

# UNDERSTANDING SEPTA'S STATEWIDE ECONOMIC VALUE

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**REPORT BY:**

Economy League of Greater Philadelphia



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## EXECUTIVE SUMMARY

### THE BOTTOM LINE

The economic value of the Southeastern Pennsylvania Transportation Authority (SEPTA) is significant in terms of job creation, tax revenues, and economic output, but perhaps more importantly, in terms of its catalytic effect on the economy of southeastern Pennsylvania and the Commonwealth as a whole.

By investing in SEPTA, the state will ensure that:

- A region that produces 40 percent of the state's economic output and relies heavily on SEPTA service continues to be economically productive;
- SEPTA expenditures continue to contribute more than \$3 billion in economic output, supporting over 26,000 jobs and generating \$62.5 million in tax revenues to the Commonwealth; and
- SEPTA, which remains significantly underfunded despite recent temporary infusions of funding, has adequate resources to address a growing crisis of capital need.

### OVERVIEW OF REPORT

In 2007, the Economy League of Greater Philadelphia (Economy League) and Econsult were commissioned by the William Penn Foundation to evaluate the consequences of underfunding SEPTA on southeastern Pennsylvania and the Commonwealth. Funding solutions were identified and acted upon, but circumstances have changed and once again in 2013, despite achieving its highest ridership levels in twenty-three years, SEPTA is confronted with a serious funding shortfall, especially for capital funding required to maintain and improve its infrastructure and system.

Economy League and Econsult (now Econsult Solutions, or ESI) have again teamed to reexamine SEPTA's role in the Commonwealth's economy and analyze the value of expanded Commonwealth investment in SEPTA. The report, this time commissioned by SEPTA, has three main goals:

- 1) To understand the economic value of SEPTA, in terms of economic and fiscal impacts on the Commonwealth of Pennsylvania;
- 2) To determine how SEPTA compares to other transit agencies in terms of performance, scope, and revenue sources; and
- 3) To provide updated, nonpartisan information to state lawmakers and stakeholders as the decision on how to fund SEPTA is considered.

For the purpose of this report, the Economy League and ESI conducted five sets of analyses to answer the following questions:

- 1) To what extent do the five counties of southeastern Pennsylvania – Bucks, Chester, Delaware, Montgomery, and Philadelphia – contribute to the Commonwealth's transportation-related revenues, and are the beneficiaries of transportation-related expenditures?
- 2) To what extent has SEPTA been a good steward of public funds?
- 3) How does the performance of SEPTA operations compare to Commonwealth agencies and industry peers?
- 4) What are SEPTA's economic and fiscal impacts on southeastern Pennsylvania and the Commonwealth?
- 5) What are the possible long-term consequences of inadequate, status quo funding levels on southeastern Pennsylvania and the Commonwealth?

**KEY FINDINGS**

**First:** The five counties of southeastern Pennsylvania generate approximately 40 percent of statewide economic activity and represent 32 percent of statewide population, while occupying five percent of its total land. This density and economic productivity represents SEPTA’s economic leverage, allowing southeastern Pennsylvania to contribute more than its share of economic output and funds into the Commonwealth’s coffers.

Of note:

- Southeastern Pennsylvania generates 24 percent of Motor License Fund revenues and receives 17 percent of state highway and bridge capital and maintenance expenditures in return;
- SEPTA carries 77 percent of statewide transit riders and receives 62 percent of statewide transit operating funding in return. SEPTA’s state operating subsidy is \$1.49 per rider; the statewide average operating subsidy is \$2.66 per rider; and
- In total, 27 percent of state transportation dollars are invested in southeastern Pennsylvania, compared to the region’s 32 percent share of population and 40 percent share of economic output.

