

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

Minutes of Budget Hearing

December 1, 1970

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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 9:30 a.m. on December 1, 1970, at which time President Herbert H. Krauch called the meeting to order.

Directors Kermit M. Bill, Charles E. Compton, David K. Hayward, Herbert H. Krauch, Michael E. Macke, Don C. McMillan, Thomas G. Neusom, Douglas A. Newcomb and Norman Topping were present. Directors A. J. Eyraud, Jr. and Leonard S. Gleckman were absent.

Also present were General Counsel Milton McKay; Manager of Operations George F. Goehler; Controller-Auditor-Treasurer H. L. Black; Secretary Virginia L. Rees; and the public.

President Krauch announced that the public hearing on the proposed 1971 Budget was being held in accordance with Section 1010 of the District's Revenue Bond Indenture, and that copies of the proposed Budget were available for any one present who desired a copy.

President Krauch thereupon called upon Manager of Operations George F. Goehler to present the report on the 1971 proposed Budget for General Manager Gilstrap who was not present at the meeting.

Mr. Goehler then read to the meeting the General Manager's report relating to the Budget, a copy of which is attached to these Minutes as Exhibit 1. A copy of the proposed Budget is likewise attached to these Minutes as Exhibit 2.

Mr. Ernest R. Gerlach then read the report of Coverdale & Colpitts, the Consulting Engineers, which report is dated November 25, 1970 and is attached to these Minutes as Exhibit 3.

At the request of the President, the Secretary of the District stated that she had in her possession affidavits from the Los Angeles Herald-Examiner and the Metropolitan News showing publication on November 20, 1970 of the Notice of the Budget Hearing.

In response to President Krauch's invitation, Mr. Howard Watts, of 3123-1/2 Marathon Street, Los Angeles, speaking as an individual, commented on the proposed Budget as follows:

"I would request that this Board of Directors, instead of just holding one public meeting, to hold individual meetings in many of the cities represented by the Board of Directors.

Also, I would request that this Budget that I have a copy of for the first time be distributed to quite a few people in this RTD District.

"First of all, it's very skimpy and, second of all, I do not see what the Bond Indenture figure is. How much it costs for these bonds to be paid off so that this District can get into a regular budget that most public agencies have which actually tells you the expense of each item and the estimated cost of expenses of last year and even of a couple of years ago, and compare them to the present budget.

The one major thing, and I noticed by talking to some people in the audience today, there is a sinking fund required by the Bond Indenture. Would somebody please inform me about that, because it seems that that is required because of the Bond Indenture.

Also, I would like to have some questions answered on the amount of money that is being spent for the different items where you have, say a figure on regular transportation, the amount of money that is used on express buses; that is, money coming in, operating expenses and revenue. Also, the money that is being used for the Los Angeles Unified School District's books. I believe you get quite a bit of money from them in thousands of dollars. Plus the Federal grants that you have had in the last year, which this doesn't tell us anything about. I know you have two major ones besides a few other ones. Two hundred twelve buses are being bought from a Federal grant. The 15, I believe it is, minibuses that are being bought from a Federal grant. Hopefully, I can get these questions answered.

Since I have never attended your Budget meetings before, I can't really say too much, except that I feel sorry for the citizens if they tried to find out what is happening at this District, because this is too skimpy to even know.

And, thank you very much."

President Krauch thanked Mr. Watts for his suggestions and stated that the Board of Directors would take them under consideration. He also advised Mr. Watts to consult with the Staff for further details on the items mentioned.

Since there were no other persons present who wished to comment on the Budget, Director Hayward moved that the Budget Hearing be closed, which motion was seconded and unanimously carried.

President Krauch announced that the Budget would be taken under consideration for adoption prior to December 31, 1970.

The meeting thereupon adjourned.

VIRGINIA L. REEV

Secretary

The proposed budget for calendar year 1971 was prepared in accordance with Section 1010 of the Revenue Bond Trust Indenture and comprises; first, a schedule summarizing estimates of operating expenses and requirements for debt service funds and for Depreciation Reserve Fund; second, a cash budget to show the money flow in various accounts required by the Indenture; and third, a description of anticipated capital expenditures from the Depreciation Reserve Fund.

On the first schedule under the heading, Estimated Operating Expenses are shown the following:

Salaries and wages amounting to \$41,655,000. The budget in 1970 for this item was \$33,568,500. This item is the total estimated payroll cost. Professional or other advisory services are included in the Unclassified group.

Supplies amounting to \$1,857,500 as compared to \$1,832,000 estimated for 1970. This covers costs of all supplies - stationery, tickets, purchased repairs, supplies for maintenance of revenue equipment, etc.

Next, Fuel and Tires, \$2,846,500 compared to a 1970 figure of \$2,660,500. This supply account is stated separately to show expenses more directly associated with providing transportation and includes fuel, tire rental, batteries and lubricants.

