

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

Minutes of Budget Hearing

December 2, 1964

Upon notice duly given, the Board of Directors of the Southern California Rapid Transit District met at a Budget Hearing session in the Board of Supervisors' Hearing Room, 381 Hall of Administration, 500 West Temple Street, Los Angeles, California, at 10:00 a.m. on the 2nd day of December, 1964, at which time President Faull called the meeting to order.

Directors Kermit M. Bill, Mark Boyar, Robert F. Brandon, Harry A. Faull, Gordon R. Hahn, Leonard Horwin, Don C. McMillan and Douglas A. Newcomb were present. Directors Howard P. Allen, Martin Pollard and Norman Topping were absent.

Also present were General Manager C. M. Gilliss; Manager of Operations Cone T. Bass; Treasurer and Auditor H. L. Black; Director of Public Relations Jack R. Gilstrap; Chief Engineer Ernest R. Gerlach; Thomas J. Reilly of Musick, Peeler & Garrett; Secretary Virginia L. Rees; and the public.

At the request of the President, Director Mark Boyar, Chairman of the Budget Committee, presented that Committee's report on the proposed 1965 Budget, a copy of which report is on file with the Secretary.


WHEREAS, the President of the District set the 2nd day of December, 1964 as the date for the public hearing on the 1965 Budget; and

WHEREAS, the Secretary, pursuant to Section 1010 of the Trust Indenture dated January 1, 1958, advertised notice of said hearing in the Metropolitan 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 1965, which is attached to these Minutes as Exhibit B, be deferred to December 16, 1964, the next regular meeting of the District.

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 18, I am submitting the proposed budget for the calendar year 1965. It covers the operation of your present bus system through 1965, but does not provide funds for rapid transit development or the related public information program. When the District determines the direction of its rapid transit program, the budget may be modified to include the funds and the proposed revenue for that purpose. You are required by the Trust Indenture to consider and adopt an operating budget at this time. The proposal contemplates no increase in fares. The proposal contemplates maintaining the present level of bus service, assuming the present level of patronage. Where patronage declines, the service will be tailored to that patronage. Where patronage increases, more buses and more service will be provided. 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 and Required Provision for Depreciation Reserve for 1965 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.

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 \$28,121,000 against \$27,722,500 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 \$2,067,000 as compared to \$2,003,500 in 1964. This covers the cost of material and supplies, principally those used in maintenance of buses, but also covers other items such as stationery, tickets, and purchased repairs.

Next is Fuel and Tires. \$2,564,000. Last year's cost was budgeted at \$2,544,500. 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 \$3,331,000 includes social security and unemployment insurance expenses, payments required by pension, medical benefit and group insurance plans, and for workmen's compensation insurance costs. Fringe benefits to employees were substantially increased this year. The budget item does not reflect those substantial increases because of an offsetting advantage in workmen's compensation. On March 1, the MTA withdrew its workmen's compensation insurance from the State Compensation Insurance Fund and became self-insured. More than \$100,000 has been saved in this

short period because of savings to date through this self-insured program.

This item was \$3,206,500 in 1964.

Rents, Utilities and Insurance is next. This item amounts to \$2,837,000 as compared with \$2,980,500 in 1964 and it is for public liability and property damage insurance (5-1/2% 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 last of the operating expense categories is Unclassified, which has in it both charges and credits. This account shows a net credit of \$1,146,500 this year as compared to a net credit of \$51,000 last year. This section includes items not assignable to the prior categories. Expense items consist of \$175,000 for the last payment to the City of Los Angeles pursuant to an agreement relative to abandonment of streetcar tracks in the city streets, and 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 principal credit comes about because of the remarkable performance of our operating employees and the excellent and always improving courtesy and safety record since 1959. From a deficit of more than \$400,000, we are able to report an available credit of \$850,000. This is a recovery from our public liability experience over the last five years.

The sum of these operating expenses, \$37,773,500, represents the total amount estimated to be paid from the Operation Fund.

Immediately following the operating expense total is "Provision for Operating Expense Reserve" \$4,699,500. This is the anticipated balance in the Operation Fund at the beginning of 1965. 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 Required Revenue is stated. Putting it in and taking it out makes it legal to use the funds in case of catastrophe.

Next on the listing are the Requirements for Debt Service Funds. These are required by the bond indenture. Semi-annual interest payments on the outstanding revenue bonds totalling \$2,006,500 this coming year are met by monthly deposits into the Interest Fund, and a similar monthly accumulation, producing a total of \$1,141,500 for the year, for the purpose of bond retirement as scheduled by the bond indenture is paid into the Bond Retirement Fund.