<b>SOUTHEAST PA’S SHARE OF TRANSPORTATION INVESTMENT IS WELL BELOW ITS SHARE OF ECONOMIC PRODUCTIVITY</b>						
	<b>FY 2010-11</b>			<b>FY 2011-12</b>		
	<b>SOUTHEAST PA</b>	<b>PA</b>	<b>SOUTHEAST PA SHARE</b>	<b>SOUTHEAST PA</b>	<b>PA</b>	<b>SOUTHEAST PA SHARE</b>
<b>ROADS AND BRIDGES</b>	\$659,309	\$3,758,458	17.5%	\$ 685,094	\$4,014,869	17.1%
<b>PUBLIC TRANSPORTATION</b>	\$667,238	\$1,060,434	62.9%	\$ 687,856	\$1,106,251	62.2%
<b>TRANSPORTATION TOTAL</b>	<b>\$1,326,547</b>	<b>\$4,818,892</b>	<b>27.5%</b>	<b>\$1,372,950</b>	<b>\$5,121,120</b>	<b>26.8%</b>
<b>POPULATION</b>	Source: US Census Bureau (2011)			<b>4,030,926</b>	<b>12,763,536</b>	<b>31.6%</b>
<b>ECONOMIC OUTPUT</b>	Source: Economy League (2011)					<b>40.0%</b>

**Second:** SEPTA has made significant progress towards several key performance indicators since the Economy League and ESI’s 2007 report. These improvements coincided with two major – but temporary – infusions of capital funding: Pennsylvania Act 44 of 2007 and the American Recovery & Reinvestment Act (ARRA) of 2009. These landmark pieces of legislation resulted in a three year uptick in capital funding, during which time SEPTA demonstrated its ability to effectively invest an influx of new resources.

Of note:

- A more than 10 percent spike in SEPTA’s customer satisfaction was correlated with an uptick in capital investment; the strongest gains were realized on those parts of the system where SEPTA invested capital resources most significantly;
- During the brief period of increased capital funding, SEPTA continued to improve project management efficiency as measured by a decrease in change order rates, a key indicator of unanticipated project cost overruns;
- Under ARRA, SEPTA’s rigid cost controls allowed six extra projects to advance with federal stimulus funding;
- Since the expiration of ARRA, SEPTA has continued to achieve project cost savings by right-sizing allocation of in-house and third-party labor, materials, and supplies; and
- With the expiration of ARRA and the reduction of Act 44 funding, SEPTA’s capital budget is now at a 15-year low (nominally at 1997 levels).

SEPTA'S CHANGE ORDER RATES FOR CONSTRUCTION CONTRACTS CONTINUE TO DECLINE (2005-2012)					
YEAR	NUMBER OF CONTRACTS	ORIGINAL CONTRACT VALUE	CHANGE ORDER AMOUNT	RESULTING CONTRACT VALUE	CHANGE ORDER RATE
2005-2006	29	\$200,500,000	\$20,200,000	\$220,700,000	10.1%
2007-2008	53	\$410,600,000	\$25,800,000	\$436,400,000	6.3%
2010	41	\$192,614,273	\$11,099,147	\$203,713,420	5.8%
2011	43	\$ 99,048,292	\$ 4,625,956	\$103,674,248	4.7%
2012	27	\$ 100,316,630	\$ 4,358,820	\$104,675,450	4.3%

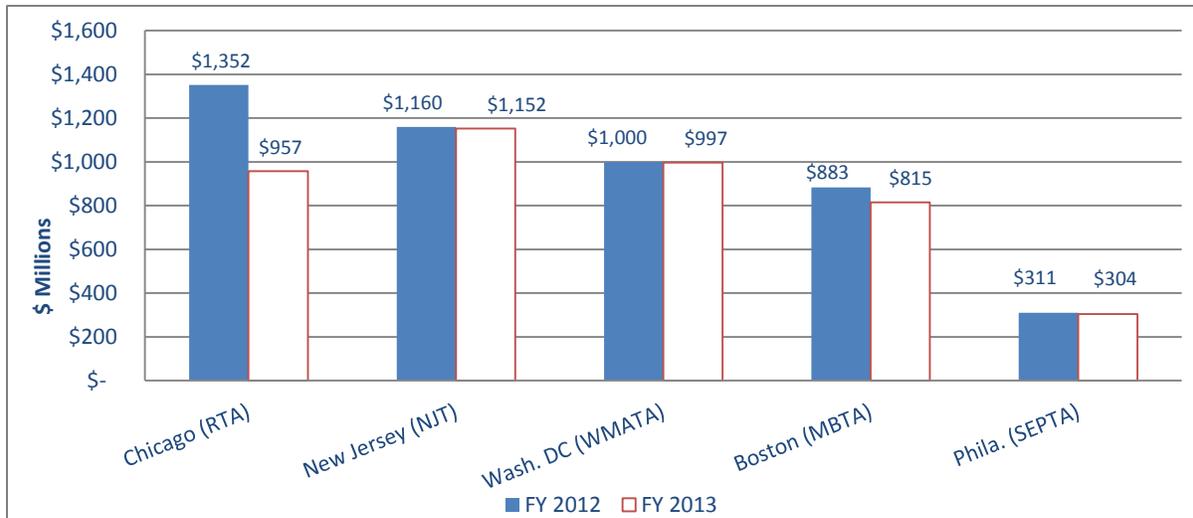
Source: SEPTA (2013)

