



APPENDIX F

SEPTA'S FINANCIAL CAPACITY ANALYSIS

SOUTHEASTERN PENNSYLVANIA TRANSPORTATION AUTHORITY

FINANCIAL CAPACITY ASSESSMENT

April 25, 2016

In accordance with FTA Circular 7800.1A, the following is provided as documentation that the Southeastern Pennsylvania Transportation Authority has the financial capacity to carry out the operating and capital projects included in the Fiscal Year 2017-2020 Transportation Improvement Program.

A. Scope of Operations

The Southeastern Pennsylvania Transportation Authority (SEPTA) was formed by an act of the Pennsylvania General Assembly in 1964 in order to provide public transportation services to Bucks, Chester, Delaware, Montgomery and Philadelphia Counties. Over the years, SEPTA acquired the assets of several private transportation companies. Today, SEPTA is the sixth-largest public transportation system in the United States and is responsible for operating:

- 116 Bus Routes
- 13 Regional Rail Lines
- 8 Trolley Lines
- The Broad Street Line and the Market-Frankford Line (subway/elevated)
- The Norristown High Speed Line (an interurban heavy rail line)
- 3 Trackless Trolley Routes
- Customized Community Transportation (CCT), demand response services for seniors and individuals with disabilities
- Four small bus circulator and shuttle services

In Philadelphia, City Transit Operations provides a network of 85 subway, subway-elevated, trolley, trackless trolley and bus routes. In Fiscal Year 2015, approximately 900,000 (unlinked) passenger trips were generated per weekday.

SEPTA's Railroad Operations serves all five counties with a network of 13 regional rail lines, serving approximately 131,000 (unlinked) passenger trips per weekday in Fiscal Year 2015. This service also operates to Newark, Delaware and to Trenton and West Trenton, New Jersey.

Suburban Operations (Victory and Frontier Divisions) provides service in the suburbs, north and west of the City of Philadelphia, with a network of 45 bus, trolley, and heavy rail routes serving approximately 76,000 (unlinked) passenger trips per weekday in Fiscal Year 2015.

Customized Community Transportation (CCT) serves Philadelphia and the surrounding counties and schedules approximately 6,500 customized weekday trips for seniors and persons with disabilities.

SEPTA's four small bus circulator and shuttle services connect fixed route operations to business, health and educational centers, as well as to park and ride facilities. In Fiscal Year 2015, these services provided transportation for approximately 5,700 passengers per weekday.

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B. Historical Trends

SEPTA's historical trends are outlined in Appendix A, Financial and Statistical Summary, for each of the past five fiscal years (Fiscal 2011 through Fiscal 2015). Passenger fares during this period increased from \$438 million to \$476.3 million, or 2.1% per year. Operating expenses during the five year period increased from \$1,184.6 million to \$1,287.7 million, or 2.1% per year. Operating subsidies increased from \$693.6 million to \$756.3 million, or 2.2% per year. Operations for Fiscal Years 2011 through 2015 resulted in a relatively small surplus each year as total revenues exceeded total expenses by \$1.3 million for the five year period. Gains on investments for Fiscal Years 2011 through 2015 are shown in the appendix in accordance with Governmental Accounting Standards Board Statement No. 53.

Transportation usage increased between FY 2011 and FY 2012, but decreased overall during the five year period. The number of passengers carried decreased from 358.8 million total unlinked passenger trips in FY 2011 to 344.3 million unlinked trips in FY 2015. Conversely, total actual vehicle revenue miles increased over the five-year period from 89.7 million to 91.7 million, or 0.6% per year.

SEPTA was able to meet its financial obligations during the five year period and its long-term debt, incurred for capital expenditures, increased from \$353.2 million at June 30, 2011 to \$519.9 million at June 30, 2015. SEPTA's recovery ratio, expressed as a percentage of total operating revenues to total operating expenses, remained relatively high ranging between 39.8% and 41.5% during the five year period.