The next item, \$3,558,500 is the required Provision for Depreciation Reserve Fund arising from the bond indenture requirement that 8% of the Revenues be set aside for replacement of worn-out equipment and other properties and for payment on equipment trust obligations.

Now we have a total of \$49,179,500 from which the previously mentioned Operation Fund Reserve is deducted arriving at a final figure of \$44,480,000 as Estimated Revenues Required for year 1965.

Turning to the third page, there is displayed the second part of the budget proposal for 1965 - the Cash Budget. This shows the effects of a cash distribution of the Estimated Revenues Required for 1965. 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. In the left hand column you see the estimated balances in the various funds as of the end of 1964. In the second column, the expected additions during next year, third the withdrawals to pay the District's various expenses, debt payments, etc., and the last column, the estimated balances in each fund at the end of 1965. I call your attention to the last item - general fund. The bond indenture provides that as much as \$350,000 may be set aside from revenues each year for general fund purposes. This is the one fund that this Board may spend for any legal purpose. It is the contingency reserve which any prudent business man would set up against his operating budget. It represents a less than 1% reserve against the proposed budget. However, as the members know, we have presented to the consulting engineers and to your Board a very tight budget--the minimum budget to maintain the present level of fares and the present level of service. It now appears that any substantial expenditure for rapid transit development or public information will have to come from some other source than the farebox.

The final page presents the Budget of Expenditures from Depreciation Reserve Fund. This is your budget for capital improvements for 1965. The total amount of \$8,958,500 is proposed to be expended as follows:

\$972,500 is for buildings, facilities and equipment at various locations. Larger items included here are Division 12 - Long Beach, and at Location 17 the purchase of property at 632 South Maple, Los Angeles.

\$5,194,500 is for the new coaches needed for 1965 operations. (Replacement program - 110 buses per year, 14 year life.) This covers the full cost

including incidental items such as transportation, sales tax and preparation for service. The \$1,900,500 shown as equipment trust obligations represents the payments (interest, principal, etc.) to be made during 1965 on the financed portion of bus purchases under the various equipment trusts.

\$100,500 is for new automobiles and trucks needed for 1965 operations. Replacement program drawn from our fleet experience adopted by M. T. A. and readopted by District on November 5.

\$161,000 is for installation of axle housings, air compressors, radiators, fans, fuel tanks, and brake shoes. Substantial recoveries from manufacturers for problems with Dreamliner components since 1961.

\$490,000 is rebuilding cost of 125 Model 4801 coaches.

The miscellaneous capital budget includes a number of small specific budgeted projects - for these departments outside the operating department in a total amount of \$69,500.00. The contingency item will cover small unexpected capital items and will serve as one single contingency fund against the whole capital budget, rather than attempt to provide a cushion in each major capital item by padding that item.

The 1965 Operating Budget is less than last year's by \$698,500, even though increases were made in wages and employee welfare in the amount of \$523,000 and supplies, fuel and tires are up \$83,000.

Rent, utilities and insurance expenses are down \$143,500, largely because of reduced costs in IBM rental, resulting from purchase of our 1401 equipment. I mentioned the substantial recovery the District would receive from its good accident experience over the last five or six years. That good

experience permits a projected saving in 1965 insurance costs as well. Up to January 1, 1964, we deposited with the insurance company 6% of our gross revenue. Our outside accountants and consulting engineers agree that our experience warrants our estimating 5-1/2% of gross revenue as reasonable projection for 1965 public liability insurance. This saving is also reflected in the item rent, utilities and insurance expenses. As previously mentioned, \$850,000 resulting from our good accident experience over the past five years has been saved for a substantial portion of the net credit of \$1,146,500 in this section.

Your staff has made a thorough examination of the overall budget, and, in doing so, has tried to evaluate properly all known factors. In adopting this budget you are approving the expenditure of monies for the day-to-day operation. Specifically, salaries and wages employee welfare, rents, utilities, and insurance and normal replacement of supplies. Under the rules which establish your purchasing procedures, other expenditures over \$100 for purchases will be brought back to the Board for approval. All capital expenditures will be brought back to the Board for approval. In accordance with the terms of the bond indenture and the District Act, this 1965 Proposed Budget is recommended for adoption.

Mr. President, this completes the formal comment on the District's estimated financial requirements for 1965.

