

PUBLIC HEARING
of the
**SENATE SELECT COMMITTEE ON
PUBLIC TRANSPORTATION PROBLEMS IN
LOS ANGELES COUNTY**

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State Building
Los Angeles, California

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Friday, April 27, 1973

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SUBJECT: Southern California Rapid Transit
District's Response to the Auditor
General's Report

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PUBLIC HEARING

SENATE SELECT COMMITTEE ON
PUBLIC TRANSPORTATION PROBLEMS IN LOS ANGELES COUNTY

Senator Lawrence E. Walsh, Chairman
Senator Lou Cusanovich
Senator Joseph M. Kennick
Senator Alfred H. Song
Senator Robert S. Stevens

William Bronte, Consultant
Elizabeth Heinen, Secretary

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FRIDAY, APRIL 27, 1973, 10:00 O'CLOCK A.M.

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CHAIRMAN LAWRENCE E. WALSH: We will call the hearing together now.

I would like to introduce, first, on my immediate left, the President pro Tempore of the State Senate, Senator Jim Mills. On his immediate left, a member of the Senate Rules Committee, Senator Joe Kennick. We have as a guest today, Senator James Wedworth, of the Inglewood area. On my right, we have committee researcher, Betty Heinen, Sacramento; and my consultant, Bill Bronte from Sacramento; my administrative assistant from Los Angeles, my district, Mrs. Billie Cole; and myself, Chairman of the Select Committee on Public Transportation Problems in Los Angeles County, Senator Lawrence Walsh.

I have an opening statement which I have not passed out. It is being copied right now because there have been several requests for it. It should be here shortly. We also have copies of the Auditor General's report that we have held, or tried to hold, in confidence until the day of the hearing, which is today. So I will begin with the opening statement.

OPENING STATEMENT

I have called this meeting of the Senate Select Committee to give the Southern California Rapid Transit District (SCRTD) an opportunity to respond to the audit report prepared by the Joint Legislative Audit Committee.

This audit was conducted at my request, with the cooperation of the late Senator Tom Carrell, then the Chairman of the Transportation Committee.

My concern with the operation of the SCRTD and the need of Los Angeles to have a rapid transit system goes back many, many years.

I can recall back in 1965, when Mr. Harry Faulk, former President of the SCRTD, told the citizens of Los Angeles that all the necessary engineering for a rapid transit system had been completed at a cost of \$2 million dollars.

It is now eight years later, and many more millions have been spent for a rapid transit system that, in my opinion, is made of paper to the tune of about six feet high in studies, researching and surveys, all costing millions of dollars or more. And now, we are involved in an area of operating a massive bus operation that is losing approximately \$26 million dollars a year.

It is imperative for Los Angeles to have a rapid transit system. These committee meetings were called with that purpose in mind. I am prepared, as are most of

the members of the Legislature, to take such corrective action as is necessary to see that the people of Los Angeles get an efficient and balanced transportation system which includes rapid transit. We planned to have a second hearing of the Select Committee on May 4, at which time the SCRTD would present its plans to meet the transportation needs of Los Angeles County. This would include current plans for a rapid transit system. I imagine these would be the results of a most recent \$600,000 survey and a corridor study. But, unfortunately, it has been necessary to postpone the second meeting.

Today's meeting will be devoted exclusively to the Auditor's report and the financial soundness of the SCRTD. The committee reserves the right to interrupt the proceedings at any time to ask questions or explore areas that are unclear.

We have from the Auditor General's office, Mr. Wesley Voss and Mr. Richard Porter. I would ask them at this time to step forward and present the results of their audit. Mr. Voss and Mr. Porter, would you kindly step forward?

MR. WESLEY VOSS: Senators, my name is Wes Voss. This is Dick Porter with our staff of the Joint Legislative Audit Committee. A letter requesting this audit specified that its objective was an evaluation of the efficiency of the administration of the funds, and the achievements of the District in the use of these funds for the benefit of the public they serve. In accord with the District's

creating statute, the District is audited annually from a financial standpoint, so we did not duplicate this work. Recently, the Claremont Colleges completed a study of mass transit in Los Angeles and issued about a hundred-page report, which includes a rather extensive history of rapid transit planning in the L. A. basin, an analysis of SCRTD's relationship with its public and other governmental agencies, an analysis of the financial opportunities that at least are theoretically available to finance rapid transit, and concluded with a series of several policy recommendations. We did not duplicate that effort.

The District has two primary functions: The operation of one of the largest fleets of urban bus transit in the world, together with rapid transit planning.

If this request had been made for the Bay area, we would have had to review several separate organizations. Most of the bus service in the East Bay-transbay is provided by A. C. transit. San Francisco Municipal provides local bus service. And more recently, the Golden Gate Bridge and Highway Transportation District is now providing bus service from Marin County. BART, of course, will provide the rapid transit service. So, of course, this is evidence to us that there is no hard and fast rule regarding organization; that is, it could well be a historical accident that we have a single entity responsible for these two functions here. Yet, in the San Francisco Bay area, we have a divided function. Bus service is completely independent of transit service.

This morning, approximately 600,000 persons entered the central business district here. Approximately two-thirds came by private vehicle and one-third by SCRTD's buses. By way of comparison, in Chicago only seventeen percent came by car. Of the 600,000 people who came this morning, the vast majority at least had a theoretical opportunity to come via another mode. It is the two primary factors--the out-of-pocket apparent costs of each mode, together with the door-to-door travel time--which primarily affects the decision that these 600,000 people made this morning.

SCRTD's present bus operation claims a significant part of those 600,000 commuters. Particularly, in areas where the proximity of the home is close to an employment opportunity center, and also particularly where a freeway is not a part of the linkage between the home and the place of employment. However, as the distance between the residence and the other end of the trip increases, percentage of SCRTD's trips decreases radically.

Since the District's first year of operation in 1965, it has increased the annual number of bus patronage by two percent.

CHAIRMAN WALSH: That is the overall two percent up to the present date.

MR. VOSS: Yes, Sir.

CHAIRMAN WALSH: At the time of this audit?

MR. VOSS: Yes.

CHAIRMAN WALSH: It has increased the passengers?

MR. VOSS: The number of annual passengers.

CHAIRMAN WALSH: The number of annual passengers by two percent?

MR. VOSS: Two percent.

CHAIRMAN WALSH: What does that mean in people?

MR. VOSS: I would have to check on it.

Nationwide, by way of comparison, there was a nineteen percent reduction in urban bus patronage.

Now during this seven year period from 1965 to 1972, there was no appreciable change between transit and auto, in the first factor I described, as being the major consideration the 600,000 people used this morning in deciding how to get to this central business district.

SENATOR JOSEPH KENNICK: Mr. Chairman, may I interrupt with a question?

CHAIRMAN WALSH: Yes, that is part of the procedure, Senator Kennick.

SENATOR KENNICK: What are the boundaries from whence these 600,000 people came this morning that you referred to?

MR. VOSS: I am one of them. I came four hundred miles. I left Sacramento at 6:30. I commuted to this room.

SENATOR KENNICK: I think you are unusual.

MR. VOSS: Right. But there is no definite way to describe that. I mean the vast majority, of course, would come---

SENATOR KENNICK: The vast majority came from what boundaries?

MR. VOSS: From within, say, a radius of within thirty to forty miles.

SENATOR KENNICK: So just 600,000 people have entered the area from a radius of thirty to forty miles.

MR. VOSS: The vast majority of which have come, yes, within that city.

SENATOR JAMES WEDWORTH: Let me ask a question myself. First, for clarification--just for your background--you, both of you, Mr. Voss and Mr. Porter, are certified public accountants. Is that correct?

MR. VOSS: Correct.

SENATOR WEDWORTH: Thank you.

SENATOR KENNICK: When you include in the central downtown, Los Angeles, how far out do you go?

MR. VOSS: That is generally defined by planners. A defined area in the central business district is defined for planning purposes. Now, that changes, depending upon the size of the urban area--how we classify an urban area; but it has to do with employment density.

SENATOR KENNICK: From whence did you come to Sacramento?

MR. VOSS: This morning. I left my home at 6:30 a.m. I arrived in this room at 9:30. I was a commuter. I had an alternative, just as everyone else who came to this room did. I could have driven; I could have come by bus. I chose the plane.

CHAIRMAN WALSH: Why choose it?

Let me ask you a question as long as you are on this area of the amount of passenger increase since 1965, which amounts to two percent. What about the annual bus miles of operation? Do you have any figures on how many miles of operation--bus miles--have been increased to compare with this two percent?

MR. VOSS: Yes, Sir. During that same period, the total number of miles of bus operation increased eight percent, or four times greater than the passenger increase. Now, nationally, during the same period, while there was a nineteen percent reduction in the number of patrons, there was a ten percent reduction in the number of bus miles of operation.

CHAIRMAN WALSH: What would that be in miles? You said eight percent.

MR. VOSS: About eight million miles.

CHAIRMAN WALSH: That is the figure I was trying to bring out. In other words, in order to accomplish and pick up over two percent of an increase in passengers--added to their existing passengers since 1965--they have increased their miles of bus operation by eight million miles since 1965. Continue on please. ---

I might amplify that a little bit. The result, because of the increase of annual miles--what created the result of that? I mean, almost half of the increased annual miles resulted from what reason?

MR. VOSS: That came from the acquisition of eight prior operators.

CHAIRMAN WALSH: Eight other individuals?

MR. VOSS: Eight other operators were absorbed into SCRTD During this period.

CHAIRMAN WALSH: For the acquired service, do you have any figures on what the loss was equal to of the line revenue?

MR. VOSS: Yes. Now SCRTD, along with all transit operators, does have a problem in keeping detailed records

The plane I came down here on this morning--it was transit. But the cost for all other forms of transportation per unit of service--and a unit of service is, in my case, my flight from Sacramento here; for people who rode the bus this morning to work, it was that one trip. The cost and revenues are so low for transit that we do not have the type of record that produced the same detailed management and accounting information that is available for other transit. Thus, the airline I came down here on this morning, they could tell us how much they make on this run--and the run is between Los Angeles and Sacramento--and how much they made, what are the costs of the particular flight I was on. But now bus service does not operate that way. The fares are only thirty cents. We do not know where the people got on and where they are getting off. There is no way of keeping those records--so much of the information is developed from periodic study, either done

by the District, itself, or through consultants. Now the last time this was done, to answer that question, was in May of last year. And, at that time, there was an analysis of the various lines that indicated that the acquired lines of these eight former operators were losing twice the amount, on the average, of the other existing lines of RTD.

CHAIRMAN WALSH: Well, their losses started to occur, or they were operating in the black, I think, up until 1969, weren't they?

MR. VOSS: Yes, sir.

CHAIRMAN WALSH: And then by the acquisition of these other lines and the additional eight million bus miles, that is when their losses started to occur at a high rate.

Now, if you are purchasing a business, the normal procedure would be to audit that business to see if it is a profitable business. Wouldn't that be the normal thing to do? By acquiring another bus line, wouldn't you audit the bus line and try to get a figure on whether it is profitable to take that on, rather than to take it on as a deficit? I am trying to get at the point where, what is the soundness of doing that, when a bus line must have been losing money; then, to acquire it so that it would become subsidized in some manner - wherever the money came from? I cannot understand that. Is there no per unit cost? There is no way you can determine a per unit on any part of the SCRTD's operation, is there? Except through assumption

or generalities.

MR. VOSS: Through periodic study. The information is not readily available as it is for most other business. But, that is not a criticism of the District; this is common to that industry.

As far as the question about the prior municipal operations that were acquired, obviously, particularly since the passage of SB 325, there is less of an incentive for a particular municipal operation to, in effect, give up its separate operation and transfer that to a larger entity, such as RTD. Prior to the passage, why, this was a way of transferring the liability for these losing municipal operators.

SENATOR KENNICK: Could you possibly buy a bus company in California that was showing a profit?

MR. VOSS: The largest private operator, until recently, was Santa Clara. Santa Clara County is taking over San Jose's operations. That was the last large private operation in the State. It had been subsidized for certain types of services by the city, but not a general subsidy. That is now becoming a district much as this district. That is the last.

SENATOR KENNICK: What is the theory in taking over a bus company that is not showing a profit? To improve the services? Or provide better service for the public to receive adequate transportation? They may not get the good out of it.

MR. VOSS: There is a problem with transfers.

SENATOR KENNICK: Isn't this 2 + 2 thinking?

MR. VOSS: There is a quality problem, surely.

SENATOR KENNICK: In other words, if you are only going to purchase a bus company that showed a profit, then people would never receive adequate transportation. Isn't that about right?

SENATOR MILLS: Mr. Chairman?

CHAIRMAN WALSH: Yes, Senator Mills.

SENATOR MILLS: There is one other point that I would like to raise here. It is a question for Mr. Voss.

The chairman's point, I think, was a good one: that losses started to pile up as a problem and we did have to pass a bill, without a vote of the people or anything of that nature, and put a fairly massive infusion of funds into the SCRTD to keep them going. But, while that took place at the time some of this expansion took place, it would not be true to say that the expansions, themselves, are responsible for all of this deficit.

MR. VOSS: No, sir.

SENATOR MILLS: What was responsible?

MR. VOSS: I think we can identify three main factors:

As has been pointed out, through 1968 the district operated in the black. Now, this was unique in the industry. The industry began, as the total of over 1,000 publicly owned bus operations in this country began collectively, operating at a deficit two years before

the District came into existence. By 1969, the cost of operation, all costs, were accelerating. The purchasing power, the District's fare structure had not changed significantly since 1967. The transit industry, since the District was created, the average fares increased almost 60% - 59%. The District's average fare has increased only 10%. So, of course, obviously, this is the first problem. We have not changed fares to reflect the change in purchasing power.

The second major factor has been described or alluded to already, and that is that service expansions have been four times the increase in passenger revenue. Currently, it costs approximately a dollar and a quarter for every mile of bus operation. So, therefore, if we expand service at a rate four times the rate of expansion of passengers, obviously, we are in trouble. This is the second matter.

And the third element is that bus operations are labor-intensive compared to BART-type systems or newer conceptualized personal rapid transit systems. We need a driver for every fifty passengers. All labor-intensive industries are much more subject to inflationary pressures than other industries.

CHAIRMAN WALSH: Excuse me, just a moment. How much has the cost of labor gone up since 1969, percentagewise? Now, I am talking about the salaries, percentagewise. Does it follow the cost of living, so to speak, as far as salaries are concerned?

MR. VOSS: Over the total life of the District.

But if we divide those seven years into two parts, that is, that 3½ - 4-year period prior to legislative action to first provide a subsidy --- and that was Assemblyman Lanterman's ½-cent, six months sales tax that provided approximately \$30 million --- the sole source of operating revenue at that time was the farebox. So, wage increases during the first three years were low. Since the Legislature authorized that temporary subsidy and, more currently, the permanent sales tax on gasoline legislation, then the average annual salary increases have been considerably more.

We have analyzed them by the four labor classes; the largest group, of course, being bus drivers. The annual average increase since 1969 is about 1½ times what it was during the first three years of operation. The second largest group of employees is the maintenance employees. Their increase has been almost 1½ times. For unionized clerical people, it is slightly over 1½ times the average increase since 1969 compared to what the annual average increase was during the prior four years. For supervisory and maintenance personnel who are not unionized, there is an immaterial difference; but during that first three years they were receiving larger increases than union employees, so during the last three years their increases have been lower than union employees - so much stabler; more like civil service employees. So that those increases change

radically, the average annual increases, if we divide this total seven-year period of this District's operation into those two components. And, of course, from this it is pretty obvious that it had been the action of the Legislature that enabled, or has resulted in those changes.

There are the three principal factors:

First, nationwide there was almost a 60% increase in average fares; whereas, here in Los Angeles only a 10% - 1/6 the amount. This tells us that there is going to be trouble.

Second, we have expanded service four times faster than the increase in passengers, while nationally there was a 10% reduction in service.

Then finally, being labor-intensive, the District is subject to the effects of inflation and, particularly since 1969, costs have been accelerating at a rate in excess of change-of-dollar value, particularly during 1971.

From the District's inception , January 1, 1965, through 1970, the increase in expenditures was exactly the same for the District as it was for over a thousand bus transit operators in this country. Both increased costs by 37% during that five-year period. During 1971, District increased costs were twice that of the nationwide average; a 12% increase compared to a 4%. The principal factors affecting that were increase in wages and retirement benefits.

CHAIRMAN WALSH: Excuse me, one moment. Can you hear in the back of the room?

VOICES FROM AUDIENCE: No. I can't hear.

CHAIRMAN WALSH: You will have to speak a little louder. Can you hear now in the back of the room?

Well, I know we are coming through for the recorder, but I want to make sure that the audience can hear these figures and that the audience can pick up on everything. Can you hear now? How about you?

When you speak, speak directly into the mike so that they can hear.

MR. VOSS: As I mentioned, the absence of a significant change in the fare structure since 1957 probably has been the most significant factor in enabling the District to retain and actually have a slight increase in the total number of passengers in the face of a very serious problem nationwide. And that is almost a 20% reduction in urban transit usage during a short seven-year period. Thus, nationally, although there has been a serious reduction in passengers, that effect, from a purely profit and loss standpoint, has been better nationally than here, locally.

Normally, when one loses his customers, he is in trouble profit-and-losswise. But the history of the last seven years, in comparing the District's operation to the nationwide average of all bus operators, quite the reverse has been true. And that is that a 19% reduction in the number of bus patrons in this country, plus a substantially larger increase in fares nationally and here in

Los Angeles, resulted in a 26% increase in revenues nationally.

Now locally, there was a 2% increase in the number of patrons, plus a 10% increase in average fares resulted in a 12% increase in revenue; less than half of what the over a thousand bus operators experienced during the same period. So the first penalty for retaining bus patrons in large urban areas is the loss or reduction in the opportunity to increase revenue via increasing fares. We can see no other logical way to explain the fact that the District retained passengers in the face of substantial losses nationally. It had only a fare increase equal to one-sixth of the national average, and yet it could only increase its gross revenue half of what was accomplished nationally.

The change in fares nationally - the 59% - is very close to the change in the purchasing power which occurred during this period; so over a thousand operators changed their fare structures to account for the change in purchasing power. The District did not, and indeed it really could not; because what it inherited in 1965 was a fare structure that was 50% above the national average. Today, the average fare paid in Los Angeles is very close to the national average.

The second cost that must be paid by the community to retain or expand slightly the number of transit passengers is something we have already alluded to; and that is,

the necessary increase in service. During this seven-year period, there was a reduction in the average bus loading; that is, the number of people on the average mile the bus has been driven, both here and in Los Angeles and, again, nationally; exactly the same. It went from 3.4 persons per mile down to 3.2. But when we increase mileage, obviously the mileage added is going to probably be less productive than our average mileage. And when these thousand other operators reduced their mileage by 10%, obviously they did not take their successful lines and successful runs and reduce them. They reduced their least successful operation. So the problem we have is that on the surface, it appears that a 10% national reduction as opposed to an 8% increase here locally is quite significant. But in terms of the actual change in number of people, it really isn't because we are dealing with that very borderline situation.

We have already discussed a lot of questions that the District, being it is totally bus-operated, is labor-intensive and is very subjected to the cost change in dollar purchasing power.

So summarizing the three main factors as affected, the situation where the District was able to operate in the black through 1969, seven years beyond when the average bus operator started operating at a deficit. But since that time, the District's losses have been growing at a substantially faster rate than the average of the

thousand other bus operators. First, the absence of a fare change; secondly, the expansion of services, both via the acquisition of non profitable other operations and expansion of their own lines and facilities; and, finally, the substantial increases in wage and retirement.

The most substantial increasing cost of the District is its retirement plan. The costs last year were seven times greater than what they were in 1965. The District makes contributions to four separate retirement plans: one for each of three union classifications, and one for non-union employees. The Bank of America is trustee for all four plans.

CHAIRMAN WALSH: Would you repeat that, please?

MR. VOSS: Yes. The Bank of America is trustee for all four of these plans. There has not been an audit of the four plans.

CHAIRMAN WALSH: In the history of the retirement fund, there has been no audit ever made?

MR. VOSS: At least as far as we can tell. Of course, we went back through the history since SCRTD was created. These funds were in operation before, so we checked the records back as far as the creation of SCRTD, and there has not been an audit during that period.

CHAIRMAN WALSH: Senator Wedworth?

SENATOR WEDWORTH: Do you have the percentage of the retirement pension fund that is paid by the Rapid Transit District and what do the employees -- what percentage

do they have?

MR. VOSS: Yes, Sir. For the three union funds, the District pays all of the costs.

SENATOR WEDWORTH: One hundred percent?

MR. VOSS: Yes, Sir.

SENATOR WEDWORTH: And what is that percentage? What is it based upon? Earnings?

MR. VOSS: Yes, Sir. It is between twelve and fourteen percent of earnings.

SENATOR WEDWORTH: Twelve to fourteen percent?