C. Current Condition

For FY 2015, the most recent fiscal year for which comparative information is available, total passenger fares increased 1% over the prior fiscal year. Operating expenses increased 1.4% primarily due to increases in wages and fringe benefits. FY 2015 operating subsidies increased 1.3% over FY 2014 primarily due to lower than expected passenger revenue that resulted from the ridership decrease. FY 2015 ended with a surplus as total revenues exceeded total expenses by \$230,000.

The Authority ended Fiscal Year 2015 with audited financial results consistent with its balanced budget.

D. Financial Projections

With the passage of Act 44 of 2007, as amended by Act 89 of 2013, a dedicated, long-term funding solution for transportation in Pennsylvania was enacted. This ended years of uncertainty with regard to SEPTA's operating subsidy. Act 89 also provides new bondable revenue sources for transit. In the future, SEPTA anticipates issuing bonds for certain capital projects, such as rail car acquisitions, to assist in financing the capital program.

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Appendix B, Financial Projections Consolidated Budget, provides the detailed projections through Fiscal Year 2022.

Forecast Assumptions By Category:

Passenger Revenue

Revenue is expected to grow 1% per year, except in Fiscal Years 2018 and 2021 when scheduled fare increases will take effect.

Shared Ride Revenue

This revenue category is forecasted to grow by approximately 1% each year over the five-year period.

Other Revenue

This other revenue category is expected to increase slightly when compared to Fiscal Year 2017 budget. Income from investments, real estate rentals, advertising, parking lot fees and frequency regulation income from the sale of electric power from storage batteries on the Market Frankford Line back to the Pennsylvania Jersey Maryland (PJM) grid is reflected in this category.

Expenses

Overall expense growth rate is 3% annually with fringe benefits expected to grow at a higher rate due to prescription drugs and medical costs.

The Other Expense categories anticipate third party supplier's price increases, while aggressive management of claims and installation of additional cameras on SEPTA's vehicles and at stations are expected to curtail cost increases in this area.

Subsidy

The subsidy categories reflect the anticipated funding levels of the Public Transportation Trust Fund established by Act 44 of 2007, as amended by Act 89 of 2013.

E. Capital Program

The Fiscal Year 2017 Capital Budget was developed based on the following principles:

- Forecasted Federal, State and Local Funding Levels; and
- Budgeting based on Annual Cashflow Projections and Financial Obligations.

Funding Assumptions

The following references were used to develop the programming amounts for SEPTA's Fiscal Year 2017 Capital Budget and Fiscal Years 2017-2028 Capital Program:

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- Federal funding levels consistent with the new transportation funding authorization, Fixing America's Surface Transportation Act (FAST).
- Financial guidance for state funding from Act 89 of 2013; and
- City/Counties local match requirements on federal and state funding.

Fiscal Year 2017 Projects

SEPTA's Fiscal Year 2017 Capital Budget totals \$548.63 million, a 3 percent increase over the FY 2016 Capital Budget. Available funds are allocated among projects that will advance strategic objectives, bring assets to a state of good repair, meet the Authority's financial obligations, implement system improvements, and enhance safety and security. Capital investments are focused on the following areas:

Rebuilding the System

Projects will return the system to a state of good repair via restoration or replacement of transit infrastructure that has exceeded its useful life. Projects will address the State of Good Repair backlog and preserve transit service for current and future customers. Programs include bridges; communication, signal systems, and technology; maintenance/transportation facilities and roofs; substations and power; and track and right-of-way.

Safety and Security

Projects include safety and security measures for vehicles and facilities, and interoperable communications improvements.

Vehicle Replacements and Overhauls

Projects include replacing vehicles that have exceeded their useful life, acquisition of additional locomotives and utility vehicles, and optimizing the fleet through targeted overhaul.

Financial Obligations

This includes payments for SEPTA's Amtrak trackage lease, other capital leases, and debt service payments.

SEPTA Key

Project includes the modernization of SEPTA's fare payment system and companion projects.

