

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

Minutes of Budget Hearing

December 1, 1965

Upon notice duly given, the Board of Directors of the Southern California Rapid Transit District met at a Budget Hearing session in the District Board Room, 1060 South Broadway, Los Angeles, California, at 9:00 a.m. on December 1, 1965, at which time President Harry A. Faull called the meeting to order.

Directors Howard P. Allen, Kermit M. Bill, Harry A. Faull, Gordon R. Hahn, Leonard Horwin, Herbert H. Krauch, Don C. McMillan and Douglas A. Newcomb were present. Directors Mark Boyar, Allan F. Daily, Jr. and Norman Topping were absent.

Also present were Acting General Manager Cone T. Bass; Assistant to General Manager Jack R. Gilstrap; General Counsel Milton McKay; Treasurer and Auditor H. L. Black; Fiscal Consultant Walter J. Braunschweiger; Chief Engineer Ernest R. Gerlach; Director of Public Information John D. Kemp; Secretary Virginia L. Rees; and the public.

The President announced that the public hearing on the proposed 1966 Budget was being held in accordance with Section 1010 of the District's Revenue Bond Trust Indenture.

At the request of the President, the Secretary of the District stated that she had in her possession affidavits from the Metropolitan News and the Wall Street Journal showing publication of notice of the Budget Hearing.

Thereupon the Acting General Manager presented a report relating to the Budget, a copy of which report is attached to these Minutes as Exhibit 1. A copy of the proposed Budget is likewise attached to these Minutes as Exhibit 2.

Mr. John C. Gardiner, Jr. then read the report of Coverdale & Colpitts, the Consulting Engineer, which report is dated November 23, 1965 and is attached to these Minutes as Exhibit 3.

Thereupon, Director McMillan, Chairman of the Operations and Budget Committee, reported that the Committee had thoroughly reviewed the proposed Budget and recommended its adoption.

The President then asked if there were any bond holders or other interested persons present who wished to comment on the proposed Budget, but no one appeared.

After discussion, upon motion duly made, seconded and unanimously carried, the following resolution was adopted:

WHEREAS, the President of the District set the 1st day of December, 1965 as the date for the public hearing on the 1966 Budget; and


WHEREAS, the Secretary, pursuant to Section 1010 of the Trust Indenture dated January 1, 1958, advertised notice of said hearing in the Metro-

politan News and the Wall Street Journal; and

WHEREAS, the Consulting Engineer has approved the Budget;

NOW, THEREFORE, BE IT RESOLVED, that the adoption of the Annual Budget of the District for the calendar year 1966 be and hereby is scheduled to be considered at the District regular meeting to be held at 9:30 a.m. on December 1, 1965 immediately following this Budget Hearing.

There being no further business to come before the meeting, it adjourned.

  
Secretary

In accordance with Section 1010 of the Trust Indenture and the Procedure for Budget Hearing as adopted at the District meeting of November 17th, I am submitting the proposed budget for the calendar year 1966. A copy of this proposed budget, condensed into four pages, is attached to your Agenda.

The budget is in three parts:

- The first part (pages 1 and 2) shows Estimated Operating Expenses, Requirements for Debt Service Funds and Required Provision for Depreciation Reserve Fund for 1966 spread over the 12-month period;
- Second part (page 3) is the Cash Budget for the year;
- The Third part (page 4) is Budget of Expenditures from Depreciation Reserve Fund for the year.

Looking back to the first part, page one begins with Estimated Operating Expenses grouped as six main categories, the first of which is Salaries and Wages, estimated at \$28,085,000 against \$28,121,000 for last year. This is the total payroll cost for both contract and non-union employees. Contract wages are fixed by labor negotiations. This expense does not include professional or other outside advisory services which are included later in the unclassified group.

The next item is Supplies, amounting to \$2,194,000 as compared to \$2,067,000 in 1965. This covers the cost of material and supplies, principally those used in maintenance of revenue equipment, but also covers other items such as stationery, tickets, and purchased repairs.

Next is Fuel and Tires, \$2,618,000. Last year's cost was budgeted at \$2,564,000. This is another supply category separately stated because it shows the expenses more directly associated with providing transportation; namely, fuel, tire rental, batteries, and lubricants for automotive equipment.

Employees Welfare, estimated at \$3,434,000 includes social security and unemployment insurance expenses, payments required by pension, medical benefit and group insurance plans, and for workmen's compensation insurance costs. This item was \$3,331,000 in 1965. The principal reason for the increase in this item is the increase in social security costs resulting from recent Federal legislation.