MR. VOSS: Yes, Sir.

SENATOR WEDWORTH: That is three; what is the other one? Do we have four different categories?

MR. VOSS: Yes. For those three categories, it ranges between twelve and fourteen percent.

SENATOR WEDWORTH: All right. How about the fourth category?

MR. VOSS: The fourth category is non-union employees, and that is 22%.

SENATOR WEDWORTH: What percentage is paid by the District?

MR. VOSS: That is what the District is paying. Now that last group, the non-union employees, pay an additional one percent --- one and a half percent.

SENATOR WEDWORTH: Twenty-two for the District, one and a half by employees.

MR. VOSS: Yes.

SENATOR WEDWORTH: Thank you.

CHAIRMAN WALSH: Let me ask a question following that. What are the current assets of the retirement fund?

MR. VOSS: The whole fund would total approximately \$19 million.

CHAIRMAN WALSH: Is this what should be there?

MR. VOSS: No, there should be an approximate additional \$30 million.

CHAIRMAN WALSH: In other words, they have assets of \$19 million and promises of \$30 million. Would this be to offset obligations of wage increases? Would that be a reason for that? How can you be short \$30 million in a retirement fund that only has assets of \$19 million?

MR. VOSS: All right. By way of analogy, the two major State retirement funds administered by the State are the regular State Employees Retirement Fund and the State Teachers' Retirement Fund. Now the regular state employees' fund is in balance; that is, we take the present value of the assets, actuarially determine the potential liability, consider the interest earnings of the present assets, and those will in the future balance out. Conversely, this will not happen with the State Teachers' Retirement Fund. That fund is very much out of balance. And, one of the last things that Assemblyman Barnes accomplished was a bill that was finally acceptable to all the concerned interests; it was signed by the Governor; and that adopted a plan to put that fund into

balance over the next thirty years. Now, the District is much in the same situation as we are with the State Teachers' Retirement; that is, the fund gets out of balance because we grant benefits that have a retroactive effect. A bus driver may have been with the District for 25 years; and now we change the regulation to say his benefits will be increased.

CHAIRMAN WALSH: So, in other words, these are changes that were made after the establishment of the retirement fund.

MR. VOSS: Yes, Sir.

CHAIRMAN WALSH: And obligate the retirement fund, because of these accommodations, to the effect where it is \$30 million short. Is that correct?

MR. VOSS: That is correct, actuarially.

CHAIRMAN WALSH: Actuarially. All right, Senator Mills wants to ask a question.

SENATOR MILLS: If I understand this, I think it is alarming. Let me see if I do.

What was the situation at the time SCRTD came into existence? Was there a deficit? I shouldn't say a deficit, should I?

MR. VOSS: Yes, I think you can.

SENATOR MILLS: You can say a deficit?

MR. VOSS: All right, that deficit at that time was about \$9 or \$10 million.

SENATOR MILLS: \$9 or \$10 million. So, in eight years,

it has gone from \$9 or \$10 million to \$30 million.

MR. VOSS: Yes.

CHAIRMAN WALSH: Excuse me, for one moment. I understand that it was \$300,000 short in 1965; and in seven years, the deficit has increased approximately a hundredfold.

MR. VOSS: We have got a problem. On page 20 of our report, up at the top, we have made an error. We have mixed two figures. And that is, the top two sentences, the first sentence is correct; the second sentence, which defines what the balance was in 1965, actually defines what is necessary during that year under this 30-year plan to put it in balance. You will notice the tabulation in the middle of the page - three columns: normal contributions and prior service credit. Well, the first column is very close to what State employees pay. That fund is in balance. The prior service credit there is to correct this situation over 30 years. So, we have made a mechanical error in that second sentence there.

CHAIRMAN WALSH: Then, it does go back to the one point what?

SENATOR MILLS: Nine to ten million dollars.

MR. VOSS: Yes.

SENATOR MILLS: In eight years, they have tripled that.

MR. VOSS: That is right.

SENATOR MILLS: Now, where are we? On the State level, we were sufficiently alarmed about that situation that we

set it right. That is to say, we didn't set it right initially, immediately; but we took steps to fund the thing year by year, to pick it up year by year.

Now, where are we with SCRTD? Are they doing anything to try to deal with the problem of being \$20 million further in the hole than they were ten years ago? Eight years ago?

MR. VOSS: Well, of course, to answer that question depends upon what is going to happen in the future, and we do not know that. If there were no further changes in benefits, thirty years from now, I believe the fund would be actuarially sound.

SENATOR MILLS: This is from increased contributions from fareboxes going into this as an operating expense?

MR. VOSS: Yes.

SENATOR MILLS: If there were no further changes, but on the basis of their performance over the last few years, it is more reasonable to expect that instead of being 30 million in the hole ten years from now, they are more likely to be \$70 or \$80 million in the hole. Maybe that is not a fair question to ask you, but if you project their performance over the last few years in this field, you have projected in that direction. Is that correct?

MR. VOSS: That is correct. You would have to.

SENATOR MILLS: That is correct. Well, I think that is something we are going to have to do something about. You know we just cannot allow this to continue; we cannot

allow them to dig this hole.

Thank you, Mr. Chairman.

CHAIRMAN WALSH: Thank you.

I would like to point out that in your report, on page 19, the last paragraph after it goes through the contributions under the four separate retirement funds, the last paragraph says: "The cost of SCRTD employee retirement plans have increased more than any other item of district cost." In other words, this is the most costly item in their existence, as far as the District is concerned. The estimated annual costs for 1972 are \$5.7 million; it is almost seven times the amount of that cost in 1965.

MR. VOSS: That is correct. And this year, I believe the budget will get close to seven million dollars for that item.

CHAIRMAN WALSH: So this is probably one of the --- outside of the additional 8 million bus miles that are added on because of the fact that there were additional lines purchased, which were known to be unprofitable lines, I have figures that the acquired service loss was equal to 98% of the line revenue, while the average loss for all the other lines increased to 42% of the revenues since 1969.

MR. VOSS: Those losses are approximately twice.

CHAIRMAN WALSH: Are what?

MR. VOSS: They would then be approximately twice that the average loss currently is for all the other lines.

CHAIRMAN WALSH: In other words, the acquired service is twice as much of a loss as the other lines, which are losing 42%, approximately.

MR. VOSS: Right.

CHAIRMAN WALSH: Continue.

SENATOR WEDWORTH: May I ask a question?

CHAIRMAN WALSH: Yes, Senator Wedworth.

SENATOR WEDWORTH: We have the percentages of union and, well, not percentages, but we do have figures on union and non-union. In the fourth category, which is administrative employees, what percent are administrative employees to the total number of employees in the District?

MR. VOSS: If you will turn to the bottom of page 17, Senator, we have a recap both at the beginning of the District's existence and currently, by those four classifications. And these are exact numbers of employees. So percentagewise, the supervisory and administrative employees would account for approximately 13% of the total employees.

CHAIRMAN WALSH: Thank you. Continue on, Mr. Voss.

MR. VOSS: As we mentioned before, there are these four retirement plans. They are controlled by four separate boards. And for the three union boards, there are two union representatives. All four of these boards, at their meeting last November 16, took actions which limit the amount of investments and, hence, commissions paid that could be executed through any one broker.

The following events brought about this action:

Prior to April 1972, just a year ago, each one of these boards controlled their own investments. There was a desire to improve the investment earning because this would reduce the District's contribution. So professional management assistance to make the investment decisions for these four funds was sought. Several firms submitted proposals. Two firms were selected and each was given the management responsibilities for the four funds. Each had half of the management responsibility. It was intended to place a sufficient volume of orders, buy-and-sell orders, with one brokerage firm so that some free services would be provided, such as figuring part of the computations of the annual actuarial computations that were necessary for the CPA to certify to the statement. However, between the times that these two management firms took over the operation, and the actions by these four boards on November 16 - which is a period of about six months - over fifty percent of the transactions of one of these two firms was placed with a brokerage firm with which one of the board members of the District's board of directors was associated.

SENATOR WEDWORTH: In what way?

MR. VOSS: Pardon.

SENATOR WEDWORTH: In what way?

MR. VOSS: He was a stock salesman. Now, the State licenses brokers; licenses salesmen. Salesmen are tied to

brokers. So, he was a stock salesman, licensed by a licensed broker. Now, the brokerage firm received slightly more than half of the buy-and-sell orders of one of the two management firms.

CHAIRMAN WALSH: Is he still a member of the Board of Directors?

MR. VOSS: I do not know. At the end of our audit, which was finished. . .

CHAIRMAN WALSH: He was a member at that time?

MR. VOSS: He was a member at that time.

CHAIRMAN WALSH: And you don't know what the disposition of his employment is now?

MR. VOSS: No.

SENATOR KENNICK: Do you know whether there was any action taken at that time?

MR. VOSS: Well, the action by the board, the four boards, on November 16 terminated this. In effect, they reduced the amount of investments that could be placed with any one brokerage firm to 17%; and this was over 50% prior to this.

CHAIRMAN WALSH: At what time did they do this?

MR. VOSS: This was after. . .

CHAIRMAN WALSH: Was this after the audit was taken?

MR. VOSS: It was during it.

CHAIRMAN WALSH: It was during the time the audit was being taken?

MR. VOSS: Yes.

SENATOR WEDWORTH: Mr. Chairman.

CHAIRMAN WALSH: Yes, Senator Wedworth.

SENATOR WEDWORTH: It may not have been included in your studies, but did you ascertain whether or not this person voted on any of the actions when the board voted, either going up in the percentage of selling this or when they changed it?

MR. VOSS: There is no direct relationship here. We have got to separate all these entities now.

SENATOR WEDWORTH: Please do.

MR. VOSS: Okay. The individual we are talking about is one of eleven members of the SCRTD board. There are four retirement plans. They are administered by four entirely different boards. Those boards consist of union members, three of them, and SCRTD administrative personnel. Now, independent of those two entities, we have two management firms. These are commercial entities. They execute the buy-and-sell orders, with now a fourth type of entity, and this is stock brokers, for whom salesmen work.

SENATOR WEDWORTH: Yes. But who sets the overall policy? Somebody sets the overall policy.

MR. VOSS: Yes; all right. The overall policy. . .

SENATOR WEDWORTH: Is it the entire board?

MR. VOSS: It would be the entire board.

SENATOR WEDWORTH: Did that person have voting rights on the entire board?

MR. VOSS: Yes. He would be one of eleven members.

SENATOR WEDWORTH: One of eleven?

MR. VOSS: One of eleven.

SENATOR WEDWORTH: Thank you.

CHAIRMAN WALSH: I would like to interrupt at this time to acknowledge the presence of Senator Roberti. He is a guest at this select committee hearing. Senator Roberti, we welcome you aboard.

SENATOR KENNICK: Was the first notice of this gentleman's activity brought to the attention of the board as a result of your office?

MR. VOSS: We don't know this. This was a special request by the committee chairman, and in doing this work we do not discuss anything with the people we are working with. They know what records we are looking at, obviously; we have to request them. But, we do not discuss these things because the end product belongs to . . .

SENATOR KENNICK: Did you arrive at the conclusion that it was going on, or had been done?

MR. VOSS: We determined the amount of staff purchases between April 1 of last year and October 1 - percentage of all the buyers and sellers and sellers - who placed it.

SENATOR KENNICK: Then it had been done.

MR. VOSS: Yes. The amount of commission involved; this type of thing.

CHAIRMAN WALSH: I might remind the committee that I requested this audit, I think it was September 19 or 18 of last year, through Senator Tom Carrell, who was at that

time chairman of the Transportation Committee.

SENATOR KENNICK: Was there a date of the time the commissions had ceased, to this individual?

CHAIRMAN WALSH: Are you directing that to me, Senator?

SENATOR KENNICK: No, to the auditor.

MR. VOSS: Senator, we did not ascertain who would receive these commissions. As I mentioned, we are talking about four separate entities here. We are examining SCRTD and its board. Now, the union funds are related to that, so we did get into those records. But, now as soon as we get out into two management firms that are located on the east coast, and stock brokerage firms, now we have no authority to examine those records and someone else would have to look at them. We did not get into those records. We can ascertain from public records what the amount of commissions were, what brokerage firm got them. But how the brokerage firm pays its licensed salesmen, that we don't know. And I do not know if you did know, I really don't know what it would mean.

SENATOR KENNICK: We can inquire later, Mr. Voss.

CHAIRMAN WALSH: We can inquire later from the SCRTD what the disposal of this particular problem is. Continue on.

MR. VOSS: The district is technically in default under the bond indenture, because the balance that is required to be maintained in two funds, the operating fund and the depreciation reserve fund, are insufficient as of the

last fiscal year end, and that is June 30, 1972; the deficiency was \$8.8 million.

Now, no action has been taken by the bond trustee and no action is contemplated. The reasons for requiring these reserves is, of course, to protect the bondholders, as an ongoing entity. These bonds were issued many years ago, at the time the District's predecessor was created; \$40 million to take over the two private operators at that time. Of course, since then, both the state and federal government have become increasingly more financially responsive to the needs of urban transit; and so, therefore, much of the replacement of fixed assets is acquired really at no cost out of the farebox currently. It is a process of matching state funds with federal funds; therefore, these requirements that were established in the bond indenture almost two decades ago are really no longer meaningful. Therefore, the trustee has allowed the District to operate in technical noncompliance, and it is not anticipated that any action would be taken in the future.

CHAIRMAN WALSH: Senator Wedworth.

SENATOR WEDWORTH: Do you have the maturity date of the bonds?

MR. VOSS: Well, they are serial bonds; they will mature over a period. The District has retired approximately a third of those bonds.

SENATOR WEDWORTH: One-third of those bonds?

MR. VOSS: Yes.

SENATOR WEDWORTH: You don't know what the latest maturity date of the entire series would be?

MR. VOSS: We will take a minute and check it.

SENATOR WEDWORTH: Let him check that and we will pick it up later.

MR. VOSS: By way of introduction of change into the planning, the average scheduled running time, miles per hour, of SCRTD buses is $12\frac{1}{2}$ miles per hour. In 1905, by way of comparison, Henry Huntington, who was the founder and then the president of Pacific Electric, late one evening got on at the station three blocks from here and made it to downtown Long Beach at an average running speed of 80 miles per hour. Today, that is illegal; it is dangerous; but it was practical in 1905.

SENATOR MILLS: Mr. Chairman?

Was that a scheduled run?

MR. VOSS: No, he cleared the tracks; he had a private car that is world famous.

SENATOR KENNICK: You couldn't go to Long Beach doing 80 miles an hour now. God help you if you do!

SENATOR MILLS: One other question, Mr. Chairman.

Do you know what the scheduled time was then? It was obviously a great deal faster than the District's time schedule today.

MR. VOSS: Yes, it is. I have it at home. I don't

have it with me, Senator, but I can get it.

SENATOR MILLS: I know it declines substantially over the last few years of operation. Increasing urbanization and . . .

MR. VOSS: Yes, it probably reached its apex around 1911, and from there it declined until the last run, which was 1961. It was a fifty-year decline. In running time, the greatest year of service was 1947.

SENATOR MILLS: I have one other question, Mr. Chairman.

It isn't exactly on the subject, but there is a man named Ed Stegman, who writes for a small paper in the eastern part of the Los Angeles area, who keeps saying that buses are a great deal faster than rail transit systems and he cites the speed that buses can reach on separated busways, and so forth. I have never taken the time to reply; but do you have any indication as to what the ultimate effect is when you get separated operations as a part of -- that is to say, do you know the average speed of the new lines?

MR. VOSS: I think the District could give us that because, of course, the principal problem currently, as far as the El Monte situation, is not in the running speeds out there, but how is the traffic going to be managed within a few blocks of where we are sitting right now. That is the big problem. But, I am sure they can give us that information.

SENATOR MILLS: Exactly. That is the point that Mr. Stegman misses; that you get down to 5 or 6 miles per

hour when you get here.

Thank you.

MR. VOSS: I refer to these two differences in running time, not to suggest it is necessary to average 80 or 90 miles an hour, but, primarily, to draw attention to the fact that here in Los Angeles, because we have one entity that has this dual responsibility, which as I noted at the beginning in the San Francisco area is several separate organizations, the fundamental problem that the board faces and will face in the foreseeable future concerns the allocation of the very limited amount of resources between those two functions. That is, preserving and attempting to improve a system that basically has an average of 12 miles-an-hour service, or the development of some other facility that, while it doesn't have to go 80 miles an hour, does materially improve on 12½ miles an hour.

The 1964 legislation - and we are going back 9 years now - which created this district specified its reason as not being any problem with the bus operation that we just described, but rather, and I am going to quote, "It has become increasingly apparent that the Metropolitan Transportation Authority is unable to solve the transit problems of the southern California area and provide the needed mass transit system." Funds to complete the necessary planning and preliminary engineering were provided by the 1966 legislation.

In separate legislation, the required affirmative vote was reduced from 67% down to 60%, and a one-half cent sales tax was identified as alternative financing to what had been adopted by the voters five years earlier in San Francisco, that being the property tax. In November 1968, this proposal failed.

The following year, the District proposed the exclusive busway project which is now nearing completion.

The following year in December 1971, soon after the Governor signed the Transportation Development Act of that year, sales tax on gasoline, the District announced its plans to build the so-called central line as the first leg of a \$5 to \$6 billion dollar rapid transit system.

Current study, now in its second stage, has as its primary objective to resolve the modal and corridor conflicts that resulted from that announcement. This study, like its predecessor, is being financed at no cost to the District, but is a combination of federal and state funds. As of last June, the District still held \$1.1 million of the State appropriation of 1966 for the planning study which led to the bond election in 1968. But when the dispute arose in December of 1971, \$200,000 of this money was set aside to match \$400,000 of federal money to perform the study which is now in progress.

The Federal Senate-passed version of the highway appropriation bill would allow local communities to use some of their federal funds for either roads or transit. The

House-passed version does not. The conference committee has not yet started to work.

The fundamental difference between the 1968 completed study and the current study is, first, who is going to make the decision. The decision in 1968 was made by the local voters. The end product of the current study is a grant application filed with the Federal Department of Transportation. Before we will see any major action regarding rapid transit development under the present state of affairs, we have to obtain a local concurrence, cities and counties, in the priorities and modal preference of a particular line. A grant application will be prepared, submitted to Washington, where, hopefully, it will be approved. In all probability, it will only be a design approval first. Design will commence and, approximately two years later, it would go through the same process for construction approval. At this time, of course, an exact schedule in the future of when this will occur is, of course, conjecture.

If we go back to November of 1971, the month the Governor signed the bill, and we were in this room and addressed ourselves to the issue of what does the future hold for us, it is probably doubtful that we would anticipate that in April 1973, we would be holding a hearing concerning the fundamental issue of how does the district allocate its resources between sustaining the existing operation and long-range improvements?

And that we would have a group of five consulting firms attempting to resolve disputes regarding which line should come first and what should be the hardware -- fixed rail?

CHAIRMAN WALSH: Excuse us, just a moment.

Senator Wedworth?

SENATOR WEDWORTH: I would like to be very sure of the figure you just gave us on consulting firms. Did you say five?

MR. VOSS: There are at present five. Well, some are joint ventures; there are more than five, but, basically, there are five contracts.

SENATOR WEDWORTH: You would say five prime contracts?

MR. VOSS: Yes, sir.

SENATOR WEDWORTH: Thank you.

CHAIRMAN WALSH: Senator Mills has a question to ask.

SENATOR MILLS: Mr. Voss, this is a question I intended to ask after your testimony was over, but I think perhaps this is an appropriate place to put it.

MR. VOSS: I think it is over.

SENATOR MILLS: What?

MR. VOSS: It is over.

SENATOR MILLS: Okay. Which reference can we quite accurately say that this hearing is about? How the District plans to allocate resources available to it, or what priorities it will assign.

I was very disturbed, and have been disturbed on a number of occasions, at the attitudes expressed by the

District and by the District's chairman that the 325 money is going to go for bus operation, which, I might say, is contrary to the law - but we will get into that shortly; that is, they are going to have to have amendments to the law. Before we get to that point, the report that was presented to the people, the final report in 1968, indicated that for each dollar spent on that bond issue, there would be \$1.87 in direct and indirect benefits. Do you recall that?

MR. VOSS: Yes.

SENATOR MILLS: Right. Now each dollar invested in rapid transit development under that program would result in \$1.87 in direct and indirect benefits, and that was before the passage of the 1970 Urban Mass Transit Act. That was assuming that the District, itself, and the taxpayers of the District would pay effectively 100% of the cost. They would get \$1.87 for each dollar they put in.

Now we have UMTA operating and I do not think any line is going to be built without their full participation. I don't think anybody disagrees with that. Their participation is two dollars for one; so each one dollar the taxpayers of the district put up will qualify for two dollars of federal funds. And for each of those three resultant dollars, you get \$1.87 in benefits. So, you get to the point of it being almost \$6 in benefits for each dollar that the taxpayers here put up, or each dollar that is assigned to it. Do you agree with that?