**Third:** While SEPTA’s capital funding is at a 15-year low, ridership is at a 23-year high, in part due to increased customer satisfaction from ARRA-related capital investments. Ridership growth has helped SEPTA to sustain per passenger operating subsidies that are well below other Pennsylvania transit agencies and fare recovery ratios (a measure of operating expenses covered by passenger fares) at levels that are comparable with other large transit operators across the United States.

Of note:

- SEPTA’s average annual ridership growth and fare recovery ratios for commuter rail, heavy rail, light rail, and bus are all within a competitive range of its industry peers;
- At 60 percent, SEPTA’s capital budget is more dependent on federal funding than any agency in its peer group; and
- At \$304 million for Fiscal Year (FY) 2013, SEPTA’s capital budget is much smaller than its peer group, despite a backlog of capital needs that is growing and currently totals \$4.7 billion. MBTA in Boston, an agency comparable to SEPTA in terms of age, size, and modal composition, has a capital budget for FY2013 that exceeds \$800 million and a backlog of capital needs estimated at \$2.7 billion. MBTA’s higher levels of capital funding have consistently kept its state of good repair needs below SEPTA’s level of need. SEPTA, conversely, must continually confront the challenge of maintaining and upgrading assets, many of which are now more than one hundred years old. SEPTA could completely eliminate its state of good repair backlog within twenty years if its capital funding levels were on par with MBTA.

SEPTA’S CAPITAL FUNDING IS CONSISTENTLY BELOW INDUSTRY PEERS (FY2012-2013)



Source: Massachusetts Bay Transportation Authority (MBTA); Regional Transportation Authority (RTA); New Jersey Transit, SEPTA, Washington Metropolitan Area Transportation Authority (2012-2013)

**Fourth:** SEPTA creates jobs and economic opportunities. Daily transit operations, procurement of goods and services, and capital investments to rebuild the transit system have an economic ripple effect that is concentrated in southeastern Pennsylvania but extends across the entire Commonwealth.

On an annual basis, SEPTA:

- Contributes \$3.21 billion in economic output across the Commonwealth;
- Supports nearly 26,000 jobs across the Commonwealth;
- Supports \$1.45 billion in worker earnings – \$56,389 per job supported; and
- Generates \$62.5 million in tax revenues for the Commonwealth.

SEPTA SUPPORTS NEARLY 26,000 JOBS ACROSS THE COMMONWEALTH						
AREA OF IMPACT	PENNSYLVANIA			SOUTHEAST PA		
	SEPTA CAPITAL	SEPTA OPERATIONS	SEPTA TOTAL	SEPTA CAPITAL	SEPTA OPERATIONS	SEPTA TOTAL
DIRECT OUTPUT(\$M)	\$289	\$920	<b>\$1,209</b>	\$265	\$920	<b>\$1,185</b>
INDIRECT & INDUCED OUTPUT (\$M)	\$384	\$1,613	<b>\$1,997</b>	\$305	\$1,586	<b>\$1,892</b>
<b>TOTAL OUTPUT (\$M)</b>	<b>\$673</b>	<b>\$2,533</b>	<b>\$3,206</b>	<b>\$570</b>	<b>\$2,506</b>	<b>\$3,077</b>
TOTAL EMPLOYMENT (JOBS)	5,065	20,667	<b>25,732</b>	4,079	19,971	<b>24,050</b>
TOTAL EARNINGS (\$M)	\$214	\$1,237	<b>\$1,451</b>	\$170	\$1,201	<b>\$1,371</b>
TOTAL TAX REVENUES	\$11.9	\$50.6	<b>\$62.5</b>	n/a	n/a	<b>n/a</b>