Employees Welfare, estimated at \$6,332,500 covers social security and unemployment insurance expenses, costs of pension, medical benefit and group insurance plans, as well as workmen's compensation insurance costs. This item was \$5,924,500 in 1970.

Rents, Utilities and Insurance is shown at \$3,624,500. The corresponding figure in 1970 was \$3,666,000. Included in this category is public liability and property damage insurance, lesser insurance costs for fire, robbery, and other insurances. It covers miscellaneous rentals, such as that for the use of the Greyhound-R. T. D. Terminal in Los Angeles and for use of punched card processing equipment. The Utilities are the usual gas, water, electricity, and telephone.

Unclassified, the last of the operating expense categories, amounts to \$2,664,000. In addition to the anticipated cost of professional services, advertising, travel expenses and membership fees, there is provision for the New Service Fund and also for contingencies to cover the additional expenses we can expect from the many new programs we are now considering.

The sum of these operating expenses, \$58,980,000, represents the total amount estimated to be paid from the Operation Fund.

Following the total for operating expenses is "Provision for Operating Expense Reserve," \$4,260,000, which is the anticipated balance in the Operation Fund at the beginning of 1971. It is not a proposed expenditure and is subtracted at the bottom of the page. It is placed here to insure continued operation in the event of revenues failing to provide for the operating expenses.

Next listed are Requirements for Debt Service Funds totalling \$1,523,000 to meet semi-annual interest payments on outstanding revenue bonds and a similar accumulation, totalling \$1,600,000, to cover the purchase or redemption of the bonds.

Following debt service requirements is \$3,967,500, Required for Depreciation Reserve Fund. This amount is 8% of the revenues which is to be set aside for replacement of equipment and capital improvements as provided in the Revenue Bond Indenture.

The final figure on the schedule, \$66,070,500, represents the Estimated Revenues Required for the year 1971 to meet the requirements of the Revenue Bond Trust Indenture.

(Cash Budget)

The second part of the budget proposal for 1971 is the Cash Budget. It shows the effects of a cash distribution of funds consisting of estimates of revenue from operation, Department of Transportation capital facilities grants, and proceeds of the Transactions and Use Tax Collections.

Revenues are allocated by the Trustee to appropriate funds according to provisions of the Bond Indenture. The various funds are listed in the priority order in which they would normally draw against the Revenue Fund. The page headings provide for estimated balances in the various funds as at the ends of 1970 and 1971, with the intervening additions and withdrawals during 1971.

(Capital Budget)

The third and last part of the budget proposal is the Budget of Expenditures from Depreciation Reserve Fund for the calendar year 1971. The amount of \$14,885,500 to be expended is divided between carry-overs from 1970 and items proposed for 1971.

Remaining undisbursed in 1970 is \$4,599,500 required for purchase of 100 buses and radios and the exact fare program, for purchase of 40 automobiles and 1 truck, for 35 supervisory radios and 2 base stations, improvements at Divisions 3, 7, and 9, and miscellaneous furniture and fixtures for the Radio Dispatchers Building.

Expenditures totalling \$10,286,000 are proposed for 1971.

Major items are \$9,281,000 for 219 new buses, \$122,000 for 35 Automobiles and 5 trucks, \$202,500 to equip 551 GMC engines with low emission, low sac needle valve injectors, and \$195,000 for payments on equipment trust obligations. The remaining smaller amounts cover improvements at various locations, miscellaneous equipment, and office furniture and equipment. \$267,000 is provided for contingencies to cover unforeseen requirements for capital expenditures in all categories.

Overall, the Proposed Budget is believed to be a proper and appropriate evaluation of factors as they are now known and in accordance with the terms of the Bond Indenture. Accordingly, this 1971 Proposed Budget is recommended for adoption.

Mr. President, that completes the formal comment on the District's estimated financial requirements under the Bond Indenture for 1971.