MR. VOSS: So far.

SENATOR MILLS: So far, okay. Now, we have as an alternative proposed by SCRTD that it is appropriate to expand lines which you say, quite accurately, are less productive lines, less productive miles, or they would have been in operation before. Now, has the District come up with a ratio? What ratio do they have as opposed to this? If they took these dollars from 325 and got almost 6 to 1 for them, are they getting a comparable amount for the new lines that they have included, which are necessarily marginal lines or wouldn't they have been in operation before?

MR. VOSS: I don't believe the District approaches it that way, Senator.

SENATOR MILLS: Well, how else can you approach it when you are allocating priorities? It is a hard thing to do.

MR. VOSS: No, I'll agree. We reviewed the board minutes back to the year one. There is no evidence that there has ever been an approach along those lines.

SENATOR MILLS: You're kidding! How can you --- how can they assign priorities for expenditures of dollars available to them without considering the benefits that are derived from the expenditure of a dollar for one thing as opposed to a dollar for another? You are not kidding me? You're telling me the truth; that they have never considered the comparative benefits in the

expenditures of the dollars available to them?

MR. VOSS: The District is under considerable pressure from every area here to expand the existing services. So, relatively recently, they have developed a rather structured mechanism by which they hope to foresee which of these various bus expansions would be better to make over some other bus expansion, and has set aside a specific amount of money more or less to take care of that. But as far as taking up that broader question, there is no evidence of that at all.

SENATOR MILLS: Do you think there is any other valid way of making these comparisons?

MR. VOSS: No.

SENATOR MILLS: It is the only valid way.

MR. VOSS: No; no other way that I can think of.

SENATOR MILLS: There isn't any other way. And they just haven't been doing it. I hope you know they haven't been doing it.

MR. VOSS: Well, as we said, there is no evidence of it; I don't know they haven't, but there is no evidence.

SENATOR MILLS: Well, that is the first thing that they should answer; even before \$30 million in deficit on the retirement fund. This is the most critical question because of the amount of money that is available. What they are proposing to do is to take all of the 325 money for bus operations, they told us the other day, and then go to the people for an increase of some sort to finance

something else, without reference to which is the most economical and beneficial expenditure of the funds that they do, in fact, have available to them.

Mr. Chairman, you postponed the meeting; I don't think you postponed it long enough. If they do not have the answer to this, we ought to postpone the next meeting until they do, if it is until next year or the following year. They should not be allowed to proceed with any of these things until they have some indication as to what the benefits are from the money they spent. Is that right? Do you agree?

MR. VOSS: That would be a rational approach, yes.

SENATOR MILLS: When you come right down to it, the question that they are trying to present to us, in saying that we have got to amend 325 so that they can continue to operate on the present level, is that they admit there is a crunch arising, but the danger is in allocations. That the requirements under 325 are that 75% of the money to be spent be spent for capital outlays: that this is going to catch them, and they are going to require some changes. Otherwise, Mr. Gilstrap said, they would have to cut routes or raise fares. Now, I do not think that is true at all; I won't even ask you that question. I will ask you another question.

The city of Long Beach, which is within this area, has, I think, five cents on the tax rate and, I'll say, for maintenance of their bus operation. I know that the

city of San Diego has ten cents; Sacramento has ten cents. AC has more than that. In each of these cases, the local tax rate has been presented to the public and they have been asked, "Do you want to maintain the bus system on an appropriate level and, if so, are you willing to vote to maintain it?"

Now, is there any reason that anyone can think of that SCRTD should be different? Can you think of any reason?

MR. VOSS: No.

SENATOR MILLS: That the question of the present levels of bus service or improved levels of bus service should not, in fact, be presented in the same way that it was to the voters in my district; where they say, "If you want it, it costs money."

MR. VOSS: No reason.

SENATOR MILLS: The statement that Mr. Gilstrap made that the only alternatives are to cut service, to raise fares, are not true. There is this other alternative that all these other areas of California have had to go to.

MR. VOSS: There is only one other major area of the country that has a lower level of support, and that is Chicago; and that appears temporary. Boston and New York. . .

SENATOR MILLS: But, basically, what the transit district is talking about doing now when they say they want this money for buses, and then they want to go to the people for a vote for increased taxes to build another

system, they do two things: One is, they avoid judging between the benefits of the two; the other is, they say, "This is something we'll do without a vote of the people." Dr. Topping said they are pursuing both equally. If they are pursuing both equally, then they have to also submit the question of this present level of bus service and present bus fares to the same kind of vote. They are surely not in compliance with the law. But it seems to me their first obligation is to take the amount of money available to them and decide how they can spend it most beneficially; that they are not entitled to get off the hook this way and say, "We are going to take this for buses; and then if you guys want transit, you can vote yourselves a tax raise."

CHAIRMAN WALSH: I might remind you, Senator Mills, that back in 1965 the Legislature gave the right and the mandate to the Board of Supervisors to impose a taxing program to finance rapid transit, or transportation, in southern California - Los Angeles area - which the Board of Supervisors chose not to do. Consequently, it became a problem with the SCRTD and the State Legislature. But they have had that right since, I believe, it was 1965.

Whether they pursued it or not was, of course, a political situation of whose ox was going to be gored; and they chose, very soundly in their own good judgment, to lay it on the back of the State Legislature. And, after all these years, the State Legislature then finally came

up with the 325 money. I think that is what Senator Mills is disturbed about; that they are only permitted 25% of these funds for an operating deficit, which would be about \$10 million, and they are not in compliance with the law as far as the 25% limitation, while incurring deficits at this rate.

SENATOR MILLS: Well, Mr. Chairman, they may well be at the moment. But the point that they raise is that they cannot comply with the law as it stands. Mr. Gilstrap says they would have to ask for an amendment; and the alternatives, as he described it, were increased fares and lower service. I think they just have to go like anybody else, like all these other districts have gone, and make their case to the public for the level of support that is needed. I don't see why they are entitled to any different treatment than these other operations, and why the effect of their amending the law in this case, for this one district, as large as it is, is not going to be a desirable effect in these other areas where they had, in fact, gone forward with necessary local support.

But the whole thing --- you come to another point, and that is that there was, in fact, proposed a central line in December 1971, and they sprang it, as far as I can tell, on everybody. That may have been the reason for its failure. They came out of the blue, and the city of Los Angeles was upset with SCAG and various others, when, if they had not done that, if the thing had been worked up

beforehand, so that they had a proposal that would have been accepted by the city, they would have had the city's participation, in addition to the county's. Their present position would not be what it is, would it?

Presently, they say they need all this money for buses; but if they had done that, where would they be? In other words, it was their proposal and if everybody had gone along with their proposal, their present position would have to be different, wouldn't it? They cannot say that they need all this money for buses, if they are peeling off an amount of it for the development of the line. What would the status of transit development be if that had been agreed to? If it had been properly conceived, and if the proper groundwork had been done, and it had not been a totally new line, and so forth? That is, a new line to everybody that was presented this.

MR. VOSS: Well, as I mentioned before, some of the 1966 funds, a little over a million dollars of State funds, that could be used only for planning was held by the District. We are now using \$200,000 of that for this current study, which is being matched by federal funds. So presumably, as a minimum, that amount -- that is, the \$1.1 million state fund and matching funds -- could be used for design of whatever was agreeable within the community.

SENATOR MILLS: I remember something from Mayor Drapeau when I was in Montreal once, and he said what the city of

Los Angeles needs more than anything else is to build one line. And if you build one, you won't have to worry about proceeding with the next one. The argument will not be whether you will proceed with the next one, it will be an argument as to who gets it. You have to break the ice. I think of him as a very intelligent, wise politician.

There is one point that you made, Mr. Voss; you read the act. Perhaps you can refer back to the language where the act in 1965 said it is apparent that the MTA is unable to solve the transit problems of southern California and develop a needed mass rapid transit system; therefore, we are creating SCRTD. Right? Do you think that there is any reason that the Legislature should not reach the same conclusion today about the SCRTD that it reached about MTA in 1965?

MR. VOSS: Well, there has been over \$5 million or more spent on planning. And, as an extension of the Shirley Freeway idea, which was first tried in New York, we are going to realize the benefits in our 11-mile El Monte exclusive busway, which is a demonstration project to demonstrate the viability of this type of solution. But beyond that, I cannot identify anything significant.

SENATOR MILLS: I cannot see that we are any closer, really. I have expressed myself; and, of course, the reports you referred to from Claremont College predated my opinion. There are a number of others who think that there is a

substantial advantage to having a separate organization to develop a transit system; not necessarily to operate it, but at least to build it. You need to give somebody that responsibility. It seems to me that perhaps we didn't realize it when we created SCRTD; that we weren't fair to them in giving them two separate, conflicting responsibilities. We tell them they are supposed to operate buses, and we tell them they are supposed to operate the transit system.

There is a limited amount of money, as you described. There is a good deal of political pressure; there is one councilman or another who wants lines to his district, regardless of what the return might be or the number of riders that he wants to take to those homes. I might say I am sure if there had been more money in 325, it simply would have meant more, and less productive, additional lines.

Now, did we create a kind of schizophrenic organization? Did we put them unfairly into a situation where they have a dilemma? Where they have to fight for two different things? Do we solve that by designating someone else, or creating someone else to build a rail rapid transit system, or whatever is decided upon? It seems to me that as good as AC is, and I said this yesterday in Sacramento, as good as they are and they are a very good bus operator - I might say I am satisfied SCRTD is, too - but if they had been responsible for building BART, I am sure it wouldn't be built.

But a separate agency was created to do it. They had no other responsibilities, so they fought for that and did it. Now, is it reasonable to say that maybe we need to do the same thing? Maybe we need to create an agency that has just as its responsibility building a system. Or, maybe I should just say, what are the advantages and what are the disadvantages you can see in our present situation as opposed to that situation?

MR. VOSS: Well, the principal disadvantage is that there is in the Bay Area some difficulty in resolving the problem as to what extent AC Transit will become a feeder service to BART; but that is going to be resolved, and those problems might have existed if it was a single-purpose agency.

Of course, the principal advantage you described is exactly the same thing that was described to me by the BART first general manager, John Pierce, who was the director of Finance under Goodwin Knight and who was the BART general manager from its founding until the passage of the bond issue in 1962. He described it almost the same way: "We've got nowhere to go. That issue has to pass because we are out of business if it doesn't. We cannot fall back on anything else."

CHAIRMAN WALSH: I want to interject one thing here, Senator Mills, since you were talking about the 325 money. Isn't it true that the assumption --- and, of course, we go by assumptions out of the federal government

and its grants --- but isn't the assumption that there is in the neighborhood of \$43 million a year coming to the SCRTD proportionately, as their share? Isn't it a fact that it is closer to the actuality of \$31 million this past year?

MR. VOSS: Well, this is a partial. . .

CHAIRMAN WALSH: That is what is actually received?

MR. VOSS: Yes, it is a partial year; because the tax became effective July 1, and it takes three months before any money starts forwarding. It has to go to Sacramento and then flow back down to the counties, and then SCAG decides. . .

CHAIRMAN WALSH: You mean, after SCAG takes out their administrative costs and after they skim it, in other words, as the recipient of the federal government.

But, anyway, isn't it a known fact that there is a threat of a gasoline shortage here in California, and amongst other states? It could be possible, and as long as we are assuming, the federal government has held back on everything else. We never did get our money for the Sylmar earthquake that was promised. The law was passed back in 1970 and there still has not been one nickel sent to the aid of southern California for restoration of that area, just as an example. But isn't it a fact that at some time we could assume that with a gasoline shortage in the State of California, this would not only affect, but it would reduce the amount of income coming in to supply the

SCRTD with 325 funds?

MR. VOSS: That would have a very serious impact throughout the whole country. It would have a very serious impact in North Dakota, because a good share of the gas tax that is raised from vehicle usage in this county is spent in North Dakota. So, everyone would be adversely affected financially.

CHAIRMAN WALSH: All right. I just wanted to bring those points out. But one of the reasons that, after consulting with different people, I chose to put off the second hearing was because after studying the audit report here, all of these questions came up about the retirement fund and also a member of the board's being in the position he was at the time, I thought maybe it would be a good idea to audit the retirement fund. I know this would take a little time since it has never been audited and there are \$19 million in assets and they are \$30 million in the hole. I think there should be an audit of it and I am going to initiate a request to the Joint Legislative Audit Committee to audit the retirement fund. That was one of the reasons for the delay.

I think the other reason, that Senator Mills brought up previously, would be another good reason for the delay, so we can get an idea of what priorities are really most important with the dollars that you get in the matching fund, and what is the most important way to spend those dollars for the benefit of the general public.

Would you care to continue, or are you. . .

MR. VOSS: We have concluded, Sir.

CHAIRMAN WALSH: All right. Do you want a brief conclusion to this?

SENATOR MILLS: I would like another question, if I may?

CHAIRMAN WALSH: All right. Senator Mills has another question.

SENATOR MILLS: One is, can you help us establish the cost benefit ratio on some of these new lines, or is that up to the District? Do we have to ask them to do it?

MR. VOSS: The District is responsible for the figure you quote, \$1.87. There was some dispute in 1968. The Detroit interests raised some questions about the validity of this. The pros and cons are described in some detail in the Claremont report. Now, I think it would be inappropriate for any other agency to start work on that. Just as Rand Corporation reviewed those figures, then, subsequently, Claremont issued a criticism of the criticism of the figures, I think we would have to follow that same course; because, obviously like any budget which is based on unknown future circumstances, the budget we are reviewing today, to some extent, will be affected by what the economic conditions are 13 to 14 months from now. By the same token, these projections which involve direct and indirect benefits involve opinion. And I think it would be inappropriate for someone else to take the initiative. It should go back to the board and, as you pointed out, the

board needs to make the decision.

SENATOR MILLS: Is there any way that we can make them vote? That is to say, we are responsible; we set up this agency; we imposed the tax that they are living on now. People in the district did not impose it; the Legislature provided for it. It is all our baby. We have a responsibility. Now, is there any way that we could make them figure into their order of priorities for expenditures the cost benefit ratio for those expenditures, like anybody else would do?

MR. VOSS: Yes, I believe there are two options, Senator. You can create the type of organizational structure you have in the Bay Area, where it is just automatically decided by the separateness of the organization. You have to have a planning organization which has some greater strength than SCAG and MTC. There is a difference between that organization and SCAG. SCAG, being voluntary, has a very difficult time reaching any decisions of the magnitude that MTC can, because it is statutorily created. That would be one option.

The other option would be to amend the 325 language, specifying, in a general sense, that before funds could be spent for either of those two main functions, an analysis would have to be prepared to the satisfaction of the Board of Directors to demonstrate the wisdom of the amounts either set aside for future rapid transit development, or spent for current operations.

SENATOR MILLS: Do you think that would be the best requirement? That we require the District, itself, before it expends these funds, to have a cost benefit analysis made for its benefit?

MR. VOSS: You could then require SCAG to review it, or someone else to review it, as an alternative to changing the organizational structure.

SENATOR MILLS: Well, we sure have to change what's going on, in my opinion.

CHAIRMAN WALSH: Wasn't SCAG appointed as a temporary recipient for the federal funds because at that time there was nobody in Los Angeles County to receive those, and scrutinize those funds?

MR. VOSS: That is true, Senator. But the Federal Government is attempting to assist this type of organization to, in effect, lift themselves up by their own bootstraps. Thus, prior planning studies, but prior to the ones we are talking about here - the study to determine the line priority - the applicant for such studies was RTD, if it involved transit. Currently, SCAG is the applicant. RTD cannot directly receive any funds. They have to . . .

CHAIRMAN WALSH: I know, but that is because of the lack of a commission to receive them in Los Angeles County. There is no regional agency in Los Angeles County and, temporarily, the Federal Government appointed them as the recipient. And, of course, it is my own considered opinion

that they are an organization by their own creation, of organizing cities. At least they were when I was Mayor of the City of Huntington Park. It was either join them, or they may do something without you. So consequently, they created themselves.

MR. VOSS: It is a voluntary. . .

CHAIRMAN WALSH: It is on a voluntary basis; and now they are handling all the money.

MR. VOSS: Yes.

SENATOR WEDWORTH: Mr. Chairman.

CHAIRMAN WALSH: Yes, Senator Wedworth?

SENATOR WEDWORTH: This question regards insurance. Does the District insure itself, or do they purchase insurance?

MR. VOSS: Both. It is basically self insurance.

SENATOR WEDWORTH: Basically?

MR. VOSS: Yes.

SENATOR WEDWORTH: Then, I assume that cost would be found - I am looking at page 33, and under disbursement of funds, I assume that would be included in the cost of operations, which is \$354,102,000?

MR. VOSS: Yes, Sir.

SENATOR WEDWORTH: That is where?

MR. VOSS: Yes.

SENATOR WEDWORTH: Thank you.

MR. VOSS: The details would be on page 36. The fourth item down from the top is insurance and safety. The

District's payment for premiums and also its payments under self insurance programs would be included in that item.

SENATOR WEDWORTH: Do you have a breakdown? We are talking about \$23 million annually.

MR. VOSS: Yes, Sir. We can have it for you right after lunch.

SENATOR WEDWORTH: Thank you.

CHAIRMAN WALSH: I would like to ask a question. You are talking about since the inception of the SCRTD, receipts of the farebox, federal grants, and state grants since 1965, you are talking about the receipt and expenditure of over \$400 million. Isn't that true?

MR. VOSS: That is correct.

CHAIRMAN WALSH: That is almost a half billion dollars. Senator Mills has another question.

SENATOR MILLS: Returning back to another subject, Mr. Voss. I had mentioned that SCRTD is trying to get by without ever going to the people for a vote as to whether or not they want to maintain present levels; or what levels of bus service they want to maintain. I would like to address myself to that problem, briefly, again.

It seems to me that a policy that is followed by state and local government in many different fields would be appropriate to apply here. And that is: in an area, you get some credit for what it is doing itself. That is to say, I think Long Beach, where they do tax themselves to maintain

bus service, is entitled to something for that. And it would seem to me that it would be appropriate, in the allocation of Los Angeles County's share of funds, to build into 325 at least the factor that would grant money to those areas that were making local contributions. What is your response to that?

MR. VOSS: I have to agree with that Senator, for this reason: In our opening remarks, we said the major issue was to make the allocation between sustaining and improving the existing system, which averages a little over 12 miles an hour, and some other system. And I mentioned that in some areas where the place of residence is proximate to the place of employment, a relatively high percentage of the commuters do use the service. But, as the average distance between the place of employment and the residence increases, percentage falls off.

Now, because the City of Sacramento has supported its bus system for more than a decade, the effect of 325 was to reduce or eliminate in total the zone fares.

Now, the difficulty transit has financially is that its total cost is very obvious, compared to automobile driving. In last night's paper, the federal transportation department released mileage figures again for the various types of vehicles, which pointed out basically what everyone knew: if you drive a 2-thousand pound vehicle, you only use 40% of the gas that you use if you drive a 5-thousand pound vehicle. But this is a campaign to

educate us as to what is the total cost of driving a vehicle.

So this is why the main problem of transit, from a financial standpoint, is that its costs are very apparent to those 600,000 people that entered this central business district this morning. What it would cost them to take the RTD bus in, there is just no question. But I submit that if you asked the majority of the "Well, now, how much does it cost you to drive your private vehicle here?" --- a high incidence would not be very close to what the actual figures are.

Now, in Sacramento, by removing the zone fares, we now have, in effect, equalized the disadvantage the long-term commuter has for public transportation, because the cost of the automobile per mile is not very obvious. In fact, just to know what the gasoline costs are requires a computation of average price per gallon, divided by average cost per gallon, times trip length. I submit, just like various weights in the grocery store, you need a slide rule to determine that just for your trip here to this building.

So because the City of Sacramento, for well over a decade, has chosen to support its transit system --- and it cannot eliminate that support now because of the state, beginning last June --- so the net effect is that we have eliminated the disadvantage that the long-distance commuter has in Sacramento to use public transit. And I submit

that is the thing you really have to do if you are going to build a truly rapid transit system. Because rapid transit doesn't mean much if I am only going 6 blocks.

SENATOR MILLS: The unfairness of this, though, the present situation, is the people in Long Beach who are getting no credit from 325 money. There is no factor in for their contribution. They are prohibited by 325 from doing what SCRTD is doing. They can't now say, "Well, if SCRTD is going to get by without any local tax support, whatsoever, of transit, why should we have any local tax support? We're not going to contribute any more; we're going to wipe out our 5-cent contribution." And at that point, the State says, "Fine, you can't have anything." But SCRTD can continue to operate on the same basis without any local contribution.

So it seems to me that it is just a simple matter of equity to give people in areas where there is a contribution being made -- to give them some benefit as the result of their making their contribution; recognize this in the formula. If I were living in the City of Long Beach, I think I would be unhappy about it.

MR. VOSS: The present situation?