Rents, Utilities and Insurance is next. This item amounts to \$2,654,000 as compared with \$2,837,000 in 1965 and it is for public liability and property damage insurance (5% of gross passenger revenue) and the lesser insurance costs for fire, riot, vandalism, robbery, etc. It also covers the use of the temporary station facilities on Main Street, rental of punched card processing equipment, and the usual utilities, gas, water, electricity, telephone. The principal reason for reduction in this total item is because of improved accident record and the attendant costs

related thereto. Our PL and PD insurance rate was reduced from 5-1/2% of passenger revenue to 5% effective September 1, 1965.

The last of the operating expense categories is Unclassified which shows a credit of \$980,000 this year as compared to a credit of \$1,146,500 last year. This section includes items not assignable to the prior categories. Expense items consist of estimates for professional services -- legal, accounting, engineering, advertising -- travel expenses of District personnel and for membership fees in various organizations. Credits consist of transfers to property accounts, property damage recoveries, etc. The reduction in the amount of net credits results from the fact that it is anticipated there will be a lesser amount of credits to be transferred from operating to property accounts during the year 1966 than there were during 1965.

The sum of these operating expenses, \$38,005,000, represents the total amount estimated to be paid from the Operation Fund.

Immediately following the operating expense total is "Provision for Operating Expense Reserve" \$4,800,000. This is the anticipated balance in the Operation Fund at the beginning of 1966. It is stated here to insure continued operation in the event of revenues failing to provide for the operating expenses. As it does not represent a proposed expenditure, it is subtracted at the bottom of this page before Estimated Revenues Required is stated.

Next listed is Requirements for Debt Service Funds. These are required by the bond indenture. Semi-annual interest payments on the outstanding revenue bonds totaling \$1,944,000 this coming year are met by monthly deposits into the Interest Fund, and a similar monthly accumulation, producing a total of \$1,191,500 for the year, for the purpose of bond retirement as scheduled by the bond indenture is paid into the Bond Retirement Fund.

Next, \$3,577,500, Required Provision for Depreciation Reserve Fund, arises from the bond indenture requirement that 8% of the Revenues be set aside for replacement of worn-out equipment, or other capital improvements, and for payment on equipment trust obligations.

Now we have a total of \$49,518,000 from which the previously mentioned Operation Fund Reserve is deducted arriving at a final figure of \$44,718,000 as Estimated Revenues Required for year 1966. It is to be noted that this amount makes no allowance for expenses in connection with any intensified rapid transit development program.

Turning to the third page, there is displayed the second part of the budget proposal for 1966 -- the Cash Budget. This shows the effects of a cash distribution of the Estimated Revenues Required for the year. Complying with the bond indenture, all revenues are deposited first in a Revenue Fund, then allocated by the Trustee to the appropriate fund for payment of the various authorized purposes. Going across the page you see the estimated balances in the various funds as

of the end of 1965, the expected additions during 1966, the withdrawals to pay the District's various expenses, debt payments, etc., and the estimated balances in each fund at the end of 1966. Attention is directed to the notes on the bottom of the Cash Budget, which, when included, would increase the Depreciation Reserve Fund and, accordingly, the total balances by approximately \$750,000.

The final page presents the Budget of Capital Expenditures from Depreciation Reserve Fund for the year. The total amount of \$7,814,000 proposed to be expended is in two parts:

First, \$2,380,000 remained undisbursed in 1965, for buildings, facilities and equipment. Larger items included here are 55 36-passenger coaches, rebuilding 55 coaches, Division 12 - Long Beach, Location 17 - purchase of property at 632 South Maple, Los Angeles.

Second, \$5,434,000 proposed for 1966 includes \$3,000,000 for 100 50-passenger coaches. This covers the full cost including incidental items such as transportation, sales tax and preparation for service. Also included is \$1,594,500 shown as equipment trust obligations -- the amount of payments for interest, principal, etc. to be made during 1966 on the financed portion of bus purchases under the various equipment trusts and, somewhat smaller amounts, as follows:

- Buildings and facilities at various locations     \$136,000
- New automobiles and trucks and modifications  
of revenue equipment                                     \$387,500



- Miscellaneous office furniture, equipment  
and contingencies needed next year \$316,000

Of this latter amount, \$250,000 is to cover unforeseen contingencies in requirements for capital expenditures in all categories.