F. Financial Capability

SEPTA has the financial capacity to carry out the projects included in the FY 2017-2020 Transportation Improvement Program (TIP).

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SEPTA is designated by the Governor of Pennsylvania as the sole recipient of Section 5307 Urbanized Area formula funds for the five-county Southeastern Pennsylvania region of Bucks, Chester, Delaware, Montgomery, and the City of Philadelphia. As such, the Authority submits, executes, and administers over \$500 million in federal and state grants annually. The final report for the 2014 Triennial Review for SEPTA found no deficiencies with FTA requirements for Financial Management and Financial Capacity. This documentation is on file at the transit operators, as well as with the FTA.

The Commonwealth of Pennsylvania's Public Transportation Trust Fund provides SEPTA with financial resources for transit capital projects. In order to create a sustainable program and to leverage transportation investments, the State of Pennsylvania has established the match requirement of the Federal grant commitments as a top priority of the State Trust Fund. Additionally, local governments, such as the City of Philadelphia and the Counties of Bucks, Chester, Delaware, and Montgomery contribute a percentage of the local share. This funding is provided through the Annual Capital Budget process for each government entity.

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CERTIFICATION

In accordance with Circular 7800.1A and based on the updated operating and capital needs as outlined in this Financial Capacity Assessment, SEPTA certifies that it has the financial capacity to provide the services and capital projects included in the DVRPC FY 2017-2020 Transit Improvement Program (TIP).

A handwritten signature in black ink, appearing to read "Jeffrey D. Krueppel", written over a horizontal line.

Jeffrey D. Krueppel, General Manager
Southeastern Pennsylvania Transportation Authority

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Appendices

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Appendix A - SEPTA Financial and Statistical Summary

Southeastern Pennsylvania Transportation Authority
Financial and Statistical Summary
For Fiscal Years Ended June 30,
(Amounts in thousands)

| | 2011 | 2012 | 2013 | 2014 | 2015 | % Change FY 2014 to FY 2015 | Average Annual % Change FY 2011 to FY 2015 |
|---|------------------|------------------|------------------|------------------|------------------|--|---|
| Passenger Fares | \$ 437,953 | \$ 445,559 | \$ 441,656 | \$ 471,787 | \$ 476,291 | 1.0% | 2.1% |
| Shared Ride Program | <u>20,130</u> | <u>19,225</u> | <u>18,786</u> | <u>18,432</u> | <u>20,003</u> | 8.5% | -0.2% |
| Total Revenues Based on Ridership | 458,083 | 464,784 | 460,442 | 490,219 | 496,294 | 1.2% | 2.0% |
| Other Operating Revenues | <u>33,198</u> | <u>31,382</u> | <u>33,056</u> | <u>34,039</u> | <u>35,299</u> | 3.7% | 1.5% |
| Total Operating Revenues | 491,281 | 496,166 | 493,498 | 524,258 | 531,593 | 1.4% | 2.0% |
| Operating Subsidies | <u>693,592</u> | <u>736,587</u> | <u>746,478</u> | <u>746,307</u> | <u>756,295</u> | 1.3% | 2.2% |
| Total Revenue | 1,184,873 | 1,232,753 | 1,239,976 | 1,270,565 | 1,287,888 | 1.4% | 2.1% |
| Operating Expenses (a) | <u>1,184,551</u> | <u>1,232,262</u> | <u>1,239,886</u> | <u>1,270,436</u> | <u>1,287,658</u> | 1.4% | 2.1% |
| Surplus | \$ 322 | \$ 491 | \$ 90 | \$ 129 | \$ 230 | | |
| Investment Gain (loss) re: GASB 53 | <u>\$ 8,007</u> | <u>\$ 1,760</u> | <u>\$ 470</u> | <u>\$ 984</u> | <u>\$ 2,428</u> | | |
| Surplus/ (Deficit) After Investment Gain (loss) | <u>\$ 8,329</u> | <u>\$ 2,251</u> | <u>\$ 560</u> | <u>\$ 1,113</u> | <u>\$ 2,658</u> | | |
| | | | | | | | |
| Operating Revenue to Expense Ratio | 41.5% | 40.3% | 39.8% | 41.3% | 41.3% | | |
| | | | | | | | |
| Passengers Carried (Annual | | | | | | | |
| Unlinked Passenger Trips) | 358,843 | 363,498 | 358,439 | 347,178 | 344,297 | -0.8% | -1.0% |
| | | | | | | | |
| Actual Vehicle/Car Revenue Miles | 89,656 | 90,051 | 90,600 | 91,655 | 91,714 | 0.1% | 0.6% |
| | | | | | | | |
| Unrestricted Cash and Investments, at Year-end | \$ 112,313 | \$ 80,277 | \$ 96,925 | \$ 112,105 | \$ 67,255 | -40.0% | -12.0% |
| | | | | | | | |
| Long-term Debt, at Year-end | \$ 353,186 | \$ 546,326 | \$ 528,877 | \$ 521,326 | \$ 519,857 | -0.3% | 10.1% |