SENATOR MILLS: Right. The fact that I have a tax on me and I cannot get out from under it because the State won't let me; and I am not getting anything for it from the State; these fellows that live across the city line in SCRTD, they are getting bus services basically

being supported by this tax that was imposed by legislative act. And they are getting it for nothing.

CHAIRMAN WALSH: Have you summarized your entire thing? How about questions from the members of the committee?

I have one that I want -- a couple that I would like to ask. Is there any question that you can think of, offhand, right now, that we could conclude with?

On page 21 of your report, your audit, the last paragraph goes into other expenses. It says: "In 1968, the prior rapid transit planning costs provided from operations which had been capitalized and were included in the assets in the amount of \$1,747,000 were written off and included in the expenses of that year." I wonder if you could expand on that a little bit?

MR. VOSS: The District, in effect, is required to keep its books two different ways. The bond indenture, which, as I mentioned before, goes back two decades, requires the traditional government fund accounting. The State of California has well over two hundred funds; these are treated in a bookkeeping sense as separate entities. In a business sense, it is meaningless.

At the turn of the century, transit was blue chip stock. So it is obvious that to operate transit as successfully as possible, we must employ regular commercial accounting practices. But still it is a government agency, so we keep books two different ways. These were costs

that were incurred prior to the passage of Senate Bill 2, Extraordinary Session of 1966. These were out of the farebox.

I believe in your opening comment, Senator, you referred to statements made by the prior president of the District that the expenditures have all been made. These are those expenditures that were referred to in those statements.

Now, by capitalize, I mean these were counted much as a business would count its fixed assets. It is going to charge them off in the future over a service line. So it was intended. And, of course, we do this at the State with all toll bridges. The planning and development costs are, in effect, capitalized and the Division of Highways generally pays for them. They recover these costs out of the tolls. So, at this time, the District capitalized the costs that had been paid by itself and its predecessor from the farebox. But with the failure of the bond election in 1968, one could conclude at that time they had no value. They were worthless. So this was the rationale before writing them off at that time.

CHAIRMAN WALSH: Are there any further questions from any members of the committee? All right, I think at this time we will recess until 1:30 sharp, because some of the members have to return to Sacramento and they have to get to the airport. I will recess the hearing now until 1:30.

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AFTERNOON SESSION

1:30 p.m., April 27, 1973

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CHAIRMAN WALSH: All right, we will resume our hearing.

I might make mention that Senator Mills has to leave at 2:30, so you might want to utilize whatever testimony you might give, or direct to his attention, prior to that time. I don't know whether Senator Kennick --- I know Senator Wedworth is still here. Senator Roberti and Senator Kennick, I don't know whether they are going to return or not. But, if they do, why, we will acknowledge that.

Wasn't there one question we wanted to ask Mr. Voss?

SENATOR MILLS: One question, Mr. Chairman, that occurred to me during lunch, was perhaps that it would be well if we could clear the air and establish the identity of the director whose activities came into question. Could you provide that information, Mr. Voss? I would appreciate it --- with the securities firm.

MR. VOSS: Yes. Wes Voss from the Legislative Audit Committee. Leonard Glickman.

CHAIRMAN WALSH: Speak close into the mike.

MR. VOSS: Yes, Board of Supervisor member Glickman.

CHAIRMAN WALSH: He was an appointee of the Board of Supervisors. Is that correct?

MR. VOSS: The SCRTD Board.

CHAIRMAN WALSH: Oh, I see---the SCRTD Board.

SENATOR MILLS: Thank you, Mr. Chairman. I thought perhaps it might be unfair to the Board to leave the question hanging and undefined. Thank you very much.

CHAIRMAN WALSH: All right, we will proceed to the spokesman for the SCRTD. Mr. Gilstrap, would you care to come forward?

I might make mention while we are waiting that these audits are public documents that are available to the public and the press at this time, and have been since this morning. I didn't feel that they should be out until the time that the SCRTD had ample time to study them and elaborate on what they bring forth. I think the Chair should, in proper form, recognize the Chairman of the Board, first of all, and then he can introduce you, and then we'll go from there. Is that all right? Mr. Gilstrap, would you mind heading this thing up? And speak closely into the mike.

THOMAS NUESOM: Mr. Chairman, the Vice-President of the Board of Directors of the Transit District. I realize the letter was directed to Mr. Gilstrap, who will be the person testifying or offering the information to this committee, however, if permitted, I did want to say just a couple of words. First--in appreciation of the District Board of Directors--and I did have a brief statement that would take less than three minutes that I would like to read. May I do that?

Mr. Chairman and Senators, my name is Thomas G. Nuesom. I am Vice-President of the Board of Directors of the Southern

California Rapid Transit District and, as such, speak for my ten colleagues. You have asked that at this meeting the District, through its general manager, comment on the report of the Auditor General relative to the operations of the District over the past eight years. And, we are prepared to do so. However, before calling Mr. Gilstrap, our General Manager, to make an in-depth comment, I would like to just make a few brief observations.

CHAIRMAN WALSH: Well, of course, as you know, we set the precedent of what we were going to do here today. And actually, I intend, as Chairman of the Committee, to go along with that ground rule, so to speak. And, I don't feel we should deviate in any way, shape, form or manner from the issue that is before us today, which is primarily the Auditor General's Report on the Southern California Rapid Transit District. We requested this report, or this audit; we now have it. It has certain remarks in it--certain facts in it--that we've referred to all morning. And, I think that's what we ought to direct our attention to. At the time that we have another hearing, which will be at a later date, why then we can go into any of the other areas of presentations that you want to make. I don't care to deviate from the agenda.

MR. NUESOM: Thank you, Mr. Chairman. My comments were going to simply be with respect to the report in the District. But, I do not intend, and it is not my desire in any way to deviate from the desires of the Chairman; so, Mr. Gilstrap, you may proceed.

CHAIRMAN WALSH: All right, we do have your comments in writing and I am sure that we'll all take note of it, but I want to get right to the Auditor General's report and audit. I think that is the mutual feeling. We appreciate your request, Mr. Nuesom, but I think that is the consensus and general opinion of the committee that is present.

JACK GILSTRAP: Thank you, Mr. Chairman and Senators. I do have an extensive response and I would hope that I can present the facts to you because I know you are very interested in getting the detail and the background on various matters you have discussed.

My name is Jack Gilstrap. I'm the General Manager of the Southern California Rapid Transit District. We welcome the opportunity for a full public discussion of the issues presented in the report, because, certainly, they're basic to the decision on rapid transit that will be before the voters at election time next year.

CHAIRMAN WALSH: Mr. Gilstrap, pardon me for interrupting. Do you have any copies of your testimony that you haven't passed out to the members, so we can kind of follow along?

MR. GILSTRAP: Oh, I'm sorry. I thought that they had been presented to you.

CHAIRMAN WALSH: Thank you.

MR. GILSTRAP: I'm on the top of page 2. Now, Mr. Chairman, and members, I shall address myself to the key issues in the report.

The summary and findings of the report of the Auditor General deal with a rising deficit, revenue trends, fares, miles of operation, fare structure, patronage, direct cost of labor, retirement plan contributions and planning functions. Very general comparisons, sometimes with the transit industry and other times with our pre-1971 activities, are expressed by percentages. It behooves us to bring to light some hard facts.

Urban transit, both bus and rail, is a labor-intensive industry. In other words, there are two prime factors that govern rising costs of operations for the most part--that is, the level of service a transit operator provides and inflation's effect both on wage and salary costs and on prices.

This year the cost of wages, salaries and fringe benefits will be about 82% of our entire operating costs. Over the years beginning with 1966, this ratio of 82 to 18 has not varied substantially in our all bus operation and I might add for example, that this is the same ratio experienced by the Chicago Transit Authority on their combined rail and bus system. Direct wages to bus operators were 41% of our operating budget in 1966 and were 42% in 1971. The cost of repairs to revenue equipment was 9% in 1966 and dropped to 8% in 1972. Insurance and safety costs have risen from 5% to about 8% in 1972.

CHAIRMAN WALSH: Mr. Gilstrap, I want to point this out. As we proceed, members of the committee may want to ask you certain questions, to elaborate on certain areas of that.

And the one that brings it to my mind--that the cost of repairs to revenue equipment was 9% in 1966 and dropped to 8% in 1972--does this also include outside contractual repairs and maintenance? In other words, when you---

MR. GILSTRAP: I'm talking about the maintenance of our rolling stock, primarily the rolling stock, which we do in house.

CHAIRMAN WALSH: And you have no outside maintenance by contract, outside contractors?

MR. GILSTRAP: Oh, I'm sure that we may have some. Do we have any at all? Well, now maintenance on this building and that sort of thing? I think there may be some minor window cleaning and that sort of maintenance, but the bulk of our costs are in equipment, rolling stock, buses, and other rolling stock--trucks and such--and that is done in house.

I'll have a little more to say about our retirement costs which have risen from 4% to 10% since 1966; and I'd like to talk about that a little later on. Interest payments, by the way, have decreased as our bonds have been retired.

Now, specifically, the report states that "between 1965 . . . and 1971, the District's increase in revenue was only 60% of revenue increases of the transit industry nationwide." The breakdown---

CHAIRMAN WALSH: Let me go back to this page 17 on the Auditor's Report, and I'd like to have this verified by Mr. Voss, because we have certain facts that did not coincide with what you are stipulating. On page 17 of the Auditor's

Report, it goes into the salaries and wages consisting of labor and it stipulates in the third sentence, starting from salaries and wages, it says, "The largest expenditure item is transportation, with approximately 95% of these costs being wages. The balance is of fuel and oil. The second largest expenditure item is maintenance, with employee wages comprising approximately 75% of these costs; the balance is repair parts and outside contract repair costs. Approximately 80% of the District's labor costs are charged to the two major expenditure items, transportation and repairs." Now, that's what I was---

MR. GILSTRAP: The outside repair costs? Mr. Heinle, would you join me here, please?

CHAIRMAN WALSH: Just so we can keep the record straight, would you identify yourself first?

MR. HEINLE: I'm George Heinle; I'm Manager of Operations for the Southern California Transit District.

The outside repair costs involved in maintenance are extremely minimal. I would estimate that they are less than 2% of that 25% remaining of outside costs. The parts represent 23% and that's an estimate. I don't have the numbers here, but it's about that relationship.

MR. GILSTRAP: Perhaps the Auditor General has that figure. You say roughly 2%?

MR. VOSS: Roughly, yes.

CHAIRMAN WALSH: All right, thank you. Go ahead.

MR. GILSTRAP: The breakdown of District and industry

revenue on a year-by-year basis provided in the Audit Report reveals several significant facts. First of all, through the year 1969, District's revenues as compared to a 1965 base, showed an increase equal to or greater than those for the industry as a whole. It was in 1967 that the District initiated its first increase in the base fare in more than six years, and it was this fare increase that succeeded in making it possible for the District to operate out of the farebox through the year 1968. When it became evident that rising costs of operations would result in a deficit during the year 1969 unless fares were increased again, service curtailed, or a tax subsidy provided, the District chose to hold the line on fares and service and made its first attempt to obtain the necessary support of its services from tax sources. It is at this point in time that the District's revenues started to fall behind the increases in revenue of the industry as a whole and our average fare, which had been far higher than the industry, began to come in line.

SENATOR MILLS: Mr. Chairman?

CHAIRMAN WALSH: Senator Mills would like to interrupt here.

SENATOR MILLS: There is a question that probably should be put here, Mr. Gilstrap, that a number of us who are in the Legislature wondered about. At the time we voted for that-- and of course, I did--that was a temporary increase to carry you through a given period of time. What was the contemplation of the Rapid Transit District when this money ran out?

Obviously, you didn't foresee the passage of 325 nor how it could be used. What was your anticipation of how you'd deal with your problems when this money ran out?

MR. GILSTRAP: Well, Sir, when AB 2136 was introduced and carried by Assemblyman Lanterman, it was on the basis that this was a stopgap measure, obviously a six-month, half-cent general sales tax permitted in our county to provide enough funds to develop a long-term funding program. And, we did get about two and a half to three years of support out of that legislation. And during that time, we began working on what we understood to be legislation that would provide us both operating and capital assistance; and, that legislation became AB 544, I guess it was, by Assemblyman Deddeh, which became merged into basically SB 325; and that was legislation that we worked on to help us maintain our system; and that was the direction that we were going.

SENATOR MILLS: So you looked upon 325 as the measure that picked up where that left off and that was your design?

MR. GILSTRAP: That's right. That's what we had--we made no bones about it that we felt there was a need to subsidize rapid transit service here, and to provide the rapid transit district the resources to hold the fares and to improve service, without which we would have to practically eliminate half the system over the next three or four years.

SENATOR MILLS: Why do you feel that SCRTRD should be treated differently from, for example, AC, where they went and got support from probably taxpayers from San Diego or

Long Beach or any of these other areas. It was put this morning, and I wonder why you have no feelings that the same question should be put to the voters of Los Angeles, the voters of this district?

MR. GILSTRAP: Perhaps it should.

SENATOR MILLS: Do you people want this service finally? Do you want to pay for it?

MR. GILSTRAP: I think that's a very appropriate question, Senator. Here we have a state agency, as you well know, in the Rapid Transit District, with a Board of Directors which represents the Board of Supervisors and the City of Los Angeles and all of the cities in the county, and we do our best to try to reflect what we understand to be their desires. In the case of the SB 325, this, I think, was an effort to avoid raising property taxes in terms of providing assistance to public transportation in the Los Angeles area.

SENATOR MILLS: It wasn't the intent of the author.

MR. GILSTRAP: Well, this is--I can't really argue with you on that. The rightness or wrongness of having property tax subsidy for public transportation, there, again, I don't think that we could disagree with anyone that ultimately we're going to have to have more support for transit service, if we're going to have rapid transit and a decent bus system in this county. If that is to come from property tax or sales tax or gasoline tax, whatever these sources are, it's difficult for the rapid transit district to be the initiator on that kind of a basic policy decision. I think that's

partly the Legislature's decision, partly the Board of Supervisors, the city, the elected officials in the area. I think we do our best to present the issues and hope that we will get a fair sounding of the matters involved.

SENATOR MILLS: In each of these other cases, isn't it the agency that operated the buses or the transit system that, in fact, did go to the people to ask for their approval of local property tax support?

MR. GILSTRAP: I don't think that's true in every case. Of course, in BART, the Legislature gave it a five-cent property tax without a vote of the people. In Orange County, they recently voted that new transit district into operation and gave it property tax, but it was not an operator of a bus system at all at the time. I'm not sure about San Diego.

SENATOR MILLS: I know that story.

MR. GILSTRAP: I think perhaps that was a separate agency which then acquired---

SENATOR MILLS: It was presented to the people by the City of San Diego.

MR. GILSTRAP: Yes, and they subsequently acquired the transit operation. I think that's a mixed picture.

SENATOR MILLS: The question was presented to the people, "Do you want a good public bus system, because if you do, it is going to cost you money and we are going to have a limit of ten cents on the tax rate or probably we are going to start with that?"

MR. GILSTRAP: That's right.

SENATOR MILLS: That's what they did and that's what they've done ever since.

MR. GILSTRAP: I can't argue against the wisdom of that, Senator, at all. I think that we have--things are different in different metropolitan areas. We look at the Bay Area, for example; in fact, we've got a sheet that might be of interest to you.* I'm talking about support, and I think this is a good point at which to discuss this, Senator--let's give them to the Senators here, since you will be leaving a little early. What we've done here, Mr. Chairman and members, is brought together some information that I think you'll find interesting, because it compares the Bay Area, three-county Bay Area tax support with that which is provided to the transit operation in Los Angeles County. Now, I think, almost--well, there are a couple of minor exceptions--but almost without exception, I guess you could say that in the Bay Area these tax supports have been voted by the people. But I think the significant thing is that the three-county BART area, in terms of its bus and rail support, is providing per capita there to the public transportation \$56.27; whereas, that figure in Los Angeles County is \$5.64. This, I think, almost beyond any other statistic, indicates the kind of job facing the transit operators in Los Angeles County. You look at some of the other cities in Los Angeles County, and I think that those cities can be very proud of the support that they're providing their operators. There in Long Beach, it's a per capita of \$7.86; Santa Monica, \$18.00; Montebello,

\$10.00. Look at San Francisco City-County, \$92.31 per person is going into public transportation. Now, let's look at these figures and you can see what we face in Los Angeles in terms of the population to serve, and the costs that are going to be required if we provide an equal level of funding support that they do in the Bay Area. And, as I say, most of this has come through a vote of the people there.

SENATOR MILLS: Well, of course, there are very high rates there for the purpose that San Francisco City and County has decided to carry very high deficits.

MR. GILSTRAP: Yes, that's correct.

SENATOR MILLS: In Alameda County, the rate is quite high--I forget--I think it's thirty cents per hundred that they voted. Now, you compare those, for example, with the city of Long Beach where they have a nickel--which I think would be very nice if you had--then it becomes much more reasonable, then you have \$7.86.

MR. GILSTRAP: This is what I say. Even our cities and our county which do operate transit systems, I think are doing very well in terms of their support.

SENATOR MILLS: What I'm saying is that you can go to, say, ten cents, as in the case of San Diego. They've got ten cents and it's \$5.47. You could go with a reasonable proposal to the people of this area and it wouldn't result in any such very high figures like that in the Bay Area.

MR. GILSTRAP: I think--yes, Sir, I'm glad you made that point, because it shows that we can have a very fine public transit system, rapid transit and expanded feeder

service for, I think, a fraction of the cost of what is being provided in the Bay Area.

SENATOR WEDWORTH: Mr. Chairman?

CHAIRMAN WALSH: Senator Wedworth.

SENATOR WEDWORTH: Mr. Gilstrap, though, if we compare the services that are rendered in these other areas to what you're giving, maybe the price here is too high.

MR. GILSTRAP: No Sir, I don't think so.

SENATOR WEDWORTH: That's part of it, you know.

MR. GILSTRAP: When you're looking at eleven times the public support we are carrying in passengers right now, a pretty good percentage of the total passengers being carried in transit statewide. I think it's around 25% of all the transit riders in the State of California being carried by the RTD.

SENATOR WEDWORTH: Yes, but you go right ahead with your number of miles that you have and the population and you're liable to come out in pretty bad shape there. You know everything is relative. Or you can make yourself look pretty good by using figures in certain ways.

MR. GILSTRAP: Well, I don't think that's our intent here. I think what we're trying to say is, focus on the job that is to be done, and what the financial resources might be that are required to perform that job. I will say to you that Los Angeles County is one of the most difficult service areas in the United States for public transportation. We have the largest urban service area. We have overall a pretty

low density. We have some pockets which do need a higher level of transit, which need rapid transit, but for the most part, seven-some million people--it's very difficult to serve them with public transportation without experiencing substantial operating costs. And, we're just saying that here in Los Angeles County the level of funding support for public transportation, whether it's RTD or bus or rail, or whatever, it's substantially lower than it is in California's other major urban area, and as a matter of fact, in other urban areas across the country.

SENATOR WEDWORTH: Mr. Gilstrap--if I may, Mr. Chairman?

CHAIRMAN WALSH: Go ahead, Senator Wedworth.

SENATOR WEDWORTH: I've looked over your plans for many, many years, as you know, and lived with them. And, I'm very familiar with the Los Angeles County Regional Planning Commission. They've been in operation a long time around here, too, right? And, there's no question that I can take, fifteen or twenty years ago, L. A. County Regional Planning Commission's recommendations and their adoption by the Board of Supervisors in this county, and we can see today the results of their plan. This county does not escape their plan, regardless of the 77 or 78 cities here, with the result that in 1973 in Los Angeles County we have satellites. We have complete--what do we call them--cities? South Bay, we'll name one. We'll go out to El Monte way. We really don't have to come downtown here, you know that. I don't ever have to come down here, because I have complete governmental service in the South Bay. It's all around us like that.

Did the Board or did you or your staff ever think that maybe, the way this county is planned, and the way it's developed, that you might have several complete plans instead of using downtown here as a hub, which, to me, renders any planning almost impossible? Do you have--have you done any work in that area?

MR. GILSTRAP: Oh, yes. Because the work that we are doing is based upon the input from the County Regional Planning Commission and from the Los Angeles City Planning staff, Planning Commission, and from the Southern California Association of Governments. I think the general direction, and I won't try to kid you that there is agreement on what this county ought to look like twenty years from now, but it seems to be a consensus that it will be a pattern of centers--high development and high commercial activity centers. There will be centers in the San Fernando Valley, along the beach areas, in Long Beach, in downtown Los Angeles, sort of a lineal development along Wilshire Boulevard, in Pasadena, and the San Gabriel Valley; and the job of transportation will be that of linking these centers.

SENATOR WEDWORTH: Just linking and getting away from this downtown hub? But you said that---

CHAIRMAN WALSH: We're going into future planning, Senator, and I want to point---

SENATOR WEDWORTH: And I wanted to comment--the point I want to make is right now, Senator.