This proposed budget you now have before you covers the cost of planned operations for the year as developed by studies at the ground level and intensive review of all phases of the proposed operations for 1966.

The 1966 Operating Budget is more than last year's by \$238,000. In analyzing this increase, the operating expenses are up \$231,500. Of this total, decreases in wages and increases in employee welfare represent \$67,000. The increases in employee welfare are created by changes in the Social Security Act, which are beyond the control of the District.

Supplies, fuel and tires are up \$181,000. The reason for the increase in cost of fuel and tires is the recent increase in the base mileage rental on tires, plus the fact that because of the enactment of recent laws, a sales tax of 4% must be paid on leased equipment such as tires.

Rent, utilities and insurance expenses are down \$183,000. Reduction of PL and PD rate -- 5-1/2% for 1965, 5% for 1966 -- accounts for this.

In the Unclassified section, application of anticipated credits from Public Liability Insurance of \$500,000 together with credits

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
 PROPOSED BUDGET FOR CALENDAR YEAR 1966

	Total	January	February	March	April	May	June
	28,085,000	2,321,000	2,129,000	2,398,000	2,252,500	2,359,000	2,351,500
	2,194,000	186,500	180,000	190,000	185,000	186,500	187,000
	2,618,000	220,000	206,500	228,500	217,000	218,500	222,000
	3,434,000	323,500	323,000	323,000	323,000	321,000	309,000
	2,654,000	222,000	208,500	229,000	219,000	221,500	222,500
	( 980,000 )	( 81,500 )	( 81,500 )	( 82,000 )	( 81,500 )	( 81,500 )	( 82,000 )
	38,005,000	3,191,500	2,965,500	3,286,500	3,115,000	3,225,000	3,210,000
	<u>4,800,000</u>						
	42,805,000						
	1,944,000	166,500	166,500	161,000	161,000	161,000	161,000
	1,191,500	96,000	95,500	100,000	100,000	100,000	100,000
	<u>3,577,500</u>	<u>300,500</u>	<u>280,500</u>	<u>308,500</u>	<u>293,500</u>	<u>303,000</u>	<u>302,000</u>
	49,518,000						
	<u>4,800,000</u>						
	44,718,000						

IATION RESERVE FUND  
 S FUND RESERVE  
 RED

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
 PROPOSED BUDGET FOR CALENDAR YEAR 1966

	July	August	September	October	November	December
S:	2,322,000	2,426,500	2,336,500	2,291,000	2,397,000	2,501,000
	146,000	189,500	185,000	187,000	184,500	187,000
	214,000	222,000	215,000	220,000	216,500	218,000
	293,500	270,500	260,000	221,500	203,000	263,000
ance	220,000	227,500	219,000	223,000	218,500	223,500
	( 81,500)	( 81,500)	( 82,000)	( 81,500)	( 81,500)	( 82,000)
ses	3,114,000	3,254,500	3,133,500	3,061,000	3,138,000	3,310,500
ense reserve						
ion Fund	161,500	161,000	161,000	161,000	161,000	161,500
unt)	100,000	100,000	100,000	100,000	100,000	100,000
CE FUNDS:						
	293,500	305,500	295,000	289,000	295,500	311,000
ECIATION RESERVE FUND						

General Accounting  
 November 19, 1965

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

CASH BUDGET

CALENDAR YEAR 1966

<u>Fund</u>	Estimated Balance 12-31-65	Estimated Additions During 1966	Estimated Withdrawals During 1966	Estimated Balance 12-31-66
Revenue Fund		\$44,718,000	\$44,718,000	
Distribution of Revenue Fund:				
Operation Fund	\$ 4,800,000	\$38,005,000	\$38,005,000	\$ 4,800,000
Interest Fund	665,500	1,944,000	1,965,000	644,500
Bond Retirement Fund	958,500	1,191,500	1,150,000	1,000,000
Bond Reserve Fund	3,187,500	-	-	3,187,500
Depreciation Reserve Fund	4,890,000	3,577,500	7,814,000	653,500
General Fund	1,380,000	-	350,000	1,030,000
	<u>\$15,881,500</u>	<u>\$44,718,000</u>	<u>\$49,284,000</u>	<u>\$11,315,500</u>

Notes: Estimated balance December 31, 1965 includes holdings of U. S. Government securities.

Estimated additions during 1966 to the Depreciation Reserve Fund do not include estimates for:

- (1) Receipts from sale of equipment (1965 to date \$333,000).
- (2) Transfer from the Reserve Fund of the Equipment Trust Series A and B approximately \$275,000.
- (3) Transfer from the Replacement Fund Series A of the Equipment Trust approximately \$139,000.