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

PROPOSED BUDGET FOR CALENDAR YEAR 1971

	Total	January	February	March	April	May	June
ESTIMATED OPERATING EXPENSES:							
Salaries and Wages	41,655,000	3,289,000	2,997,500	3,444,000	3,303,500	3,314,000	3,482,000
Supplies	1,857,500	157,000	156,500	157,500	157,000	156,500	157,000
Fuel and Tires	2,846,500	229,000	212,000	241,000	232,500	227,500	243,000
Employees Welfare	6,332,500	548,000	547,500	551,000	549,500	537,500	538,500
Rents, Utilities and Insurance	3,624,500	283,500	288,000	318,500	307,000	297,000	304,000
Unclassified	<u>2,664,000</u>	<u>224,000</u>	<u>223,000</u>	<u>234,000</u>	<u>224,000</u>	<u>218,000</u>	<u>219,000</u>
Estimated operating expenses including pensions	58,980,000	4,730,500	4,424,500	4,946,000	4,773,500	4,750,500	4,943,500
Provision for operating expense reserve	<u>4,260,000</u>						
Total payable from Operation Fund (Including Pension Account)	63,240,000						
REQUIREMENTS FOR DEBT SERVICE FUNDS:							
Interest Fund	1,523,000	130,000	130,000	130,000	128,000	128,000	128,000
Sinking Fund	1,600,000	128,500	128,500	134,500	134,500	134,000	134,500
REQUIRED FOR DEPRECIATION RESERVE FUND	<u>3,967,500</u>	<u>320,000</u>	<u>311,500</u>	<u>352,000</u>	<u>335,000</u>	<u>323,500</u>	<u>333,500</u>
	70,330,500						
AVAILABLE FROM OPERATIONS FUND RESERVE	<u>4,260,000</u>						
ESTIMATED REVENUES REQUIRED	<u>66,070,500</u>						

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

PROPOSED BUDGET FOR CALENDAR YEAR 1971

	July	August	September	October	November	December
ESTIMATED OPERATING EXPENSES:						
Salaries and Wages	3,593,000	3,468,000	3,511,000	3,536,000	3,614,500	4,102,500
Supplies	132,000	156,000	157,000	157,500	157,000	156,500
Fuel and Tires	242,000	240,500	240,000	244,000	238,000	257,000
Employees Welfare	534,500	531,000	554,500	535,500	425,500	479,500
Rents, Utilities and Insurance	302,500	301,000	301,000	306,000	296,000	320,000
Unclassified	<u>218,500</u>	<u>218,500</u>	<u>227,000</u>	<u>220,000</u>	<u>219,000</u>	<u>219,000</u>
Estimated operating expenses including pensions	5,022,500	4,915,000	4,990,500	4,999,000	4,950,000	5,534,500
Provision for operating expense reserve						
Total payable from Operation Fund (Including Pension Account)						
REQUIREMENTS FOR DEBT SERVICE FUNDS:						
Interest Fund	126,000	126,000	126,000	123,500	123,500	124,000
Sinking Fund	134,500	134,000	134,500	134,500	134,000	134,000
REQUIRED FOR DEPRECIATION RESERVE FUND	<u>332,500</u>	<u>331,500</u>	<u>330,500</u>	<u>337,000</u>	<u>324,500</u>	<u>336,000</u>

Accounting & Fiscal
November 17, 1970

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

CASH BUDGET

CALENDAR YEAR 1971

<u>Fund</u>	Estimated Balance 12-31-70	Estimated Additions During 1971	Estimated Withdrawals During 1971	Estimated Balance 12-31-71
Funds		\$72,420,500	\$72,420,500	
Distribution of Funds:				
Operation Fund	\$ 4,260,000	\$58,980,000	\$58,980,000	\$4,260,000
Interest Fund	528,500	1,523,000	1,557,500	494,000
Sinking Fund	500	1,600,000	1,600,000	500
Bond Reserve Fund	3,187,500	-	-	3,187,500
Depreciation Reserve Fund	4,568,000	10,317,500	14,885,500	-
General Fund	1,364,500	-	100,000	1,264,500
	<u>\$13,909,000</u>	<u>\$72,420,500</u>	<u>\$77,123,000</u>	<u>\$9,206,500</u>

Notes: Estimated balance December 31, 1970 includes holdings of U. S. Government Securities.

Estimated additions during 1971 do not include the following:

Receipts from the sale of property to be deposited
in the Depreciation Reserve Fund

Reimbursement of the Depreciation Reserve Fund from the
Reserve Fund of the Equipment Trust - approximately 1,986,000

Transfer to Revenue Fund of interest earned
on investments made from the Reserve Fund of
the Equipment Trust, Series F - approximately 435,000

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SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT
 BUDGET OF EXPENDITURES FROM DEPRECIATION RESERVE FUND
 CALENDAR YEAR 1971

Undisbursed in 1970, resubmitted:

Exact Fare Program, purchase of	
100 buses and radios	\$ 4,385,000
40 automobiles and one truck	135,500
35 supervisory radios and two base stations	42,500
Division 3, Pepper Avenue street improvements	20,000
Canopy roof - service station at Division 9	8,500
Radio Dispatchers Bldg. furniture & fixtures	5,500
Modify Division 7 office & lighting	<u>2,500</u>
	<u>\$ 4,599,500</u>

Proposed for 1971:

200 Fifty-one passenger buses	\$ 8,914,000
19 Twenty passenger buses	367,000
Equip 551 GMC engines with low emission, low sac needle valve injections	202,500
35 Automobiles	96,500
5 Trucks	25,500
Miscellaneous shop equipment	28,000
Bus washer	34,500
2 Bus vacuum cleaners	13,000
Base radio station	8,500
19 Mobile radio units	22,000
1 Console cabinet & wiring-radio system	12,000