CHAIRMAN WALSH: All right, go ahead and make your point.

SENATOR WEDWORTH: The point I want to make, Mr. Gilstrap, is this: You said twenty years from now--that is today. We knew this twenty years ago. That's the point I want to make, but in 1973--if I read you correctly, and recent studies-- you're still using central Los Angeles City as the hub; and I think that your job is impossible, and will always be impossible, if you continue to think in this manner. That's the point I want to make.

MR. GILSTRAP: All I can say to you, Sir, is that the studies of travel patterns indicate that these are the directions that the people are going. It's not everyone that is going to downtown Los Angeles, but a substantial portion of the potential patronage of rapid transit is going through and to downtown Los Angeles. I'm just reporting to you what the planning commissions and consultant studies all point to, and we all can guess as to their accuracy. I'm just telling you what the facts are.

CHAIRMAN WALSH: Thank you. I'd just like to point out that we shouldn't deviate from the report and I notice through this report, I mean through your presentation here, that you keep referring back to the Auditor General's Report, but you cover much territory on what the needs and what the policies set by the SCRTD should be. I think if you state any specific figures, such as revenue miles operated by certain percentages, that you should verify those figures. I have questions about what the needs are of people, the seven million people that you referred to; but by the same token, it's stipulated in here as a matter of fact that the Southern California Rapid

District's passenger increase from 1965 to 1971 was 2%.

MR. GILSTRAP: Yes, Sir. We're very proud of that, yes, sir.

CHAIRMAN WALSH: By the same token, your mileage has increased over eight million miles a year.

MR. GILSTRAP: Yes, Sir. I will be dealing with that issue as I proceed here.

CHAIRMAN WALSH: You're proud of the 2%, but the cost of that 2% on what you've acquired in other additional lines, I can't see where you can justify it.

MR. GILSTRAP: Well, let me make a point if I may, Senator. I think it is pertinent to this: The question is what is our agency's job? Is it a profit-loss statement that we are concerned about, or is it providing service? And, I think what we are trying to say to you is that we believe that where we have increased patronage 2% over these numbers of years, and the national decline has been 19%, and that we have held the fare, and that we have gone into areas like Watts, like east Los Angeles, like San Pedro, Pasadena, Inglewood, and others, which were about to lose all of their public transportation service, and we have provided the service that those folks need and desperately depend upon, we think that's part of our job. Now, granted, those increase our deficits---

CHAIRMAN WALSH: Do you also think that the population of the rest of the State should be the people who pick up the tab on that?

MR. GILSTRAP: I don't believe they are, Sir.

CHAIRMAN WALSH: That's exactly what's happening with the---

MR. GILSTRAP: How do you calculate that, Sir?

CHAIRMAN WALSH: Okay, go ahead.

MR. GILSTRAP: That's a local tax, as you know. Yes. I think that what we're saying is that public transportation has a clientele that's known as a transit dependent group. And those are people who may or may not have any other alternative to public transportation. And, I think when you see that segment of your society on the verge of not having any service at all, we have no choice, and, in good conscience, must provide that service even if it increases our deficit. In going on, if I may, when other major properties such as New York, Chicago, Pittsburgh were drastically increasing their fares in order to offset rising costs, the District held the line. In fact, the introduction of the monthly pass, senior citizens' fares, the blind fares actually reduced fares for large numbers of riders. Such changes quite obviously reduced the net revenue to the District. On the other hand, as reflected in the passenger data, they increased the District's ridership by 2%, while the remainder of the industry was declining by 19%. Such trends are indicative of an agency which is sensitive to the needs of the community, and which is responding to the needs of the thousands of citizens who cannot afford or have no other means of transportation available.

Some turn to automobiles. Many others who cannot do this because of their age, physical handicaps or economic conditions simply stay at home more often. In 1970, 4,100,000 residents

out of 7 million in the County were licensed to drive. More importantly, 14.5% of the households in the County own no automobile.

As the level of fare is increased, fewer passengers avail themselves of service. While such a fare increase usually produces an increase in passenger revenue, the recent experience of the industry indicates that some of the more drastic increases actually produce a decrease in passenger revenue and a loss of many public transportation riders.

Conversely, as fares are decreased, more people tend to use the public transportation service. Such decreases, however, have yet to produce sufficient additional riders to offset the reduction in revenue. The recent experience of the San Diego Transit Corporation in reducing their fare to a flat 25¢ from a 40¢ base fare with 10¢ zone increments up to a maximum fare of 90¢ is a case in point. Their experience for the six months following introduction of the reduced fare, compared with the same period a year earlier, was that while ridership increased 41%, revenue decreased 11%, and operating expenses increased 45% because of necessary added service.

The introduction of monthly passes by the District, the blind person's fare, maintenance of school fares and the senior citizens' fares obviously helped the District to retain ridership while the industry, as a whole, was on a serious decline. At the same time, such fare reductions are undoubtedly responsible for the failure of the District's revenue increases to keep pace with that of the industry as a whole.

We believe that the report quite accurately reflects the District's efforts to hold its fare in line since receiving a tax subsidy and not only to retain service and ridership, but to improve service, increase ridership, and to make available public transportation to greater numbers of the elderly and disadvantaged segments of our community, as well as to geographic areas of our County previously inadequately served.

The Auditor General has pointed out that prior to 1971 the District's costs were increasing at the same rate as the industry, but that in 1971 our increase was 50% above that of the industry.

In 1971 the District's costs increased from \$57,359,000 to \$64,361,000, or 12.2%. The industry's cost increase averaged 7.8%. There were two major causes for this increase. First, the District increased its revenue miles operated by 4.7% as a result of acquiring Eastern Cities and the Blue and White bus line. Second, the District's pension plan cost doubled in 1971 over 1970 as a result of much needed improvements negotiated with the unions late in 1969. Without these two major cost items the District's increase was not out of line with the industry average.

Pension plan amendments negotiated in 1969 which became effective during 1971 provided much needed improvements in retirement benefit levels and vesting after a shorter period of service. These amendments increased pension expense for 1971 about \$1,900,000 over the pension expense for 1970. As an example, the new plan enables an operator with 30 years

service to retire on a pension of \$293 per month. In 1965, his pension would have been \$70. This increased cost represents about 75 percent of the 4.4 percent District excess percentage of total expense over the industry average for 1971. Except for these increased pension costs, District's increase in total expenses for 1971 would be at rate of about 9 percent, or approximately 13 percent above the industry average for year 1971 and would place District's increase in cost between 1965 and 1971 at near par with the industry increases reflected for this period.

A third key---

SENATOR MILLS: If I might interrupt at this point before we pass this, Mr. Gilstrap--because I am leaving before too long--I'd like to ask a question before we pass over it.

You heard my comments before on the fact that you now have thirty million dollars to make up. Would you think it inappropriate for the Legislature to act to require that in future that actions by not just SCRTD, but all transit districts, or perhaps all districts, whatever, all creations of the state, carry on in such a fashion as to prevent such deficits from developing?

MR. GILSTRAP: Well, I think, first off, that we wish that the private companies had funded their pension plans, those companies we acquired in 1958, as mentioned here by the auditors. We assumed a nine million dollar deficit at that time. Today, we are funding that deficit and that is why, as the Audit Report indicates, a substantial portion of our

District's annual contributions is in prior service contributions; on page 20 of the Audit Report, you see that. I think, yes. I think public agencies ought to fund their past service. I really do. And I think that you've done it on the teachers' fund. We're doing it here at RTD so that within thirty years from now that past service will be completely, actuarially sound. I think that's a proper procedure. And I would imagine that a lot of the employees of a lot of public agencies and a lot of private companies would also feel that's a proper procedure.

SENATOR MILLS: Because, obviously, we don't want the figure to rise as a result of future negotiations with the unions that represent your employees.

MR. GILSTRAP: Well, there, now, we're getting into collective bargaining and the fact that our public employees have the right to strike and bargain collectively; and if the Legislature can put some limits on that, I think that that would be an interesting thing.

SENATOR MILLS: We're not talking about limits on that; we're talking about limit to the---

MR. GILSTRAP: On the amount of additional benefits that could be granted?

SENATOR MILLS: No, the amount of a deficit that you could create.

MR. GILSTRAP: I'm not an economist in terms of retirement funds, so, please, I'm sure you will take my comments for what they're worth. But it seems to me sound public policy that certainly public agencies should be funding prior service

requirements on an ongoing basis, and have a specific plan that shows that at a point out in the future that they will be actuarially sound. I think that would make sense.

Senator Kennick is much more versed in this area than I am and I know more of an expert in that kind of figure.

SENATOR MILLS: The question I'm raising is that do we face a danger of that point in the future becoming further and further off, as the result of future negotiations, future results; is it possible that we should legislate to make sure that as time passes we don't go from so many years in the future to even a greater deficit ten years from now, fifteen years from now--the situation becomes more profound and more difficult.

MR. GILSTRAP: I think that's desirable. Whether it could be legislated or not, I certainly---

SENATOR MILLS: I don't have a bill in mind.

MR. GILSTRAP: I don't know. One way, let's say, what is the case today in the RTD--we are funding our current and normal contribution, which, by the way, is a very comparable way with the state and other plans--it's around 7 to 8%. We are also funding on a thirty-year amortization's program the past service liability. So that within thirty years, that will be sound. Now, you could probably require that as additional benefits are provided employees in the future, the funding required to bring those into past service will also be initiated at that time. I would imagine that's possible, and probably desirable. And I'm sure that would be our policy.

CHAIRMAN WALSH: Continue on.

MR. GILSTRAP: A third key point the Auditor General raises is the national trend of a 19% decrease in transit patronage from 1965 to 1971 as compared to an increase in our patronage of 2% over the same period. The report also points out that the percentage of new service added is four times greater than the percentage of passenger increase.

We must reject any unfavorable inference that could be drawn from the latter statement. For every 100 passengers carried in 1965, the industry carried 81 in 1971. For every 100 carried in 1965 by the District, we carried 102 in 1971, a net difference of some 25%, and judging from preliminary information gathered from our annual Spring passenger check of 30 established lines we will carry even more this year. We attribute this to providing better and more service and to stabilization of basic fares since mid-1967.

Additionally, to the extent the District has successfully resisted the patronage down-trend and has even increased patronage, we are contributing to the solution of environmental problems faced by this area.

You will be interested in knowing that according to the last cordon count by the City of Los Angeles, more than 30% of the persons entering and leaving the Central Business District cordon during the peak hours do so on our buses which comprise only one and one-half percent of the vehicles entering and leaving. During the entire 24-hour period, our buses carry 21 percent. This in itself is a significant

factor in protecting the air and in keeping peak hour congestion within tolerable limits.

The report indicates that even at the 1971 level, District's average fares were still higher than the national average, (page 13 of Report). The fact that the District held the line on fares at the 1967 level is one of the major elements contributing to a more favorable passenger trend than the industry average. The report clearly shows that where the fare was increased on an industry basis during the latter part of the study period, (page 13 of Report) the quality of service (Miles - page 10 of Report) has substantially declined and fewer passengers are using the service (page 11 of Report). This results in increased costs and an increase in pollution and traffic congestion for the individual bus passenger and for the public at large. The disadvantaged persons who depend upon public transportation as their only means of transportation are the ones who are required to pay the additional cost of a fare increase. As fares increase, patronage declines because many who have the option of using an auto will do so. This is the old domino effect that you all know about; passengers decline, raise the fare, cut the service; passengers decline, and you just spiral right on down, down the road.

CHAIRMAN WALSH: Mr. Gilstrap, most of your deficit that you're incurring here has been because you've acquired defunct lines; because of the need, as you stipulate through your whole report, or your whole summary here; this is what the people need; what the people want. You're doing your job because the people demand it. Although the people themselves,

as a whole, refuse to support it, or have in the past refused to support it. Now, what you're saying here is that these poor people are the ones required to pay the additional costs of the fare increases, but you have no limits on creating larger deficits by acquiring defunct, non-profitable bus lines. Now, how do you account for that? After all, if you didn't create the deficit to start with, why, then you wouldn't have to increase the fare.

MR. GILSTRAP: Well, Sir, what you're suggesting is that we not provide service to areas such as Watts and east Los Angeles and San Pedro, is that correct?

CHAIRMAN WALSH: No, I'm not suggesting that.

MR. GILSTRAP: Well, what do we do when those private, defunct companies go out of business?

CHAIRMAN WALSH: Well, the people as a total and as a whole of Los Angeles County refuse to support it, or have in the past.

MR. GILSTRAP: Now, I'm not sure I understand what you mean, Senator.

CHAIRMAN WALSH: Well, by a vote of the people, they refused to subsidize this with a taxation program.

MR. GILSTRAP: No, that was a rapid transit bond issue. There was no operating money in that program, Senator.

CHAIRMAN WALSH: Well, the point I'm trying to bring out here is that they refused to support it from any other place in the County. By taking on these additional bus lines, which creates your deficit, then, if you didn't do that, and you

didn't create such a great deficit, you wouldn't have to increase the fare.

MR. GILSTRAP: Well, that is only a part of the requirement to increase fare. I grant you that the thrust of what you're saying is true; if we did not acquire those defunct lines--in fact, if the RTD or the MTA had never been established to acquire the defunct LATL and MCL in the first place, we wouldn't have any public transportation to speak of today, and we wouldn't have the subsidy problem facing us. So, I think--I find it hard to see how a responsible, publicly-operated, public transit system could turn its back on those segments of our society which probably need public transportation more than anybody else, even though it increases our deficit.

CHAIRMAN WALSH: But you still have to pay for it.

MR. GILSTRAP: Yes, Sir. That's right.

CHAIRMAN WALSH: That's the point of the whole thing.

MR. GILSTRAP: But it's the people who are paying for it.

CHAIRMAN WALSH: The people are paying for it, but if you keep increasing the deficit they're going to pay more.

MR. GILSTRAP: That's right.

CHAIRMAN WALSH: Continuous---

MR. GILSTRAP: That's right.

CHAIRMAN WALSH: And, as I asked you in my office in Sacramento a month or so ago, I asked you if you were going to continue creating the deficit; it's two million dollars a month this year. What's it going to be next year? And your

answer was that it may be three million dollars. Then, next year and the year after, may be four million dollars a month.

MR. GILSTRAP: That's absolutely correct, Senator.

CHAIRMAN WALSH: And that's without any type of--it's just going to actually put you in the position of either bankrupting the SCRTD if you do not get a new subsidy of funds, or if we do not change the law---

MR. GILSTRAP: No, Sir.

CHAIRMAN WALSH: ---or you're going to mandate, in order to save the SCRTD, you're going to have to mandate a taxation program on the people.

MR. GILSTRAP: First off, let me state one thing. The RTD, by reason of our trust indenture, will not be bankrupt, because what you do when you are faced with a condition that you do not have the resources to meet your obligations, you cut your obligations back or find another source of assistance. I won't argue with you that public transportation, as almost every public service, is going to cost more as years go by. And if anything approaching what the EPA people talk about happens in Los Angeles, in terms of the price of gasoline, or gasoline rationing, the costs of public transportation are going to be even greater than we're contemplating here. But that seems to me to be something that is a basic, fundamental, public policy. The RTD cannot resolve that question. I think we can point out this situation but I think it's up to those who make public policy to help resolve that.

CHAIRMAN WALSH: Why didn't you go out for a local tax

to support it instead of going to the Legislature?

MR. GILSTRAP: We went to our local community and we posed a lot of alternatives. And we had good support in Los Angeles County for the sales tax on gasoline as a means of supporting public transportation in this area. That is exactly the situation. And, I think that it would be delightful if we had the kind of public support that they have in the Bay Area, for example, which the people voted. And, I think maybe that's the way that this must ultimately evolve. But we all know, if we want to be completely candid about it, that the question of a property tax, for whatever purpose, is something that has serious political problems at this time.

SENATOR MILLS: Mr. Chairman.

CHAIRMAN WALSH: Yes, Senator Mills.

SENATOR MILLS: One last question before I leave. According to newspapers, your plan is to present a property tax to the people for development of a fixed-rail system of some sort, or some future system.

MR. GILSTRAP: We haven't established the tax source yet, Senator.

SENATOR MILLS: I see. Okay. What you've said so far, including your statement in Sacramento, is that you need relief from the provisions of the law, as it is, in order to continue operating. And that for future improvements, you will go to the voters for some kind of tax support. Is that right?

MR. GILSTRAP: Yes, that's necessary.

SENATOR MILLS: So it seems to me that the whole question that is presented here is the question of where do you go and for what? And, as you know, my complaint is that you're giving buses, as such, a higher priority, without a reference to the benefits to be derived, etc., and you're putting off other developments as something that has to be supported by a vote of the people. And my position is that if you are, in fact, pursuing both the development of rapid transit systems and your bus operations, that you can't do that. That you have, in fact, by this decision to take 325 money for buses and to put up other things for a vote of the people, that you have given one a higher priority than the other.

MR. GILSTRAP: I understand that.

SENATOR MILLS: And, in order not to assign that higher priority, you have to consider both in terms of the desirability of one development as opposed to another---

MR. GILSTRAP: Right.

SENATOR MILLS: ---one line as opposed to another, the costs and benefits to be derived.

MR. GILSTRAP: We are doing that right now, Senator, in the work that we have under way. It's not being done in a vacuum in terms of rapid transit only. It's being looked at in terms of the total system, the total operation, the existing system, the existing resources available, what would be needed of this system in order to properly service and feed a new rapid transit system. That is, the kind of thinking and

kind of work that you're talking about is underway right now. I know what you're driving at. You're saying that ideally-- now let me put words in your mouth, if I understand you-- ideally, you would like to see the total transit issue placed before the voters, and by that---

SENATOR MILLS: That is an expansion.

MR. GILSTRAP: All right, and I won't put words in your mouth. As I understand, the issue that concerns you is that by keeping the existing system and the existing resources separate from whatever issue goes to the voters, you are then putting an unnecessary handicap, or whatever, on the new system. And I understand what you mean and we are looking at that issue right now, because it gets into other areas. One of the other areas is, how do you run that new system? How do you operate it? Is this going to need a subsidy too? And so the whole question of a subsidy, does it make sense to put a major rapid transit proposal before the voters and ask for capital assistance to provide the local money to get the federal assistance to build the system, without an assured source of operating assistance. The simple fact is that in order to get the federal assistance, you must assure them, first, that you have the money to operate it, if it's built. That's part of the capital grant criteria. So, all I can say, and I can't be definitive, is that this is part of our work.

SENATOR MILLS: All right, you come back to the point that you were apparently prepared to go on that central

line, Willowbrook.

MR. GILSTRAP: Yes, sir.

SENATOR MILLS: Okay. Now that was an assignment of a higher priority to that?

MR. GILSTRAP: That's correct.

SENATOR MILLS: Some of these new lines that you're building, that you're putting in out in the San Fernando Valley---

MR. GILSTRAP: Right.

SENATOR MILLS: ---you were prepared at that point, your ordering of priorities at that point gave that a higher priority. At this point, your decision is quite different; that you will not consider such things; that you are going to take this money, you're going to ask for the Legislature to relieve you from the workings of the law so that you can take all of this money and use it for buses.

MR. GILSTRAP: When that central line proposal was made in December of 1971, we said, in effect, that we believe there is enough money if we move now to build the least expensive corridor of the five corridor proposal that was placed before the voters in 1968.

SENATOR MILLS: You see, I'm not asking for a justification of that decision. What I'm saying is that your position has changed since that time because now you say, no, you are not willing to do something else even though it might have a higher priority, even though the benefits might be greater, you are not prepared to do it. You're going to put that off and make that something to present to the people.

MR. GILSTRAP: That isn't completely the situation. Let me, if I may.

SENATOR MILLS: Rather than putting these new lines, bus lines, and so forth, saying if you want that level of service to the people, vote for that, on bus services.

MR. GILSTRAP: Well, in 1971, when we made this proposal, we said that the only way that we could see our way clear to set aside that much for rapid transit --- and if you needed participation of the city and the county in order to make it a viable project, their contribution, too --- would be if we anticipated fare increases and service cuts in the existing system over the next six, seven or eight years; something like that. We proposed that and the Board of Supervisors endorsed it unanimously; the mayor of Los Angeles endorsed it; and for whatever reasons, it did not fly in City Council over a number of things. One, where it went---

SENATOR MILLS: I have to leave and catch my airplane. But I'm not interested in numbers of reasons. It just is clear that the SCRTD has a different position.

MR. GILSTRAP: Yes, it does. There's no doubt about that.

SENATOR MILLS: It's not willing to consider such a line now because its position has changed, regardless of the priorities or benefits to be derived from the expenditures.

MR. GILSTRAP: Well, mainly because we couldn't get agreement on one line.

SENATOR WEDWORTH: L. A. City went the other way.

SENATOR MILLS: But if you could, I think your position is still changed from the earlier proceedings.