General Accounting  
November 19, 1965

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT  
 BUDGET OF EXPENDITURES FROM DEPRECIATION RESERVE FUND  
 CALENDAR YEAR 1966

Undisbursed in 1965, resubmitted:

Coaches, automotive and shop equipment:	
55 36-passenger coaches	\$1,270,000
Rebuild 55 GMC diesel coaches	195,000
Purchase and install 80 axle housings	50,000
Cast iron brake shoes for 65 coaches	10,000
Land, buildings and facilities by location:	
Division 6	27,000
Division 8	21,000
Division 12	365,000
South Park shops	45,000
Location 17	<u>397,000</u>
	<u>\$2,380,000</u>

Proposed for 1966:

Buildings and facilities by location:	
Division 2	\$ 16,500
Division 6	5,500
Division 8	17,000
Location 17	97,000
100 50-passenger coaches	3,000,000
Equipment Trust Obligations	1,594,500
Automobiles and trucks	59,000
Modifications to transmissions of 780 coaches	180,000
Rebuild 500 fare boxes	55,000
Reinforce frame members on 240 coaches	56,000
Air cooled alternators 100 coaches	37,500
Miscellaneous	66,000
Contingencies	<u>250,000</u>
	<u>\$5,434,000</u>
 TOTAL	 \$7,814,000

General Accounting  
 November 19, 1965

C  
O  
P  
Y

Letterhead of  
COVERDALE & COLPITTS  
Consulting Engineers  
120 Wall Street  
New York, N.Y. 10005

November 23, 1965

Southern California Rapid Transit District  
1060 South Broadway  
Los Angeles, California 90015

Dear Sirs:

Annual Budget for 1966

Section 1009 of the Trust Indenture covering Los Angeles Metropolitan Transit Authority's \$40,000,000 series of 1958 bonds which have been assumed by the Southern California Rapid Transit District specifies:

"...It shall also be the duty of the Consulting Engineer, annually, on or before the 1st day of November of each year (starting in the year 1958) to make recommendations to the Authority for the Annual Budget for the next succeeding calendar year for the cost of operation, maintenance, depreciation, replacements, property additions, improvements, modernization of the System, insurance coverage, and any other matters which the Authority deems advisable."

Section 1010 requires that the District prepare on or before October 1st and file with the Secretary of the District, the Trustees and the Consulting Engineer a tentative budget of expenses and capital expenditures for the ensuing year. In compliance with this section, the District delivered to us on September 27, 1965 a copy of said tentative budget for the calendar year of 1966. We discussed this tentative budget with various members of the District's staff between October 25th and October 28th, 1965. As a result of such discussions, as well as an analysis of the data presented in

the tentative budget, we recommended that the figures be reviewed when the expense data for the first 10 months of 1965 became available. We also made other minor suggestions.

We are in receipt of the 1966 budget dated November 19, 1965 which is to be submitted to the District for consideration on December 1, 1965. The budget has been slightly revised from the tentative budget dated September 27, 1965.

We have reviewed and analysed the revised budget figures as well as the results of the District's operations for the first 10 months of 1965 and compared them with the budget. We have reviewed the insurance coverage proposed which is the same as that currently in force. In our opinion, the coverage provided conforms to that required by Section 1003 of the Trust Indenture. Premiums of the policies are included in the 1966 budget.

We have also reviewed the program for capital expenditures and expenditures to be made from the depreciation reserve and are of opinion that these expenditures are proper and necessary for the efficient operation of the system.

Based on our study and review of the proposed budget and our knowledge of the operation of the District's transit system, we hereby recommend that:

1. The Southern California Rapid Transit District adopt the proposed budget dated November 19, 1965 of operating expenses, debt service requirements and depreciation of \$44,717,900 for the year 1966 as being adequate on the premises which it was prepared which includes the continuation

of wages and salaries in accordance with present contracts.

2. The Southern California Rapid Transit District adopt the proposed capital budget of capital expenditures of \$6,218,120 in total as being sufficient to provide for the immediate needs of replacements and property additions and improvements and modernization of the transit operation on the premises indicated. Individual projects within this budget will be subject to separate approval by the District.
3. The Southern California Rapid Transit District continue its present insurance program both as to type of coverage and amount.

Respectfully submitted,

Coverdale & Colpitts  
Consulting Engineer