Executive Director/CEO for Centre Area Transportation Authority (CATA).

I understand the Committee will be in the City for several days, so let me be the first to welcome you to Philadelphia. Your travels will take you to some of the Commonwealth's most important transportation assets, including a tour of the SEPTA control center – the "nerve center" of our operations – and our Virtual Patrol Center, where we are piloting artificial intelligence gun detection technology to reduce incidences of gun violence thanks to safety and security funding included in last year's state budget.

While you are here, you will see a city still recovering from a global pandemic while at the same time preparing to welcome the world in 2026 for the FIFA World Cup and the nation's 250th birthday. You will see a city continuing an unprecedented emergency reconstruction project following the collapse of a bridge on I-95 while celebrating the start of construction on a project to cap another section of I-95 that will finally reconnect Center City Philadelphia to its waterfront.

You will see a city and region on the move. We are moving differently – in new patterns and to new destinations – but one constant remains – SEPTA service is the cornerstone of mobility in this, the state's most productive region. I know you are seeing the same thing in your own districts and travels elsewhere around the state. Transit systems – whether large or small; urban or rural – convey irreplaceable benefits to their regions, providing affordable transportation for employees and customers and the businesses that depend on them, safe and reliable access to school and medical appointments for students and seniors, relief from productivity-choking congestion, and a proven way to achieve the Commonwealth's sustainability and carbon reduction goals.

As you travel over the next several days, I ask you to consider what this City and region would look like without SEPTA service. Would the mobility that is required to move Pennsylvania's densest and most productive region be even remotely possible without SEPTA service? Without SEPTA mass transit, would a region that is responsible for 42 percent of the state's economic activity continue to drive the state's economy, or would it buckle under the weight of its own congestion?

All of today's witnesses bring important and unique perspectives on transit's critical role in mobility, equity, and opportunity. I hope you will take what you hear today back with you to Harrisburg and urge your colleagues and leadership to address the challenges of transit funding now – as budget-related measures continue to advance – by increasing the allocation of state sales tax receipts to public transportation from the current 4.4 percent to 6.4 percent. Residents and riders are watching, businesses are making decisions about when and how to bring their employees back to the office, and the School District of Philadelphia is struggling with student transportation. People need to know their transit system will be here to meet their needs now, tomorrow and in five years.

A Looming Fiscal Cliff

Despite the challenges of the past three years, SEPTA service is, and will continue to be, as important as it has ever been. Today, SEPTA provides more than 660,000 daily trips throughout the City and region across all modes – the equivalent of more than six sold-out Beaver Stadiums. While SEPTA may not reach pre-COVID ridership levels, a tremendous number of Pennsylvanians rely on SEPTA every day.

SEPTA has been able to maintain its critical operations through the pandemic and into recovery with funding from three federal COVID relief bills enacted in 2020 and 2021. The Authority has entered the final year of these one-time, non-recurring federal funds, and SEPTA expects to exhaust its COVID relief funds next April and face an annual recurring "fiscal cliff" of at least $240 million beginning in Fiscal year 2025, which starts on July 1, 2024.

SEPTA is doing everything it can to build back ridership and fill the budget gap by implementing operational efficiencies and savings measures. Most notably, a highly successful Key Advantage program is increasing revenue through ridership growth, and an Efficiency & Accountability (E & A) Program is cutting costs and creating value across the organization. With the recent addition of the City of Philadelphia and Swarthmore College – our first UPass partner – more than 60,000 people are now eligible for the transformational Key Advantage program. The E & A Program has already realized $38 million in annual recurring benefits, with a target of $102 million by the end of 2024.

However, the magnitude and immediacy of the fiscal cliff is such that no amount of ridership growth or efficiency gains can fully close the gap that SEPTA is facing. With federal COVID relief dollars running out in less than eight months, state funding is urgently needed to address SEPTA's quarter-billion-dollar fiscal cliff.

Without additional state funding, the actions required to balance a deficit of this magnitude include severe service reductions, fare increases and job cuts. A $240 million annual funding shortfall could require fare increases of up to 31 percent and service reductions as high as 20 percent. For SEPTA customers, this would mean cash fares would increase to $3.00 per trip, TransPasses would increase nearly $30 per month to $120, and service across all modes would return to COVID-era "Essential Service" levels.

Moreover, flexing funding from SEPTA's Capital Program is not a viable option to address operating shortfalls and can only be part of a short-term strategy to buy time for funding partners to finalize a more permanent solution. Forcing SEPTA to raid its Capital Program will delay critical projects and hamper efforts to address its state of good repair backlog, which now stands at $5.1 billion. Insufficient capital funding to keep the system safe and reliable will lead to additional service cuts and contribute to SEPTA's decline.

The Authority's capital budget is already the lowest among peer agencies. While Boston, Washington D.C. and New York spend 52 – 186 percent more per capita on transit annually to leverage significant federal investment, SEPTA's Capital Program does not support major projects of regional significance or allow the Commonwealth to take full advantage of the historic funding levels in the Infrastructure Investment and Jobs Act.

Rather than raid critical capital funds to support equally critical operating needs, SEPTA urges the General Assembly to support proposals introduced in the House of Representatives – HB 902 and HB 1307 – that would provide counties with additional tools to invest in major transportation initiatives that will support their communities and make Pennsylvania more competitive. The five-year funding window created by the BIL is closing. With action this year, the state could create new mechanisms for local project stakeholders to generate matching funds to unlock potentially billions in federal funding to support once-in-a-generation infrastructure projects.