MR. GILSTRAP: If we had had agreement in 1971 on that central line, we'd be building it today; and our fare would probably be forty cents on the bus system.

SENATOR MILLS: I think if you'd done it right, you'd have had agreement.

MR. GILSTRAP: Well, I wish we'd done it right, then.

SENATOR WEDWORTH: Mr. Chairman.

CHAIRMAN WALSH: Yes, Senator Wedworth.

SENATOR WEDWORTH: Two questions because I'm going to have to bail out of here, too.

Mr. Gilstrap, do you have a policy manual from the Board?

MR. GILSTRAP: We have a set of rules and regulations which are adopted by the Board of Directors and, of course, consistent with our basic law. I think, yes; the answer is yes. That would be the operating manual, I guess you'd call it.

SENATOR WEDWORTH: Does it set forth your duties?

MR. GILSTRAP: Well, the law sets mine out in our basic act.

SENATOR WEDWORTH: Well, now the Board has room for additions. After all, the law is not rigid as you don't find---

MR. GILSTRAP: Yes, my duties and responsibilities are pretty well set out.

SENATOR WEDWORTH: And of this policy manual--is that what you call it, or you call it rules?

MR. GILSTRAP: Board rules and regulations.

SENATOR WEDWORTH: Oh, the Board's rules and regulations. That includes the operation of the entire system?

MR. GILSTRAP: Yes. Well, it includes how the Board, itself, will operate. Of course, they are the governing Board and the policy-making Board, and approve everything that happens in terms of operations.

SENATOR WEDWORTH: Thank you. I noticed today--is there more than one member of the Board here today?

MR. GILSTRAP: I don't believe so.

SENATOR WEDWORTH: I wonder why the Board isn't here. It's their responsibility. Could you tell me why the Board isn't here? Anyone?

MR. NUESOM: Could I answer that, sir?

Thomas G. Nuesom, the Vice-President of the Board. The letter was fairly specific that you only wanted to interrogate Mr. Gilstrap, and you wanted his comment on the Report. We met; we had an executive session to determine, or at least try and decide whether we should come in force, or I should come to make a statement on behalf of the Board. But because of the wording of the letter, we decided that we would like to be invited, and I came to make the brief comment that I was really not able to make. But our idea was to certainly provide every information, or all of the information that the Committee wanted and to engage in every kind of discussion that's possible, because we really feel the need to have you understand the problems that the District has, and what we

are trying to do, and the direction that we're trying to give Mr. Gilstrap, in the total problem. And, we have met and tried to resolve all of the policy questions that have come before us, and we've done so in good faith, and we've worked hard at it. It is a Board, as you know, that's just gentlemen who come in and give their time, and we've spent a lot of time---

SENATOR WEDWORTH: How often do you meet?

MR. NUESOM: We meet twice a month. We have committee meetings preceding Board meetings and all of the members of the Board attend at least two committee meetings preceding each Board meeting. And we go through the entire agenda, all of the matters involved, very thoroughly. I have been very impressed---

SENATOR WEDWORTH: These committees you referred to, they consist of members of the Board?

MR. NUESOM: Yes. These are all Board committees that deal with the problems of the policy of the District.

SENATOR WEDWORTH: How many committees do you have?

MR. NUESOM: The total number of committees? There are four standing committees and an executive committee that meets by the call of the President.

SENATOR WEDWORTH: How many members of the executive committee?

MR. NUESOM: There are five members of the executive committee: The president and the chairmen of the four standing committees.

SENATOR WEDWORTH: Do you think you have too much to

do on a part-time basis?

MR. NUESOM: We are restricted from--let's see--there are certain restrictions with respect to what the Board can do. I have raised, I have the money---

SENATOR WEDWORTH: Is this PUC rules you're referring to? In the codes, one or the other?

MR. NUESOM: Yes, the act that created the District---

SENATOR WEDWORTH: Wait, I'm getting some nods back behind you, Sir. I assume that's part of your staff.

VOICE FROM AUDIENCE: Public Utilities Code.

SENATOR WEDWORTH: PUC code generally lays down the restrictions of the operation of your Board, or it says how you shall operate?

MR. NUESOM: Yes, that is correct.

SENATOR WEDWORTH: Is this 100% PUC operation?

MR. NUESOM: We operate totally under the act.

CHAIRMAN WALSH: Yes, we have the copy of the code here that stipulates all the rules and regulations of the creation and the operation of SCRTD.

SENATOR WEDWORTH: You know, I have a feeling that maybe you might need some additional power. I don't know. I would hope that you'd study this problem. I kind of have a feeling that it is between staff and the Board, and the Board has the power, whatever the power is, it's in the Board. That's kind of-- it is like the old part-time city councils. You're part-time; the staff has to run the thing; you don't have time to look and see what is going on so you ratify

whatever they recommend. Isn't that about the way you operate?

MR. NUESOM: No, we don't ratify whatever they recommend.

SENATOR WEDWORTH: How do you get information?

MR. NUESOM: That's what I was indicating. The Board meetings, the committee meetings are extensive. Personnel matters were presented to the Personnel Committee, if I might cite you an example. At the last regular Personnel Committee that was scheduled for an hour, it was obvious that we were not going to be able to resolve those problems. We have a Personnel Committee meeting scheduled for 8:00 a.m., preceding other committee meetings, on next Tuesday in which we intend to go into the matters that were presented in depth. And this has been the policy of the Board, or Surface Operations Committee. When there were issues that required the attention of the Board to arrive at a policy decision that we felt to be the best, in the best interests of the District, as many meetings as were required, we attended them. And, as I said, I have been impressed with the dedication of the members of the Board resolving the problem. The resource problem, and the political pressures that this District must operate under, since we---

SENATOR WEDWORTH: Oh, would you please get into that?

CHAIRMAN WALSH: Just a minute, Senator. I think we're deviating from what the---We're involved in policy now in other areas and I think if we're going to follow the area of fare increases, of finances, where you were in your presentation, Mr. Gilstrap, I think we ought to, as these things

come up, then it's good to involve yourself in them. But I think it's going to get all out of proportion if we don't hold a precedent here and refer to the particular points when Senator Mills left, that he brought forth, and what you were discussing as far as finances and what the audit revealed and what your response is to it, as they come up.

MR. NUESOM: Mr. Chairman, just let me say, the policy decisions on the change of matters that Mr. Mills questioned Mr. Gilstrap about, and the other policy matters that you are raising, these were decisions made by the Board so that Mr. Gilstrap is, in effect, trying to explain the act, interpreting the action. And I think that, in large measure, it would be helpful if the Board could, and I'm sure that on any invitation all of the members would be present, if we could have the members of the Board to meet with you so that we could at least transmit our feeling in terms of how those policy decisions were arrived at, what considerations affected the determinations which we made.

CHAIRMAN WALSH: Of course, the Board reacts to what the staff really tells them, don't they? I mean, the Board takes the advice of the expertise of the staff, and then acts upon what their recommendations are. And if you really get right down to it, then the staff is the area that the Board members are making their decisions on, isn't that correct?

MR. NUESOM: In a sense. I would like to show you the background information that the staff generated on the personnel matters that we're going to be meeting on next

Tuesday. We don't take the recommendations just presented because they're recommendations. This is why we're having the additional meeting. This is why we've had a number of meetings over the past. And while we get the fifty dollars for five meetings, we've been keeping a record of the number of meetings in addition to the five that we attend each month which might be interesting to the members of the Committee. But all I'm saying, in essence, is that the Board of the Transit District is not a rubber-stamp operation of recommendations by the staff. The men on that Board are men, and now a lady, who actually examine the material, the information presented, and we attempt to arrive independently in using the benefit of their recommendations at whatever determinations we deem to be the best.

SENATOR WEDWORTH: Mr. Chairman, I have this one closing question, if I may.

CHAIRMAN WALSH: All right.

SENATOR WEDWORTH: It pertains to some legislation in Sacramento this year. I would like to put this to Mr. Gilstrap, or either one of the Board can answer it at a later time. Do you think it would be helpful if your District, as it is, would just be left to operate the buses and we'd create another Board, or some other public entity, to operate the Rapid Transit business?

CHAIRMAN WALSH: I think that question was asked by--I don't know whether you were here or not--I think that question was asked by Senator Mills in the opening---

SENATOR WEDWORTH: Did he ask that?

MR. GILSTRAP: Not of us.

CHAIRMAN WALSH: Well, he didn't ask it of you; but he made a statement pertinent to that---

SENATOR WEDWORTH: Let me put it as a question, Senator, please. That's the question.

MR. GILSTRAP: Would you like me to respond to that?

SENATOR WEDWORTH: Either one.

MR. GILSTRAP: All right. Well, there's no perfect way to solve a problem as difficult as public transportation. Here in Los Angeles, we have the Rapid Transit District given both jobs, the bus and the rapid transit. Some of the advantages of that are: First off, over 80% of our operating people are experienced in rapid transit operations; we've got people that go back to the PE days where they never changed---

SENATOR WEDWORTH: You mean theoretically, not practically?

MR. GILSTRAP: Practically.

SENATOR WEDWORTH: You don't have a rapid transit system. How can they be a practical---

MR. GILSTRAP: Well, we had one. We were operating rail systems and maintaining electrical systems and trains up into the last--let's see, about 1960. So over 80% of our management, supervisory---

SENATOR WEDWORTH: What was running in 1960 rapidly on the rail?

MR. GILSTRAP: The old PE lines, still going down to Long Beach at that time.

SENATOR WEDWORTH: That was the last one wasn't it?

MR. GILSTRAP: Yes, sir.

SENATOR WEDWORTH: So you had how many people operating that car that you had running down there? Six? You wouldn't have six experts left around if they're not retired, would you? How many of those experts do you have, Mr. Gilstrap? You made the statement.

MR. GILSTRAP: Well, I'm saying to you that a substantial portion of our management and supervisory personnel have experience in rapid transit, and all of us have experience in public transportation. I think that is one advantage with this agency carrying the job forward.

A second advantage that I think is very important is that the way the planning function has evolved today under the federal requirement, it's really no longer a single agency function anyway. The study that is going on today is under the auspices of the Urban Mass Transit Administration in Washington. They are funding two-thirds of it. It is their criteria which must be met for any federal participation. The money goes then through the Southern California Association of Governments; then, to the Rapid Transit District to do the day-to-day work. Our study is being carried out in joint participation with the City of Los Angeles and the County of Los Angeles, the Orange County Transit District, the Division of Highways, LARCS, and civic groups which are involved and interested. It is really a group process today.

SENATOR WEDWORTH: You mean a can of worms? Wouldn't

that be a better description of this mess?

MR. GILSTRAP: Well, I certainly wouldn't want to call it a can of worms.

SENATOR WEDWORTH: Well, I'm going to call it that because that's what I see when you get SCAG and the communities--I'm referring only to Los Angeles County.

MR. GILSTRAP: But please don't blame us for some of those---

SENATOR WEDWORTH: Well, those create that situation.

MR. NUESOM: Might I just add one other factor, Senator. In terms of the fact that this ultimately has to be carried to a vote of the people, and we must, in some form, ask them to pick up the tab, I think that the one agency, the one operating agency, as was demonstrated in Atlanta, can make the kind of package proposal from which everyone feels they're getting something that will cause them to be interested in accepting it.

SENATOR WEDWORTH: Let me say that please do not make a comparison between Atlanta, Georgia, and Los Angeles County. You could set it down in one corner of Long Beach, for heaven sake. I just left there not long ago.

MR. NUESOM: I'm only referring to---

SENATOR WEDWORTH: It's a little cow town. Okay?

MR. NUESOM: True, I understand that, but I'm only saying---

SENATOR KENNICK: I kind of resent that.

CHAIRMAN WALSH: Being from Atlanta, he would resent

that, naturally.

SENATOR WEDWORTH: Are you from Atlanta, Joe? I didn't know that.

CHAIRMAN WALSH: Let me ask you a question, since you brought it up and you're going to take this to the vote of the people.

MR. NUESOM: Yes, in 1974.

CHAIRMAN WALSH: That brings two points to my mind. Number one, and I asked you this previously, why wasn't this taken to a vote of the people before you received, in the past eight years, and expended in the past eight years, over four hundred million dollars? And then turned around and say, "Now we're going to do something." This has been going on for eight years and that's the point I'm trying to bring out here. Next week we're going to get organized; right after we have this next survey and this next study. Things are ever-changing. I'd like to bring out, and try to get us back to the facts of finance. You stipulate in 1974 this is what your intentions are. In 1972 and 1973, and you testified as such at the Music Center, April 11, that your operating revenues were \$51.8 million; your operating expenditures were \$78 million, which left you a deficit of \$26.2 million. You also stipulated that you had 31 million dollars coming in from 325 funds, which would leave you a five million dollar balance to play around with rapid transit with. Now, if you're going to go to the voters in 1974, and the way the cost of increases, as you stipulated in my office of what they may be

per month, by 1974 you won't have any money at all or you'll be in the hole a lot more, or you won't even have the five million dollars, as far as the projection goes on what you anticipate to devote to rapid transit. How would you go about overcoming that as far as the projected intent of losses are concerned? This is just for 1972 and 1973; 1974, that's a little ways away, and five million dollars won't last too long at the rate you're going of a little over two million dollars a month.

MR. GILSTRAP: I think that is the point of the election. This program will be brought to the voters because there are not adequate funds to build the rapid transit. And we're saying that this must be brought to the voters to seek an additional source of funds.

CHAIRMAN WALSH: Then what you're saying to me is that you're working outside the limitations of the law, then, as far as the 325 money is concerned?

MR. GILSTRAP: No, sir.

CHAIRMAN WALSH: Why not?

MR. GILSTRAP: Because it's against the law to do that.

CHAIRMAN WALSH: Even if it's over a certain period of time?

MR. GILSTRAP: No, sir. I think if you were to carefully read the law, you would see that there is a provision there which provides, very specifically, that credit may be taken for capital grants which are obtained from Washington, against the 75% capital requirements; and that is the provision under

which we are operating.

CHAIRMAN WALSH: All right. Under 99267 (Public Utilities Code) of the law that you stipulate I should re-read: "at least 75% of the funds received under this article shall be used" --- it says shall, not may --- "for capital expenditures, except that the amount of federal or other state funds granted or approved for capital expenditures on a matching basis may be applied to satisfy this requirement."

MR. NUESOM: Yes, Sir.

MR. GILSTRAP: And we are complying with that, Sir.

CHAIRMAN WALSH: In other words, you don't have to use any money for rapid transit. Is that right?

MR. GILSTRAP: That is correct.

CHAIRMAN WALSH: Is that what your intentions are?

MR. GILSTRAP: That is correct.

CHAIRMAN WALSH: That wasn't what the legislative intent was when this bill was brought in front of the Legislature last year and voted on by the Legislature. It was brought out to the Legislature that this money was to put you in proper form to be able to receive federal grants. It would put you on the basis where you could utilize the taxing authority so you could receive federal grants, and that you were going to use that portion of the federal grant in order to initiate your rapid transit. And what you are telling me, on the other hand, is that you do not have to use a nickel of it?

MR. GILSTRAP: Well, Sir, you always get into a never-never land when you talk about legislative intent and I really do not wish to comment on the legislative intent. I simply comment on Senate Bill 325, which provisions you have just read and under which we are operating to improve service and maintain it here in Los Angeles County.

CHAIRMAN WALSH: Well, you heard what the author of the bill said. He said he wouldn't have carried the bill if he had known that was what your intentions were. And I think he told you that in point blank words.

Yes, Senator Kennick?

SENATOR KENNICK: May I get a clear answer to Senator Mills' last question? I am sorry he had to leave when he did because I think the air was a little foggy.

Let me ask Mr. Gilstrap about the policy of the Board regarding the Willowbrook Corridor. I think that was left quite unclear, much to your disadvantage.

When the council turned your request down, then it is my belief that you had no choice but not to pursue the corridor any further. Is that correct?

MR. GILSTRAP: That is correct, Senator; and that was the policy of the Board.

MR. NUESOM: Yes, we were told not only locally but from Washington, once it developed, that there was no point in proceeding. That there were no federal funds available until "you get together out there and you know what you want."

SENATOR KENNICK: So it was not a matter of you changing your policy?

MR. NUESOM: No, Sir, it was not, because we were very -- that was a Board policy; arrived at after considerable effort, and we had attempted to keep the various governmental agencies advised. There was some information we couldn't give them in advance that would have made it difficult even to arrive at that much of a determination, but we attempted to bring them along and give them the information. It is just the nature of the beast --- it is the way we have to proceed that made it impossible, and there was nothing we could do about it.

SENATOR KENNICK: You people have been sweating over rapid transit for a long time and the rest of us have been on the outside of it, and I suppose it is a very popular thing to project, at the moment. I don't think there is any question about the need, as we see the need or if we know the need; but what makes you think rapid transit will work in Los Angeles? Or do you think rapid transit will work in Los Angeles?

MR. NUESOM: Well, I will speak now from my point of view. I feel that it is a necessity. We have to breathe this air. I have lived here for a number of years; I have developed an allergy as a result of what I consider to be the condition. In any event, rapid transit is a must for Los Angeles County.

I have, in meetings with the Board of Supervisors,

reached the conclusion that that is the way they feel. They have made it very clear, each of the five members of the Board of Supervisors, as late as two weeks ago, that rapid transit in their opinion is a must. And they want to know why, as apparently you are concerned, we can't get on with getting the rapid transit started. Well, the first step of that, as indicated, is a vote of the people that we are going to ask in 1974. And if we get the approval, we will have rapid transit; and we hope to build into that proposal.

SENATOR KENNICK: Do you think the voters' opinion has changed considerably since the last time you asked?

MR. NUESOM: That have been breathing the air for that much longer and suffering with the rather long parking lots that we call freeways. I think they are ready; and it is again a personal opinion. But we have to deal with the situation. It is there every day. And if we don't approach it with a positive attitude, and go out with the intention that for those people who are not yet sold on rapid transit, we have to sell them; because we have to survive in this basin and the only way we are going to do it is with rapid transit.

SENATOR KENNICK: What is your opinion, Mr. Gilstrap?

MR. GILSTRAP: I agree with that, Senator. There are so many reasons why we must have rapid transit. There are some discussions today about the energy crisis that this country is facing and the fact that we cannot continue to

rely virtually, solely, in this community, as an example, on the private automobile. That our community cannot tolerate more and more freeways, forevermore. All of these things say that a grade-separated rapid transit system, which will provide truly a competitive ride and a competitive service with the private automobile, must be built in Los Angeles if our community is going to continue to prosper, not to mention the environmental matters that Mr. Nuesom has pointed out so well.

We know, too, that with the right kind of a rapid transit system, we stand to come to grips with some of our operating costs; not solve them, but make some improvements, because a high-capacity rapid transit train is not as labor-intensive as a bus operation.

I am not suggesting to you that it is the solution to the cost situation, because it isn't. Because when you go rapid transit, you pick up some additional kinds of costs; a higher level of employees in terms of training and expertise required. But we think it has a lot of advantages and we just know it must be done.

SENATOR KENNICK: Speaking of energy crisis, what are your plans in the event we get into gas rationing, or 75¢ or \$1.00 a gallon for gasoline?

CHAIRMAN WALSH: It is going to cut down on their income as far as 325 money is concerned; isn't that correct?

MR. GILSTRAP: Well, Sir, let me -- I think that is a very pertinent question right now when we are talking about

transportation, generally, and bus versus the longer-term requirements of rapid transit.

First off, on the 325, Senator, yes, it would reduce to some extent, but only a minor extent, our 325 assistance in that SB 325 does not depend on the gasoline sales tax; it is a general sales tax. So while gasoline sales might go down, it would be an indirect and not a tremendously significant effect.

CHAIRMAN WALSH: It might also be an added incentive to force the people to ride buses, too.

MR. GILSTRAP: Well, that was what I was going to get to, that I think our passenger revenues would substantially increase. But we were asked this question and are continuing to be asked this question by the Environmental Improvement Agency; and we projected that if we are to meet the 1975, 1976 or 1977, or whatever year it ends up being, standards in this area, that our existing system must be substantially expanded, maybe by three or four times. But that will not do the job unless we are also provided exclusive uses of some surface streets, lanes, freeways, and parking facilities and all that goes to expediting transit service. We think we can help a lot, Senator, on meeting that need if we do ration gasoline, but certainly the system we have today would be far inadequate to do the job.

SENATOR KENNICK: One more question, Senator Walsh, and I will quit.

I have heard reference a time or two to an amendment to 325, I presume, to loosen it up for the benefit of SCRTD. Is that correct?

MR. GILSTRAP: Well, Sir, we have said that we think that the arbitrary 75% for capital and 25% for operating is an unrealistic percentage. And we would. . .

SENATOR KENNICK: I know that which you were talking about. Now what other areas of legislation do you see as being as helpful to your organization? And I use the word "helpful" in its very nicest sense.

MR. GILSTRAP: There are a number of areas, and some of them are very difficult areas, legislatively, I think.