*Source: ESI (2013)*

**Fifth:** Over the long-term, SEPTA will not be able to afford its current levels of service at status quo capital funding levels. Without an infusion of additional resources, the system will begin to shrink. SEPTA needs approximately \$452 million in additional annual capital funding to gradually work off its backlog over 20 years.

Without an infusion of additional capital funding:

- Over the long term, SEPTA will be forced to gradually truncate its system and eliminate services to make ends meet;
- The region will gradually experience a dramatic erosion of jobs, tax revenues, and property values as its dense, economically productive urban core becomes unattractive to business and residents; and
- The Commonwealth will suffer from the losses in its most economically productive region, as residents and businesses generate less tax revenue and locate elsewhere.

Long-term economic and fiscal impacts of status quo funding levels are modeled based on SEPTA’s estimate that its backlog of capital need will grow from \$4.7 billion to \$8.5 billion by 2032, or roughly 40 percent of SEPTA’s \$21 billion asset base. If unaddressed, this means that 40 percent of the system would ultimately be eliminated; \$100 million of savings in the short-run will cost \$400 million of investments. Under this scenario, a mass migration from transit oriented communities – the City and inner ring suburbs – would fuel another round of regional decentralization:

- The City of Philadelphia would lose close to 60,000 jobs, \$289 million in annual tax revenues, and more than \$14 billion (14 percent) of its property value;
- Southeastern Pennsylvania would lose close to 25,000 jobs, \$96 million in tax revenue, and more than \$8 billion in property value, as some City businesses and residents would relocate to the suburbs, while many would leave the region entirely; and
- The Commonwealth would lose nearly \$100 million in income and sales tax revenues from a gridlocked and less economically productive region.

<b>LONG-TERM ECONOMIC &amp; FISCAL LOSSES FROM STATUS QUO FUNDING LEVELS ARE SEVERE (40 PERCENT SERVICE REDUCTION SCENARIO)</b>		
<b>CITY OF PHILADELPHIA</b>	<b>ECONOMIC LOSSES</b>	
	<b>JOBS</b>	(59,458)
	<b>EARNINGS</b>	\$(2,355,277,338)
	<b>PROPERTY VALUE</b>	\$(14,295,992,490)
	<b>TAX REVENUE LOSSES</b>	
	<b>WAGE TAX</b>	\$(88,558,428)
	<b>SALES TAX</b>	\$(11,776,387)
	<b>PROPERTY TAX</b>	\$(188,707,101)
	<b>TOTAL TAX</b>	<b>\$(289,041,915)</b>
<b>SUBURBAN/COMMONWEALTH</b>	<b>ECONOMIC LOSSES</b>	
	<b>JOB LOSS (SUBURBAN)</b>	(24,772)
	<b>EARNINGS LOSS (SUBURBAN)</b>	\$(1,631,078,911)
	<b>PROPERTY VALUE (SUBURBAN)</b>	\$(8,443,067,700)
	<b>TAX REVENUE LOSSES</b>	
	<b>PROPERTY TAX (SUBURBAN)</b>	<b>\$(96,250,972)</b>
	<b>INCOME TAX (PA)</b>	\$(50,074,123)
	<b>SALES TAX (PA)</b>	\$(48,932,367)
	<b>TOTAL LOSS (PA)</b>	<b>\$(99,006,490)</b>
<i>Source: ESI (2013)</i>		

It is important to note that SEPTA’s level of funding need presented in this report is associated with the state of good repair alone, and does not take into account additional needs associated with service expansion, such as rail extension projects, nor does it take into account the impact of mandates, such as a bus fleet conversion to natural gas. Costs associated with additional, elective projects would substantially add to SEPTA’s total funding need.

To read the full report, please visit [economyleague.org](http://economyleague.org)