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SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT
 PROPOSED BUDGET FOR CALENDAR YEAR 1965

	Total	January	February	March	April	May	June
:	28,121,000	2,289,000	2,134,000	2,424,500	2,289,000	2,292,500	2,371,500
	2,067,000	171,500	167,000	176,000	172,000	172,000	173,000
	2,564,000	212,500	200,500	222,500	213,000	212,500	216,000
	3,331,000	327,500	327,000	326,000	325,500	320,000	301,000
ance	2,837,000	235,000	223,500	245,000	236,000	235,500	238,500
	(1,146,500)	(93,000)	(93,000)	(93,000)	(96,500)	(96,500)	(96,000)
nces	37,773,500	3,142,500	2,959,000	3,301,000	3,139,000	3,136,000	3,204,000
pense reserve	<u>4,699,500</u>						
tion Fund ount)	42,473,000						
E FUNDS:							
	2,006,500	171,500	171,500	166,500	166,500	166,500	166,000
	1,141,500	91,500	91,500	96,000	96,000	96,000	95,500
CIATION RESERVE FUND	<u>3,558,500</u>	<u>296,000</u>	<u>280,000</u>	<u>310,000</u>	<u>295,500</u>	<u>295,500</u>	<u>301,500</u>
	49,179,500						
ONS FUND RESERVE	<u>4,699,500</u>						
UIRED	<u><u>44,480,000</u></u>						

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT
 PROPOSED BUDGET FOR CALENDAR YEAR 1965

	July	August	September	October	November	December
RES:						
	2,402,000	2,348,000	2,381,500	2,313,000	2,401,500	2,474,500
	173,000	173,000	171,500	172,500	171,000	174,500
	215,500	215,000	211,500	215,000	210,500	219,500
	278,500	255,000	213,000	204,500	199,000	254,000
insurance	238,000	238,000	234,000	238,000	233,500	242,000
	(96,500)	(96,500)	(96,500)	(96,500)	(96,500)	(96,000)
expenses	3,210,500	3,132,500	3,115,000	3,046,500	3,119,000	3,268,500
expense reserve						
eration Fund (Account)	166,500	166,500	166,000	166,500	166,500	166,000
	96,000	96,000	95,500	96,000	96,000	95,500
VICE FUNDS:						
PRECIATION RESERVE FUND	302,000	295,500	293,500	288,000	294,000	307,000

November 24, 1964

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

CASH BUDGET

CALENDAR YEAR 1965

<u>Fund</u>	<u>Estimated Balance 12-31-64</u>	<u>Estimated Additions During 1965</u>	<u>Estimated Withdrawals During 1965</u>	<u>Estimated Balance 12-31-65</u>
Revenue Fund		\$44,480,000	\$44,480,000	
Distribution of Revenue Fund:				
Operation Fund	\$ 4,699,500	\$37,773,500	\$37,773,500	\$ 4,699,500
Interest Fund	685,500	2,006,500	2,027,000	665,000
Bond Retirement Fund	916,500	1,141,500	1,100,000	958,000
Bond Reserve Fund	3,187,500	-	-	3,187,500
Depreciation Reserve Fund	7,530,000	3,558,500	8,958,500	2,130,000
General Fund	1,247,000	-	350,000	897,000
	<u>\$18,266,000</u>	<u>\$44,480,000</u>	<u>\$50,209,000</u>	<u>\$12,537,000</u>

Note: Estimated balance December 31, 1964 includes holdings of U. S. Government securities.

November 24, 1964

SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT
BUDGET OF EXPENDITURES FROM DEPRECIATION RESERVE FUND
CALENDAR YEAR 1965

	<u>Amount</u>
Buildings, facilities and equipment, by location:	
Division 6	\$ 22,000
Division 8	19,000
Division 12	400,000
Location 17	396,500
South Park Shops	45,000
Main Office Building	90,000
Coaches	5,194,500
Equipment Trust Obligations	1,900,500
Automobiles and trucks	100,500
Installation of 190 axle housings	85,000
Installation of 100 air compressors	15,000
Installation of 35 radiators, fans & fuel tanks	25,000
Installation of cast iron brake shoes on 240 coaches	36,000
Rebuild 125 coaches	490,000
Miscellaneous	69,500
Contingencies	<u>70,000</u>
	<u>\$8,958,500</u>

November 24, 1964

COVERDALE & COLPITTS

JOHN E. SLATER
AUGUSTUS P. FARNSWORTH
GEORGE V. T. BURGESS
WILLIAM A. GORDON
SAMUEL P. BROWN
RUSSELL F. PASSANO
EDWARD L. WEMPLE
JOHN C. GARDINER, JR.
CHARLES W. GILLESPIE
DONALD A. LOCHHEAD
NORMAN E. CARLSON

GEORGE W. BURPEE
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CONSULTING PARTNERS

CONSULTING ENGINEERS

120 WALL STREET

NEW YORK 5, N. Y.