We feel that there are some ways that we might improve the fact-finding procedures in our act, which have to do with our handling of labor relations. There are some technical things that might be before the Legislature. We are one of the few transit operators in the country that cannot charter our equipment. We have tried, year after year, in the Legislature to have that right returned to us. It was taken from us in the early 1960's. Other transit operators, some of them, get substantial revenue from this.

SENATOR KENNICK: What revenue are you losing as a result of being unable to charter your buses?

MR. GILSTRAP: That is a very difficult one to come up with, Senator. All I can do is give you some comparative figures; some of the other transit. . .

SENATOR KENNICK: Just give me a ball-park figure.

MR. GILSTRAP: Well, five to ten percent; that is probably a generous figure. I would say it is probably around five percent, maybe. But that is something that we would have to make a guess at, really, because it has been ten years that we have been out of the business. Some of the other properties, Oakland, for example, in 1971 earned 4.3% of the revenue from charter; San Diego 7%; Sacramento 25% of their operating revenue; Long Beach 13%. So we are somewhere, conservatively probably, around 5%.

SENATOR KENNICK: Incidentally, Long Beach has received more publicity here today than they have since they bought the Queen Mary.

MR. GILSTRAP: Well, we do what we can, Senator. That is a good operation that you have there.

SENATOR KENNICK: That's right.

CHAIRMAN WALSH: It would be about \$3 million at 5%, wouldn't it, if you. . .

MR. GILSTRAP: If it were that, yes.

CHAIRMAN WALSH: Three, three and a half million dollars if it was five percent.

SENATOR KENNICK: There are areas of legislation, then, that could be helpful?

MR. GILSTRAP: Yes, Sir. There certainly are.

MR. NUESOM: We would like the opportunity to present those to you, formally, if we might.

SENATOR KENNICK: Other than an amendment to 325?

MR. NUESOM: Yes.

SENATOR KENNICK: All right; Mr. Chairman, Mr. Gilstrap has a long way to go in his testimony.

CHAIRMAN WALSH: Yes, I was going to suggest that we. . .

SENATOR KENNICK: You are going to hold further hearings, aren't you? I am going to have to leave.

CHAIRMAN WALSH: All right. We are going to hold another hearing. We haven't set a date yet and it has to be put in the file before the date. I think we are kind of drifting into what your presentation may be at a later date by going into the planning of rapid transit and referring to it.

If you are going to have to leave, Senator, I think what probably a good procedure would be --- we have your testimony and it is made public. At the suggestion and consideration of what is left of the committee -- of course, they are all thinking the same thing I am thinking; none of them are riding buses to get home and they are going to have to hit the freeway. Of course, Senator Kennick has to go to Long Beach, which is really not a clear shot on a Friday afternoon. I think at this time we will postpone any further testimony until we get into our other hearing, as soon as we can schedule it. We will get into that and complete your presentation; then go into what you want to present.

One of the particular reasons why the postponement was considered, too, is that you anticipate making your

presentation in the early part of June; isn't that true?
Somewhere around the first of June?

MR. GILSTRAP: We are shooting for June or early July.

CHAIRMAN WALSH: You know, if we could do that, we could do it at the same time and it might accomplish a lot more. You could make a one-shot presentation. That way you would have the State involved with your presentation instead of having your own presentation at, say, the Music Center, or something like that, at your own convenience. This way you could probably get a lot more attention from the State of California. Make it an in-depth presentation for your own particular use, and, also, for the benefit of what the audit has brought forth, as far as planning is concerned, in the future financing of the RTD.

MR. NUESOM: I might say, Senator, I concur. I think that is an excellent suggestion. We have this problem of trying to bring along the other governmental agencies so that they are aware, and the supervisors or the City Council won't feel that we brought it first to the State in such a way as to have them offended. So I am going to take the responsibility, working with Mr. Gilstrap.

CHAIRMAN WALSH: I think that would be the best thing. Then the entire Board can be there; also the staff and whoever or whatever interested parties, whether they be elected or whatever.

MR. NUESOM: Right. They could be involved.

CHAIRMAN WALSH: I want to thank everybody for showing up here today. I appreciate your attendance.

I didn't get to thank the other Senators; they left before I could thank them, but thank you, Senator Kennick. And thank everybody for being here.

We will hold these hearings in recess, then, until our next hearing.

Thank you, very much.

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PER CAPITA TRANSIT SUBSIDIES

| <u>Jurisdiction</u> | <u>Population</u> | <u>1972-73 Local Subsidy To Transit</u> | |
|---|-------------------|---|-------------------|
| | | <u>Total Amount</u> | <u>Per Capita</u> |
| BARTD (3-County Total) | 2,354,900 | \$132,515,000 | \$56.27 |
| San Francisco City And County | 703,300 | 64,921,000 | 92.31 |
| Alameda County | 1,080,700 | 46,829,000 | 43.33 |
| Contra Costa County | 570,900 | 20,765,000 | 36.37 |
| San Diego County (Area Served by San Diego Transit Corp.) | 1,055,004 | 5,771,000 | 5.47 |
| Los Angeles County Totals* | 6,884,108 | 38,804,927 | 5.64 |
| SCRTD Jurisdiction | 6,884,108 | 32,445,000 | 4.71 |
| City of Santa Monica | 89,366 | 1,635,000 | 18.30 |
| City of Long Beach | 361,000 | 2,839,000 | 7.86 |
| City of Montebello | 45,000 | 459,519 | 10.21 |
| City of Culver City | 37,600 | 345,015 | 9.18 |
| City of Torrance | 139,000 | 390,060 | 2.81 |
| City of Gardena | 44,536 | 444,495 | 9.98 |
| City of Commerce | 10,000 | 236,838 | 23.68 |

Sources of Information: California Statistical Abstract - 1971, U.S. Census - 1970, Metropolitan Transportation Commission (Bay Area), CPO (San Diego), Stone & Youngberg, SCRTD controller's office, respective City Governments, Municipal Bus Lines and SCAG.

* Total areas and populations served by transit.



SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT

1060 SOUTH BROADWAY • LOS ANGELES, CALIFORNIA 90015 • TELEPHONE (213) 749-6977

STATEMENT BY THOMAS G. NEUSOM, VICE PRESIDENT, BOARD OF DIRECTORS,
SOUTHERN CALIFORNIA RAPID TRANSIT DISTRICT; BEFORE THE CALIFORNIA
SENATE SELECT COMMITTEE ON PUBLIC TRANSPORTATION PROBLEMS IN LOS
ANGELES COUNTY; STATE BUILDING, LOS ANGELES, APRIL 27, 1973

Mr. Chairman, Senators: My name is Thomas G. Neusom. I am Vice President of the Board of Directors of the Southern California Rapid Transit District and as such speak for my ten colleagues.

You have asked that at this meeting the District comment on the report of the Auditor-General relative to the operations of the District over the past eight years...and we are prepared to do so. However, before calling on Mr. Gilstrap, our General Manager, to make in-depth comment, I should like to make a few brief observations.

Section 30001 of the California Public Utilities Code mandates the District to solve the transportation problems in the Southern California area and to provide the needed comprehensive mass rapid transit system. This is a clear expression of legislative intent calling on the District to meet all of the public transportation needs of this area...both the immediate needs being met by our bus system and the long-range needs which can only be met by a mass rapid transit system.

I can assure you on behalf of my colleagues and our staff that we are firmly committed to carrying out our responsibilities to the public...and our testimony today will prove conclusively that actions taken by the District demonstrate our commitment to improved transportation in the Los Angeles area.

Just a few short months ago, the Board took action to inaugurate four new bus lines and authorized the purchase of a small private bus operation which was being forced out of business by spiralling costs. Because of urgent needs, we have substantially improved service frequencies on sixteen existing lines. We sought and obtained financial support from the City and County of Los Angeles and the Community Redevelopment Agency for a downtown Mini-bus circulation system that has been so successful that we're doubling the size of the operation. The District has stepped in to fill transportation voids when private operators serving local areas were no longer able to provide service to the community. We have stabilized the basic fare structure since 1967, keeping the cost of transit within reach of virtually every segment of the community. Fares for the blind were lowered to a nickel in 1968...and in 1972 we were able to lower the fare for senior citizens from 20¢ to a dime and expand the hours during which this senior citizen fare is in effect. Federal funds have been obtained to modernize our fleet of nearly 1600 buses.. and these new buses are air-conditioned, equipped with more comfortable seating and utilize two-way radios for quick schedule and route adjustments and emergencies.

And the Express Busway now in very limited service during the final construction period has attracted more riders than we had conceived.

These are only a few of the improvements we have made. Mr. Gilstrap, in his statement, will elaborate on them and will inform you of others.

Our commitment to rapid transit is unwavering. Last year the Board of Directors initiated a technical study scheduled for completion this summer. The mid-summer completion will enable us to hold the required hearings in preparation to placing a rapid transit issue on the ballot in 1974.

As we see it, the report of the Auditor-General brings out three major issues...the use of public funds over the years...deficit operations in the transit industry...and finally, the status of transportation planning and the goal of mass rapid transit.

We understand from your letter that the latter subject is to be reserved for your meeting next Friday.

With that, I should like to turn to Mr. Gilstrap for in-depth comment on the report.

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Statement of Jack R. Gilstrap
General Manager of the Southern California Rapid Transit District
April 27, 1973

Mr. Chairman and Senators...my name is Jack R. Gilstrap and I am the General Manager of the Southern California Rapid Transit District.

In the Chairman's letter to us dated April 5th, we have been asked to comment today on the report of the Auditor-General dated February 7, 1973. As you are aware, the Auditor-General's staff spent many weeks examining the records of the District last summer and fall. The Chairman's letter transmitting the report on April 5 also requested us to present our transportation plans at a second meeting on May 4. I can assure you that we are most anxious to fulfill both of these charges by the committee.

Mr. Neusom, in his opening statement, cited the District Law and reiterated the strong commitment of both our Board of Directors and staff to carrying out the legislative mandate in its broadest sense, i. e. . . . to meet all of the public transportation needs of the greater Los Angeles area.

The report of the Auditor-General demonstrates conclusively that we are carrying out the intent of the Legislature within the financial constraints under which we are required to operate.

The report itself is the result of a very searching examination of the records and actions of the District beginning in 1965 extending to June 30, 1972.

We welcome the opportunity for a full public discussion of the issues presented in the report because they are basic to the decision on rapid transit that will be before the voters at election time next year.

Now, Mr. Chairman and Members, I shall address myself to the key issues in the report.

The Summary and Findings of the report of the Auditor-General deal with a rising deficit, revenue trends, fares, miles of operation, fare structure, patronage, direct cost of labor, retirement plan contributions and planning functions. Very general comparisons, sometimes with the transit industry and other times with our pre-1971 activities, are expressed by percentages. It behooves us to bring to light some hard facts.

Urban transit, both bus and rail, is a labor intensive industry. In other words, there are two prime factors that govern rising costs of operations for the most part - the level of service a transit operator provides and inflation's effect both on wage and salary costs and on prices.

This year the cost of wages, salaries and fringe benefits will be about 82% of our entire operating costs. Over the years beginning with 1966, this ratio of 82 to 18 has not varied substantially in our all bus operation and I might add for example, that this is the same ratio experienced by the Chicago Transit Authority on their combined rail and bus system. Direct wages to bus operators were 41% of our operating budget in 1966 and were 42% in 1971. The cost of repairs to revenue equipment was 9% in 1966 and dropped to 8% in 1972. Insurance and safety costs have risen from 5% to about 8% in 1972. Contributions toward retirement income plans and health care insurance have risen from 4% in 1966 to 10% in 1972, and I'll have more to say on this later in my statement. Interest payments have decreased as bonds are retired.

Specifically, the report states that "between 1965. . . and 1971, the District's increase in revenue was only 60% of revenue increases of the transit industry nationwide."

The breakdown of District and industry revenue on a year by year basis provided in the Audit Report reveals several significant facts. First of all, through the year 1969, District's revenues as compared to a 1965 base, showed an increase equal to or greater than those for the industry as a whole. It was in 1967 that the District initiated its first increase in the base fare in more than six years, and it was this fare increase that succeeded in making it possible for the District to operate out of the farebox through the year 1968. When it became evident that rising costs of operations would result in a deficit during the year 1969 unless fares were increased again, service curtailed, or a tax subsidy provided, the District chose to hold the line on fares and service and made its first attempt to obtain the necessary support of its services from tax sources. It is at this point in time that the District's revenues started to fall behind the increases in revenue of the industry as a whole and our average fare, which had been far higher than the industry began to come in line.

When other major properties such as New York, Chicago, and Pittsburgh were drastically increasing their fares in order to offset rising costs, the District held the line. In fact, the introduction of the monthly pass, senior citizens' fares, the blind fares actually reduced fares for large numbers of riders. Such changes quite obviously reduced the net revenue to the District. On the other hand, as reflected in the passenger data, they increased the District's

ridership by 2%, while the remainder of the industry was declining by 19%. Such trends are indicative of an agency which is sensitive to the needs of the community, and which is responding to the needs of the thousands of citizens who cannot afford or have no other means of transportation available.

Some turn to automobiles. Many others who cannot do this because of their age, physical handicaps or economic conditions simply stay at home more often. In 1970, 4,100,000 residents out of 7 million in the County were licensed to drive. More importantly, 14.5% of the households in the County own no automobile.

As the level of fare is increased, fewer passengers avail themselves of service. While such a fare increase usually produces an increase in passenger revenue, the recent experience of the industry indicates that some of the more drastic increases actually produce a decrease in passenger revenue and a loss of many public transportation riders.

Conversely, as fares are decreased, more people tend to use the public transportation service. Such decreases, however, have yet to produce sufficient additional riders to offset the reduction in revenue. The recent experience of the San Diego Transit Corporation in reducing their fare to a flat 25¢ from a 40¢ base fare with 10¢ zone increments up to a maximum fare of 90¢ is a case in point. Their experience for the six months following introduction of the reduced fare, compared with the same period a year earlier, was that while ridership increased 41%, revenue decreased 11%, and operating expenses increased 45% because of necessary added service.

The introduction of monthly passes by the District, the blind person's fare, maintenance of school fares and the senior citizens' fares obviously helped the District to retain ridership while the industry, as a whole, was on a serious decline. At the same time, such fare reductions are undoubtedly responsible for the failure of the District's revenue increases to keep pace with that of the industry as a whole.

We believe that the report quite accurately reflects the District's efforts to hold its fare in line since receiving a tax subsidy and not only to retain service and ridership, but to improve service, increase ridership, and to make available public transportation to greater numbers of the elderly and disadvantaged segments of our community, as well as to geographic areas of our county previously inadequately served.

The Auditor-General has pointed out that prior to 1971 the District's costs were increasing at the same rate as the industry, but that in 1971 our increase was 50% above that of the industry.

In 1971 the District's costs increased from \$57,359,000 to \$64,361,000, or 12.2%. The industry's cost increase averaged 7.8%. There were two major causes for this increase. First, the District increased its revenue miles operated by 4.7% as a result of acquiring Eastern Cities and the Blue and White bus line. Second, the District's pension plan cost doubled in 1971 over 1970 as a result of much needed improvements negotiated with the unions late in 1969. Without these two major cost items the District's increase was not out of line with the industry average.

Pension plan amendments negotiated in 1969 which became effective during 1971 provided much needed improvements in retirement benefit levels and vesting after a shorter period of service. These amendments increased pension expense for 1971 about \$1,900,000 over the pension expense for 1970. As an example, the new plan enables an operator with 30 years service to retire on a pension of \$293 per month. In 1965, his pension would have been \$70. This increased cost represents about 75 percent of the 4.4 percent District excess percentage of total expense over the industry average for 1971. Except for these increased pension costs, District's increase in total expenses for 1971 would be at rate of about 9 percent, or approximately 13 percent above the industry average for year 1971 and would place District's increase in cost between 1965 and 1971 at near par with the industry increases reflected for this period.

A third key point the Auditor-General raises is the national trend of a 19% decrease in transit patronage from 1965 to 1971 as compared to an increase in our patronage of 2% over the same period. The report also points out that the percentage of new service added is four times greater than the percentage of passenger increase.

We must reject any unfavorable inference that could be drawn from the latter statement. For every 100 passengers carried in 1965, the industry, carried 81 in 1971. For every 100 carried in 1965 by the District, we carried 102 in 1971, a net difference of some 25%, and judging from preliminary information gathered from our annual Spring passenger check of

30 established lines we will carry even more this year. We attribute this to providing better and more service and to stabilization of basic fares since mid-1967.

Additionally, to the extent the District has successfully resisted the patronage down-trend and has even increased patronage, we are contributing to the solution of environmental problems faced by this area.

You will be interested in knowing that according to the last cordon count by the City of Los Angeles, more than 30% of the persons entering and leaving the Central Business District cordon during the peak hours do so on our buses which comprise only one-and-one-half percent of the vehicles entering and leaving. During the entire 24-hour period, our buses carry 21 percent. This in itself is a significant factor in protecting the air and in keeping peak hour congestion within tolerable limits.

The report indicates that even at the 1971 level, District's average fares were still higher than the national average, (page 13 of Report). The fact that the District held the line on fares at the 1967 level is one of the major elements contributing to a more favorable passenger trend than the industry average. The report clearly shows that where the fare was increased on an industry basis during the latter part of the study period, (Page 13 of Report) the quality of service (Miles-Page 10 of Report) has substantially declined and fewer passengers are using the service, (Page 11 of Report). This results in increased costs and an increase in pollution and traffic congestion for the individual bus passenger and for the public at

large. The disadvantaged persons who depend upon public transportation as their only means of transportation are the ones who are required to pay the additional cost of a fare increase. As fares increase, patronage declines because many who have the option of using an auto will do so. There is a domino effect because as patronage declines, service is curtailed tending to create further decline in patronage.

According to the 1965-71 percentage increase or decrease chart on Page 8 of the report, a 59% increase in fares within the industry produced a 26% increase in revenue and resulted in a 19% decrease in passengers. During the same period a 10% increase in fares by the District produced a 12% increase in revenue and a 2% increase in passengers. Some of the District's increase results from additional and improved services. In any event, the RTD's net result is impressive.

Any major increase in existing transit fares would result in an increase in the use of the private automobile and would have a serious adverse environmental impact upon this particular region.

Another point to which the Auditor-General has addressed the report is the issue of acquired lines and the fact that they do not come as near to meeting their operating costs as do the regular District lines when taken as a whole.

Of course, this is true and it brings to the surface one of the major public transportation issues facing all of us who view transit as a necessary public service.

In the old PE days, the transit operator developed real estate around his system; he carried freight and mail as well as passengers. In fact, Henry Huntington made his millions not from the passenger farebox, but from the tremendous real estate boom his transit operation fathered.

When the District was created in 1964, it obviously wasn't permitted to benefit from real estate development around its proposed system. But beyond this it was not even given the authority to run charter or sight-seeing operations, or to carry mail, parcels or freight. Why?.....because charter, sight-seeing, freight, parcel and mail operations, for the most part, are profitable. We cannot lawfully compete either with such profitable operations as the expedited service from various areas to our major airports. In short, our legislative act only permits us to operate urban-type transit service, from which no major transit operator is able to make a profit or even hope to break even. In other words, if you trace it back to Huntington's PE days, public policy since then has effectively barred RTD from every transportation activity which might make a profit, and given it responsibility for the one function that private enterprise has dropped because its a losing proposition.

Looking at charter bus operation alone, all of the transit systems, both local and national to whom we have been compared on gross revenues derive a portion of their revenues from charter and other similar operations. In 1971, San Diego derived 7.1% of its passenger revenue from charter service; Oakland 4.3%; Santa Monica 5.2%; Long Beach 13.1% and Sacramento 25.5%.

We have acquired many transit operations during the period from 1965 to the present. The District has not initiated any of these acquisitions. We have either been approached by operators wishing to sell out because they could no longer make ends meet or we have stepped in to assume service when operations were suddenly discontinued for one reason or another. In either event, we view this as fulfilling an important role in the community.

In the case of the Inglewood and the Pasadena City Lines, the private companies were operating at a deficit and were unwilling to continue. The District acquired these operations in August 1967 to prevent the loss of this service to the public. These services were rerouted and integrated with the District's services to reduce cost and to provide an efficient and convenient transit service.

In January and March of 1971, the District acquired two (2) local San Pedro operations. The private operators of these services were in financial difficulty and were unable to continue. These services were integrated into the District's system operations. On April 16, 1973, the District took over the operations of the last independent operator in the San Pedro area. This will now permit the District to realign and fully integrate the San Pedro area service.

In September 1971, the District acquired the former Eastern Cities Lines. As in the case of Inglewood and Pasadena, the private operator was unwilling to continue with this deficit operation. This operation consisted of a high local use service within the predominantly Mexican-American East

Los Angeles area. In September 1971, Blue & White Bus Company service within the predominantly Black Watts-Compton area ceased as a result of labor and financial problems and revocation of its operating certificate by the California Public Utilities Commission. At the request of the local communities and their public representatives, the District moved into the area on an emergency basis and has continued to provide the service formerly provided by Blue & White Bus Lines.