Improvement of facilities:

Division 2 Mechanical Bldg.	6,000
Division 5 Operators' Bldg.	33,000
Transit District Bldg.	23,000
Furniture & office equipment	38,500
Equipment Trust Obligations	195,000
Contingencies	<u>267,000</u>

\$10,286,000

TOTAL

\$14,885,500

Accounting & Fiscal
 November 17, 1970

COVERDALE & COLPITTS

PARTNERS

SAMUEL P. BROWN
RUSSELL F. PASSANO
EDWARD L. WEMPLE
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SENIOR ASSOCIATES

CLARK T. ABBOTT
ROBLEY H. MORRISON

November 25, 1970

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

Dear Sirs:

Annual Budget for 1971

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. Accordingly, we have been provided with a copy of said tentative budget for the calendar year of 1971 which we have reviewed with responsible officers of the District on October 26, 27 and 28.

As required by Section 1010 of the Trust Indenture, we summarized our comments and recommendations regarding the tentative budget in our letter of October 28, 1970. Our review of the tentative 1971 budget included not only a review of the plan of operation, projected operating expenses and capital expenditures but also the sources of funds to meet the requirements since the District is now using sales tax funds and funds available from the United States Department of Transportation to supplement fare box revenues.

RECEIVED
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General Manager
S. C. R. T. D.

We are now in receipt of the revised 1971 Budget to be the subject of a public hearing on December 1, 1970. The revised budget has been prepared after review by the District staff which review included our recommendations. This Budget is based on the District's plan of operation for the budget year. Expenses are based on the most recent information on increased costs for major items and includes wages and related benefits at levels set forth in labor contracts now in effect. One of these labor contracts expires within the budget year, however, and any substantial increase in wages or benefits included in a new contract may require a revision in the Budget at that time. Requirements for Public Liability and Property Damage Insurance payments have been revised to provide for the expenses anticipated in the next year. Payments into the Depreciation Reserve exceed the minimum required by the Trust Indenture.

We have reviewed the revised budget figures and discussed them with members of the District staff. 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 for the policies are included in the 1971 budget.

We have also reviewed the program for capital expenditures to be made from the Depreciation Reserve Fund including the carryover of unfinished items from 1969 and are of opinion that these expenditures are proper and necessary for the efficient operation of the system. Furthermore, we note that both the payments into and withdrawals from the Depreciation Reserve Fund are sufficient to cover the planned expenditures and as previously noted are substantially in excess of minimum requirements.

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 Annual Budget presented December 1, 1970 of operating expenses, debt service requirements and depreciation of \$77,123,000 for the year 1971, as being adequate on the premises which it was prepared which includes the continuation of wages and salaries in accordance with present contracts. This includes a minimum requirement of \$66,070,500 as required by the Trust Indenture. The additional monies making up the difference are required for the expanded capital expenditure budget.
2. The Southern California Rapid Transit District adopt the proposed budget of capital expenditures of \$14,885,500 in total as being sufficient to provide for the immediate needs for 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 including the recent amendment both as to type of coverage and amount.

Ordinarily, revenues are not considered in detail at the time of budget review since the provisions of Section 1002 of the Trust Indenture of January 1, 1958 require that the District provide revenues in at least the same amount as the expenses payable from revenues. Prior to 1969, the District fulfilled this requirement by adjusting the fares so that operating revenues were, in fact, adequate to cover expenses. In 1969, and in the current year 1970, the District departed from these constraints and supplemented operating revenues with monies available from the sales tax. It is anticipated that sales tax revenues will be used to supplement operating revenues again in the next budget year.

Looking ahead to 1971, the total of all the budgeted items covered by the Trust Indenture is over \$66,000,000, and the current levels of revenues total approximately \$50,000,000 annually. The items covered by the Operation Fund alone total almost \$59,000,000 before making any provision for Interest, Sinking Fund or Depreciation Reserve Fund requirements. By adopting a budget where the expenses so greatly exceed the revenues, the District is committing itself to a continuing program of subsidized bus operations. It is impractical at this time to consider a fare increase or a reduction of expenses to eliminate the difference between the budget requirements and current levels of revenue. The resistance of the public to fare increases of sufficient magnitude has been so great in other areas that large numbers of people have left transit. Those systems which have made such fare increases have found that the point of no return is close at hand and the real increase in revenue is disappointingly small. Similarly, service adjustments which would reduce expenses by 20 to 25 percent would so reduce the transit operation that large portions of the present service area would no longer have bus transportation.

In conclusion, the present budget indicates the need for a continuing subsidy to replace the present temporary subsidy if adequate public transportation is to be provided within the District service area in the future.

Respectfully submitted,



Consulting Engineers

ERG/jz