WILLIAM H. COVERDALE (1904-1949)
WALTER W. COLPITTS (1913-1951)

WHITEHALL 3-7400

CABLE ADDRESS: COVERCOL

November 27, 1964

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**GENERAL MANAGER
S. C. R. T. D.**

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

Dear Sirs:

Annual Budget for 1965

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 Authority prepare on or before October 1st and file with the Secretary of the Authority, the Trustees and the Consulting Engineer a tentative budget of expenses and capital expenditures for the ensuing year. In compliance with this section, the Authority delivered to us on September 28, 1964 a copy of said tentative budget for the calendar year of 1965. We discussed this tentative budget with various members of the Authority's staff between October 19th and October 23rd, 1964. 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 1964 became available. Such recommendation was made in our letter of October 30, 1964, at which time we also recommended that the Authority give consideration to (1) the expenses attributable to rapid transit planning should be charged to reserves rather than the current operating budget, (2) the application of the proceeds from excess payments in prior years for public liability and property damage insurance be credited to the 1965 budget, and (3) review of the budgeted expenses of the Equipment Maintenance Department.

We are in receipt of the revised 1965 budget dated November 19, 1964 which is to be submitted to the District for consideration on December 2nd, 1964. The budget has been revised from the tentative budget dated September 28, 1964 to reflect credits against budgeted expenses for rapid transit planning, refunds of excess payments for public liability insurance, reduction in budgeted expenses for Equipment Maintenance Department, and a reduction in Welfare Department expenses. The capital budget has also been revised to reflect the purchase of additional busses and the rebuilding of others.

We have reviewed and analyzed the revised budget figures and discussed them with members of the Authority's staff. We have also reviewed the results of the Authority's operations for the first 10 months of the year 1964 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 1965 budget.

We have also reviewed the program for capital expenditures and expenditures to be made from the depreciation reserve and are of the 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 Authority's transit system, we hereby recommend that:

1. The Southern California Rapid Transit District adopt the proposed budget dated November 19, 1964 of operating expenses, debt service requirements and depreciation of \$44,480,100 for the year 1965 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 ~~\$7,047,367~~ ^{\$8,958,500} 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 Authority. As amended
by letter
dated 12/2
3. The Southern California Rapid Transit District continue its present insurance program both as to type of coverage and amount.

It is assumed that the Southern California Rapid Transit District in adopting this budget for 1965, will provide revenues in at least the same amount as the expenses payable from revenues in accordance with the provisions of Section 1002 of the Trust Indenture of January 1, 1958.

Respectfully submitted,

Coverdale & Colpitts
Consulting Engineers

COVERDALE & COLPITTS

JOHN F. SLATER
AUGUSTUS P. FARNSWORTH
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WHITEHALL 3-7400

CABLE ADDRESS: COVERCOL

GEORGE W. BURPEE
MILES C. KENNEDY

CONSULTING PARTNERS

December 2, 1964

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DEC 3 1964

**GENERAL MANAGER
S. C. R. T. D.**

Mr. C. M. Gilliss
General Manager
Southern California Rapid Transit District
1060 South Broadway
Los Angeles, California

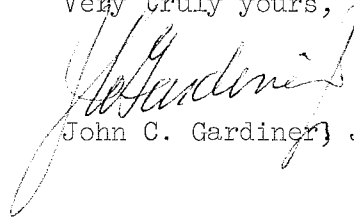
Dear Max:

I sent you the following telegram this morning when I became aware of the fact that the capital budget figure in our letter of November 27th did not include the items listed in the telegram and partly reflect the revision that we had not received prior to sending our letter. We of course approve the new total.

PLEASE AMEND THE CAPITAL BUDGET FIGURE OF \$7,047,367 IN THE NUMBERED PARAGRAPH 2, PAGE 3 OF OUR LETTER OF NOVEMBER 27, 1964 TO \$8,958,500. THE FIGURE USED DID NOT INCLUDE EQUIPMENT TRUST OBLIGATIONS OF \$1,900,500, MISCELLANEOUS FURNITURE AND FIXTURES OF \$9,750 AND THE BALANCING FIGURE OF \$883.

COVERDALE & COLPITTS

Very truly yours,



John C. Gardiner, Jr.