A Region on the Brink

The cost of inaction to address the fiscal cliff will render SEPTA unable to effectively meet the region's basic transportation needs and trigger a transit "death spiral" of higher fares and degraded service, disproportionately impacting low-income individuals and families and communities of color. The southeast region – the Commonwealth's most productive – would be denied safe, efficient, affordable and accessible mass transit. Untold thousands of hardworking Pennsylvanians will lose the ability to easily and affordably get to their jobs and patronize businesses, students will face increased barriers to education, and seniors will have fewer options to access essential services.

But make no mistake, the impacts will be felt far beyond the SEPTA service area. There is no scenario in which diminished SEPTA service will not have a direct negative impact on Pennsylvania's goals and success. The economic output of the five counties directly served by SEPTA exceeds that of many states – a feat that is only possible due to SEPTA transit service. The City of Philadelphia and the surrounding counties are the engine that drives much of our Commonwealth, generating 42 percent of the state's economic activity, with 32 percent of its population on only five percent of its land. If SEPTA is unable to maintain its high-capacity mass transit, the Southeast region – and by extension the Commonwealth – will shed irreplaceable economic productivity.

SEPTA engaged Econsult Solutions, Inc. to model what would happen to the southeastern region if additional funding does not materialize to solve the looming fiscal cliff. To cover its operating budget deficit, as mentioned above, SEPTA would be forced to implement a fare increase of up to 31 percent and service reductions as high as 20 percent. With less SEPTA service and higher fares, $254.7 million in tax revenue will evaporate from state and local coffers as property values will decline, jobs will disappear, and the region will become more congested and less competitive. In addition, $171.1 million will accrue in social and environmental costs associated with less transit ridership and more highway congestion. Combined, the $425.8 million impact of service cuts and fare increases far exceeds the magnitude of SEPTA's $240 million operating budget deficit.

Allowing SEPTA to go over the fiscal cliff and forcing service cuts and fare increases to close the operating budget deficit will result in a net loss to society – less transit, and a less economically productive, socially equitable, environmentally sustainable region moving forward.

SEPTA and the southeast region are not alone. Transit agencies in Boston, New York City, New Jersey, Washington D.C., Chicago, and San Francisco are all reporting forecasts of exhaustion of federal COVID relief funding between 2024 and 2026, and resulting operating deficits of between roughly 15 and 30 percent of annual operating expenses. One by one, state and local governments have begun to address transit agency fiscal cliffs. The MBTA in Boston received hundreds of millions of dollars in new state funding, as did BART in San Francisco and LA Metro in Los Angeles. The MTA in New York received an increase in city and state funding through an increase to the regional payroll tax, among other sources. Other agencies are actively pursuing similar funding solutions.

In Pennsylvania, every transit provider faces fiscal challenges as federal COVID relief funds will run out before ridership fully recovers, but each agency's timeline is different. SEPTA's fiscal cliff is hitting now. Other agencies will follow with deficits of different degrees of severity, but the remedies will all be similar – unsustainable service reductions and fare increases that will limit individual mobility and Pennsylvania's economic growth.

A Legislative Solution Exists… And Cannot Wait

As part of the ongoing FY 2024 budget negotiations, the General Assembly and administration have an opportunity to address transit's operating budget imbalance by increasing the allocation of state sales tax receipts to public transportation from the current 4.4 percent to 6.4 percent. This straightforward change which can be made in the fiscal code would provide transit agencies with funding certainty to maintain their critical operations for the millions of Pennsylvanians who regularly use public transportation.

The proposed two percent increase in the share of state sales tax receipts going to transit would put SEPTA – and transit agencies across Pennsylvania – on a sustainable funding path to continue their vital, community-supporting services.

This reallocation would add approximately $295 million to the Public Transportation Trust Fund to support critical transit operations without increasing taxes. For Pennsylvania's transit agencies, this would mean an additional:

- $190 million for SEPTA
- $65.6 million for Pittsburgh Regional Transit (PRT), and
- $38.8 million for other transit systems

Increasing the public transit allocation of the state's sales tax receipts will enable SEPTA and the Commonwealth's other transit systems to mitigate the need to implement service reductions, fare increases and job cuts at a time when transit service is so critical to so many Pennsylvanians of all backgrounds, abilities and income levels – in each of the Pennsylvania's 67 counties.

As a member of the Pennsylvania Public Transportation Association, SEPTA supports the Association's funding principles and priorities, that include: an amendment to the fiscal code to increase the allocation of state sales tax receipts to support vital transit operations; enabling legislation to give counties more options to support local transportation priorities proposed in House Bill 1307 and House Bill 902; and reforms to strengthen smaller and rural systems proposed in Senate Bill 597.

Much has been made of the 160,000 vehicles that typically travel through the section of I-95 that was closed following the collapse. This is significant volume but only one-quarter of the 660,000 trips that are taken on SEPTA every day. Without state action now, the extreme measures needed to address the looming fiscal cliff at SEPTA and other transit agencies across Pennsylvania would create an acute, long-term transportation crisis that would dwarf the closure of I-95.

When the world comes to Philadelphia for the 2026 World Cup and the nation's 250th birthday, what will they see? A vibrant, world-class city carried by its extensive, high-capacity mass transit that helped make the 2015 Papal Visit and 2016 Democratic National Convention possible. Or a congested, retreating city suffering under the weight of an underperforming and inadequate transit system. The decisions made now will likely determine that future, and we stand ready to work with lawmakers and stakeholders to better secure the future for public transportation in Pennsylvania.