(a) Excludes reserve increases related to other postemployment benefits.

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Appendix B - Financial Projections Consolidated Budget

| Amounts in thousands ('000) | Proposal | | Projection | | | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| REVENUE | | Fare Increase | | | Fare Increase | |
| Passenger Revenue | \$ 481,500 | \$ 510,950 | \$ 516,060 | \$ 521,220 | \$ 550,655 | \$ 556,160 |
| Shared Ride Revenue | 19,000 | 19,190 | 19,381 | 19,578 | 19,773 | 19,972 |
| Other Income | <u>36,050</u> | <u>36,410</u> | <u>36,775</u> | <u>37,140</u> | <u>37,510</u> | <u>37,885</u> |
| TOTAL OPERATING REVENUE | \$ 536,550 | \$ 566,550 | \$ 572,216 | \$ 577,938 | \$ 607,938 | \$ 614,017 |
| EXPENSES | | | | | | |
| Labor & Fringe Benefits | \$ 1,015,016 | \$ 1,046,775 | \$ 1,079,600 | \$ 1,113,650 | \$ 1,148,865 | \$ 1,185,300 |
| Materials and Services | 278,306 | 286,125 | 294,737 | 303,013 | 311,369 | 320,159 |
| Injury & Damage Claims | 28,700 | 28,700 | 28,700 | 28,700 | 28,700 | 28,700 |
| Propulsion Power | 35,184 | 35,850 | 36,065 | 36,785 | 37,550 | 38,000 |
| Fuel | 25,757 | 27,000 | 28,080 | 29,050 | 30,050 | 31,070 |
| Other Expenses (Incl. Depreciation) | <u>23,576</u> | <u>24,285</u> | <u>25,015</u> | <u>25,765</u> | <u>26,538</u> | <u>27,335</u> |
| TOTAL EXPENSES | \$ 1,406,539 | \$ 1,448,735 | \$ 1,492,197 | \$ 1,536,963 | \$ 1,583,072 | \$ 1,630,564 |
| DEFICIT BEFORE SUBSIDY | \$ (869,989) | \$ (882,185) | \$ (919,981) | \$ (959,025) | \$ (975,134) | \$ (1,016,547) |
| OPERATING SUBSIDY | | | | | | |
| Federal | \$ 82,327 | 83,336 | 84,640 | 87,800 | 88,720 | 89,726 |
| State | 687,633 | 696,329 | 728,057 | 758,561 | 771,751 | 806,787 |
| Local | 96,779 | 99,240 | 103,969 | 109,314 | 111,283 | 116,619 |
| Other | 3,250 | 3,280 | 3,315 | 3,350 | 3,380 | 3,415 |
| TOTAL SUBSIDY | \$ 869,989 | \$ 882,185 | \$ 919,981 | \$ 959,025 | \$ 975,134 | \$ 1,016,547 |
| SURPLUS/(DEFICIT) | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - | \$ _____ - |