Both of the last mentioned services are primarily local neighborhood services within disadvantaged minority group areas. In consideration of the special socio-economic problems of these areas, the former Eastern Cities Lines 20¢ fare and the former Blue & White 25¢ fare have been retained. Several federal and local programs for the disadvantaged are in operation in these areas and many of these people with limited incomes are completely dependent upon public transportation.

In October 1972, at the request of the Pomona City Council, the District assumed the operation of the Pomona Valley Municipal Transit System. This operation was integrated into the District's system and continues to provide a necessary service to the Pomona area.

All of these services are suburban or community oriented, whereas the total District system to which they are compared is a composite of similar suburban services and heavily patronized routes in the center of the urban area. High traffic generators and high population density areas will always produce a more favorable income to cost ratio operation than will lower traffic genera-

tors and lesser population density regional and suburban area. They are, however, necessary to a balanced area-wide multi-mode transportation system. Failure to continue to provide these services could also have a serious adverse environmental impact upon the region.

I am convinced that all of this reflects the changing role of transit which once was a profitable private enterprise and has now evolved into a true public service similar to such municipal services as police and fire protection.

The report points out the fact that labor is the largest single element of District operating costs. It also states that wage and salary increases since 1969 have been more than twice the amount of such increases in prior years.

This must be considered to be basically a correct statement. However, what this historical comparison shows was characteristic of the rate of wage change in collective bargaining situations in this area, in California and in the nation as a whole. Contracts which in 1965 or 1966 were settled for 10¢ to 15¢ per year cost 25¢ to 40¢ per year at the end of the decade or in the early 1970's. That, of course, was one of the primary reasons for the wage control authority being provided in the Economic Stabilization Act.

On reviewing operators' average wage rates paid by the dominant transit systems in the 23 largest metropolitan areas for two periods 1964-1967 and 1968-1972 we note a very close similarity between RTD wage rate increases and the average of the 23 cities. In the 1964 to 1967 period the

average annual increase for the surveyed cities was 4.5% and RTD was 3.8%. For the second period of 1968 to 1972, the industry was 8.2% and RTD was 8.4%.

In our 1969 and 1971-72 labor negotiations with the United Transportation Union representing our 2700 bus operators and the Amalgamated Transit Union representing our mechanical employees, we concluded that the only method of reaching settlements which would be equitable to both our employees and the public was to enter into the fact finding process provided for in District Law. Fact Finding Commissions of impartial experienced arbiters were appointed by the Governor and, after days of testimony in each instance, reports were issued which formed the basis of settlements. In one case last year we considered the union demands to be excessive and unreasonable and consequently the union called a strike that lasted six days and denied service to the public for seven days.

The fact is that RTD has bargained hard, but fairly in the collective bargaining process set forth by the Legislature in our law and we feel that the salaries and wages paid to RTD employees are fair and equitable and consistent with prevailing levels in our industry and community.

The report points out that the cost of the District's four retirement plans, one for each of the three unions and one for non-union personnel, is estimated to be \$5.7 million for the year 1972, which is almost seven times the 1965 cost.

In 1965, the pension being paid to a retiring bus operator with 30 years of service was \$70 per month. Today, that operator would receive approximately \$293 per month in pension benefits from the District's pension plan.

This level of pension payments is now in line with benefits received by retired employees of other major transit districts and other public agencies.

It is incumbent upon this District to provide proper pensions for our employees who have served the public for many years of their lives. We believe that the improvements in the pension plans since 1965 -- which are the basic reasons for the cost increase -- have been necessary and desirable and consistent with public policy throughout the State of California.

It is indicated that no audits have been made of the four pension trust funds. On the contrary, annual audits are made by the internal auditors of the trustee, Bank of America, and also by federal bank examiners from the Controller of Currency Office. In addition, the accuracy of benefit computations is certified by each plan's independent actuary. The Investment Boards of the four pension plans have recently arranged for the firm of Blyth, Eastman, Dillion and Company to perform quarterly, both a performance measurement of our two investment management firms, as well as a fund audit. The first report from this company is expected within two weeks.

The audit report speaks to the fact that the expected payment of benefits exceeds the funds in the trust accounts by approximately \$30 million. The amount of money referred to is principally the prior service credit which is being amortized over a period of 30 years. This 30 year amortization has been a factor in the pension plans of the District and its predecessors since 1948. Both the Southern California Rapid Transit District Law (Part 3 of Division 10 of the Public Utilities Code) and the Los Angeles Metropolitan Transit Authority Act of 1957 (Chapter 547, Statutes of 1957, as amended)

provide that whenever the District acquires a transit company, all employees of that company shall be given pension credits as well as other benefits in accordance with the records and the labor agreements of the acquired company. The District Law further provides in Section 30753 (b) that no employee shall have his pension benefits worsened by reason of the acquisition.

The District, therefore, is required by State Law to count service with predecessor companies toward RTD retirement benefits which means that we must assume the past service liability of all of our employees.

We are pleased to point out that unlike many other transit districts and private companies in the State, the RTD is facing up to this past service liability by an annual funding formula instead of attempting to pay for it at some future date out of operating revenue. Since this past service liability is a considerable factor on the level of benefits being paid our employees, we believe that prudent management dictates recognition and proper funding of this past service liability. The cost of this past service funding is a major element in the actuarial valuations and costs prepared for us by our consulting actuaries Coates and Crawford.

As an aside, it should be pointed out that without exception, the pension benefits of employees previously acquired from defunct private systems have increased RTD pension plan costs substantially.

The employees represented by the three unions of the District do not contribute to their pension plan. This is also the case in at least three other major transit properties in California, namely, San Diego, Alameda Contra-Costa, and Sacramento.

In April of last year, as pointed out in the report, the Investment Boards of the four pension funds acted to improve the earnings on the investment of these pension funds. To carry out this aim, the boards contracted with two nationally recognized and highly respected investment management firms whose duty it is to increase the return on pension fund investments. These firms operate under general guidelines spelled out by the Investment Boards.

The Investment Boards are pleased with the results of this new program so far. Since April, the earning rate of these investments has increased 50.5% to a current average of 4.25% as reported by the Bank of America.

When the Investment Boards entered into the contracts with the two investment management firms, they required that each firm use three or more brokerage houses for the handling of the transactions involved. When reviewing the first six months' experience, the Investment Boards deemed it desirable to further require that a maximum be placed on the percentage of transactions which might be placed with any single broker, and this was done. The contracts with Lionel Edie Company Incorporated and Colonial Management Associates Incorporated were amended to provide that no more than 35% of the dollar value of buy and sell orders per year could be placed with any single brokerage firm.

The audit report refers to one of the financial management firms placing over 50% of their transactions with a brokerage firm with which one of the members of the District's Board of Directors was associated. This matter was intensely researched by the District's Board of Directors and a thorough independent audit and legal review was performed of the entire

matter with the finding that the Director in question had had no financial interest, direct or indirect, of any type or kind in any transaction involving the Southern California Rapid Transit District's pension funds.

In regard to the District's overall retirement program, we believe that we are providing our employees reasonable but not excessive retirement benefits, that our funding of past and present service costs is appropriate and that the recent action taken by the Investment Boards which has increased the investment earnings rate by over 50% indicates careful and prudent management of these District pension programs. A major section of the Summary and Findings is devoted to the subject of Transportation Planning.

Contrary to what is said in the report, highway and transit planning are done cooperatively. Beginning in 1970, the Division of Highways, Southern California Association of Governments and SCRTD engaged a consultant firm to develop and install a mode split model for their joint use. This work was completed by August of the following year.

Since that time, the District has maintained a planning staff assigned directly to the joint public transit highway planning program. Since the creation of the Orange County Transit District, that agency has on occasion also supplied manpower to the study.

Periodically, the Los Angeles Regional Planning Study requests all the local planning agencies to furnish estimates of future land use, jobs and population. Once this information is obtained, it is processed through a series of mathematical models which first produce transit volumes. This number is

subtracted from the total of all trips. What remains is highway trips.

Then both transit and highway trips are "assigned" to existing and proposed facilities. In this manner, the joint highway-transit planning team obtains volumes on each type of facility, and the inter-action of alternative elements of the regional transportation plan are evaluated.

Since this work impacts the work of city and county planning and engineering agencies throughout the SCAG region, an advisory committee of staff from the agencies meets monthly to review work progress. Benefits flow in both directions since this arrangement assures the SCRTD-LARTS team of current local thinking on the continuing planning processes of the local jurisdictions.

As to the subject of the District's planning activities, Section 30636 of the Public Utilities Code directed that "as soon as practicable after the effective date of this part, the board (District) shall cause a preliminary report to be made as to a rapid transit service and system... This section further detailed specific planning and engineering studies, reports and hearing process by which the rapid transit plan was to be developed.

The District initially had no funds with which to carry out these requirements. This situation was remedied in 1966 when the Legislature appropriated an estimated \$3,900,000 to the District for planning. In the same year, the Congress adopted an amendment to the Federal Urban Mass Transportation Act of 1964 authorizing grants-in-aid of up to two-thirds of cost for public transportation planning. The District immediately formulated a

planning program to carry out the provisions of Section 30636, filed an application with the Urban Mass Transportation Administration, then under the U. S. Department of Housing and Urban Development for available Federal aid and on November 2, 1966, secured authorization to proceed.

The required Preliminary Report was published in October 1967. It identified the means for rapid transit development in the District area, and proposed an initial four-corridor, 62-mile system for the first stage of development. The cost was estimated at \$1,571,702,000. The report presented a financing plan based upon a bond issue serviced by a general property tax levy - the only feasible form of capital financing available under the District law at that time, and also discussed possible alternatives to the property tax.

After circulation of the Preliminary Report, public meetings were held to obtain the views of interested individuals, officials and civic groups. Responding to the input produced by the hearings, the District and its consultants modified the program to include 89 miles of line, at an estimated cost of \$2.5 billion. Because of unfavorable public reaction to the property tax as a financing method, the Legislature was requested to authorize the proposal of sales tax financing and such legislation was passed in 1968.

The proposal to construct the five-corridor, 89-mile system, financed by \$2.5 billion bonds to be retired from the proceeds of a 1/2% sales tax, was submitted to the voters of the District in November 1968 as Proposition A. The Proposition failed to pass, securing a 44.9% vote instead of the required 60%.

In 1969, the policies of the Federal Government were modified to permit the construction of exclusive lanes for buses in sections of the Federal Interstate Highway System where the need for such facilities could be established. The 1966-68 rapid transit planning program of the District provided the evidence necessary to secure the approvals from Federal and State governments for the financing of construction of exclusive busway lanes in the right-of-way of the San Bernardino Freeway between El Monte and Los Angeles. This project, providing for the investment of approximately \$42.9 million of State and Federal Highway Funds for a major bus rapid transit facility in one of the corridors proposed by the 1968 rapid transit plan, is a direct product of the planning program which produced the ballot proposition.

The Federal Government provides financial assistance to public transit systems through a Capital Grant Program. Under this program, the Urban Mass Transportation Administration will provide up to two-thirds of the cost of transit capital acquisitions and improvements. UMTA regulations require that a continuing comprehensive transportation planning program, involving all modes of travel and coordinated with regional land use planning, be functioning to establish eligibility for grants at a fifty percent matching level, and that a transit improvement program, which includes participation of all transit operations in the region be developed to qualify for two-thirds grants. The District's intensive planning study for the 1968 rapid transit program and its participation in the on-going transportation planning program

of the Southern California Association of Governments established eligibility for grants at the 50 percent level in 1969. The District continued work on the development of a regional five-year transit improvement plan and as a result the transit systems in the Los Angeles region became eligible for the full two-thirds level of Federal grants on December 19, 1971.

This eligibility was retroactive and the transit system received additional federal aid raising prior 50 percent grants for the full two-thirds level, not only for grants to RTD but also to grants made to municipal transit operators.

The accomplishment of this planning work has resulted in total capital grant authorization to the District of \$33,690,085, of which \$10,156,313 has been received to date on completed purchase or construction of facilities, and the balance is receivable on current and pending projects.

The transportation planning accomplished by SCRTD both in its rapid transit program development studies and in its participation in the regional transportation planning program of SCAG has created the essential body of basic transportation planning data, and the processes of applying that data to the design and implementation of public transportation improvements and ultimate rapid transit system construction.

It should also be stressed that the eligibility for federal aid for both streets and highways and for public transportation require a coordinated planning for both public and private modes of travel. The District has assumed the primary responsibility for public transportation planning within

the coordinated framework of regional planning. This is essential not only to transit progress but to the eligibility of the area for Federal funds for highway programs as well.

Coming up to the present the report describes the rapid transit planning study undertaken in October, 1972 as part of the SCAG comprehensive planning program. This study is being financed by an Urban Mass Transportation Administration technical study grant and by District tidelands oil and dry gas revenues appropriated by the Legislature in 1966.

The objective of the study is to develop an action program for the construction and operation of a rapid transit system for the Los Angeles region.

In the course of the study now about 3/4 complete, all major travel corridors are being systematically examined with respect to potential transit demand, local planning policies, economic impact, and the environment. In addition, all available or proposed rapid transit equipment is being evaluated.

The result of the study will be a proposal for a regional rapid transit system of perhaps 6 to 8 primary corridors and a like number of secondary corridors. For the primary corridors, alignments, station locations, and rapid transit equipment modes will be recommended. A specific and detailed plan for financing the rapid transit system will also be recommended.

In order to comply with the requirements of the Urban Mass Transportation Administration and also to help relieve short term air quality and fuel supply problems, the study has included an examination of interim, low-capital-intensive measures such as commuter rail operations on existing tracks

and reworking streets and boulevards to favor better bus circulation.

Throughout the study, the technical staffs of the city and county of Los Angeles, SCAG and the League of Cities (representing smaller jurisdictions of Los Angeles County) have had a bi-weekly opportunity to review and comment upon the progress of the study. In addition, we have held many briefings for elected officials and citizen groups, and have taken their comments carefully into account.

Mr. Chairman and Members, at your meeting on the subject of our transportation plans, we will be bringing you up to date on the status of the rapid transit plan and also make a presentation of our on-going surface transportation planning program.

Both Assemblyman Thomas' transmittal to you and the Summary and Findings of the report take note of the fact that the District has had receipts of over \$400 million from January 1, 1965 to June 30, 1972.

The sources and uses of these receipts are accurately stated from pages 32 to 38 in the main body of the report. Therefore, I will not take your time to discuss them at this point except to say that we are prepared to answer your specific questions and to go into any amount of detail the Committee would find informative or germane to the subject of its study.

However, the discussion of the District's receipts and expenditures in the last section of the report does raise three issues deserving of some comment. They are the technical deficiency that existed in the Operating Fund and the Depreciation Reserve Fund on June 30, 1972; the issue of operating subsidies

for urban transit; and finally the question of what the District has done with its combined receipts over the years since January 1, 1965.

The technical deficiency of \$1,284,000 in the Operation Fund at June 30, 1972 was cured in early July. The Depreciation Reserve Fund deficiency of \$7,569,000 has not been cured. It is essentially a technicality and not a cause for alarm. The Depreciation Reserve Fund was created to insure that the District acquire new assets to keep the system in good physical condition. The District has been doing this with the help of Federal funds. The Trustee fully understands the situation and has stated that no action against the District is contemplated. The District's bonds are well regarded in the investment community and are currently selling above par.

The second issue raised in the final section of the report is that of operating deficits and subsidies for urban transit properties. It is now recognized throughout the nation that viable local transit cannot operate on a self-sustaining basis. In cities of all sizes from the largest metropolitan areas to small communities, many diverse methods have been developed to augment transit farebox revenues in order to maximize the use of public transportation and to seek a reasonable balance in local transportation between the private car and transit.

Publicly-owned transit operations in major cities receive very substantial financial assistance in varied forms. For example, in the three-county BART area, the public annual financial assistance expected to be paid out to BART, San Francisco Municipal Railway and Alameda-Contra Costa Transit District amounts to \$132,515,000 or \$56.27 per capita. This includes property tax, sales tax and

general fund monies. The comparable per capita figure in Los Angeles County for RTD and the seven municipal operators is \$5.64. In San Diego, it is \$5.47.

The New York City Transit Authority lost \$200 million on its rail rapid transit operations last fiscal year and another \$18 million on its bus operations. These losses were offset by subsidies received from the City of New York and from the Metropolitan Transit Authority which has access to the profits from the very lucrative Triborough Bridge and Tunnel Authority. Another offset was a fare increase in January, 1972 from 30¢ to 35¢. The net effect of the year's operation was a decline of 71,403,000 rides and an increase in passenger revenue of \$11,644,000. This latter figure does little to solve a \$200 million loss.

The Chicago Transit Authority, on the other hand, projects a deficit of nearly \$50 million with no allowance for depreciation despite major increases in the fare structure. Between 1967 and late 1970 the CTA increased basic fares from 25¢ to 45¢, an 80% increase in fares. Originating revenue passengers declined to 386 million in 1971, the first full year during which the 45¢ fare was operative. This is a 25% decline in patronage from 1967.

During the same 1967 to 1971 period CTA operating revenues jumped from \$148 million to \$191 million, but this was more than offset by rapidly escalating operating expenses, which went from \$135 million to \$196 million. This is an increase of \$61 million, \$52 million of which was in labor costs. In recent years, CTA deficits have been covered piecemeal by various levels of government. The Authority continues to seek an adequate and predictable source

of public fund support.

Cases similar to these can be cited nation-wide from major urban areas to smaller cities.

Despite the fact that we are constantly vigilant for economies and efficiencies, we see nothing on the horizon that will lessen the need for public fund support. Urban public transportation has rapidly become a publicly-owned, true public service across the nation. The user cannot bear the full cost of this service just as those who call for fire protection or police services cannot bear the full cost.

The final issue raised by the closing section of the report is the question of what has been accomplished with the use of receipts totaling about \$400 million since 1965.

First, and most important, it enabled us to carry 1,126,700,000 passengers from January, 1965, through December 31, 1971. I should add at this point that if our patronage had declined at the industry rate, we would have carried 100 million less passengers.

We have been able to replace half of our fleet of transit type buses and purchase an initial fleet of minibuses. Federal grants have been made enabling us to purchase more of each type of bus.

All of our new transit-type buses are air-conditioned and have more comfortable seating than was available in past years.

Our newer buses are equipped with two-way radios linking them to one of the finest and most modern radio control centers in the transit industry.

And we have a federal grant approved to retro-fit the balance of our fleet.

The radio system is used for schedule adjustments and to meet emergencies occurring on the system. But, it also has a broad community benefit. Operators will frequently use the system to report fires, accidents and robberies. The radio system will enable us to respond more quickly to aid other agencies in disaster situations such as when we evacuated patients from Olive View Sanitarium during the fire in 1965 and when we marshalled a portion of our fleet in preparation to evacuate the San Fernando Valley in the 1971 earthquake.

The District was able to go to the expense of initiating the Exact Fare Plan. This plan has virtually eliminated robberies of passengers and operators. Immediately prior to the installation of the system in late 1969, robberies or attempts were occurring at the rate of nearly 300 a year. There has been another important benefit arising out of the exact fare plan. Because the operator does not have to make change, the schedules of buses on most lines have been improved by 5 to 8% and our passengers are getting a faster ride.

We have been retro-fitting most of our older buses with modern fuel injection systems that will substantially reduce exhaust emissions. We already make a very significant contribution to cleaner air. One seated bus load of 51 passengers represents 40 autos not on the road by Los Angeles' standards of 1.2 persons per auto.

Money has been used for research and development projects such as the catalytic muffler utilizing molten salts, the California Steambus Project, compressed natural gas bus, participation in a federally funded heat and venti-

lation study in preparation for the operation of rapid transit, development of a high-capacity bus with a power train suitable for busway-type operation and other programs.

RTD conceived the San Bernardino Express Busway, the nation's first, designed exclusively for buses. It is still under construction and will be for another year. After three months of limited, partial operation we are holding to a time savings for the commuter of about 35% in the peak hours.

We've been able to provide a new downtown minibus circulation system. It has been far more successful than we estimated and we have had to expand the routing once during the first 17 months of operation. We're going to double the size of the fleet to provide even more service. In conjunction with the minibus we're providing park-and-ride service from the Convention Center to the new high rise office development area, and we're looking for opportunities in the outlying areas to generate park-and-ride commuter service.

Our on-going surface transportation planning program reviews areas of potential need for new or improved service. When the need exists, we do our best to get service on the streets. Recently, we improved the service frequencies on 16 lines, initiated 4 new lines, purchased a small private operation that was in difficulty and announced our intention to work with municipal operators for a transfer interchange between systems.

We have begun to market a new subscription type expedited service for longer haul commuters in to the job-intensive central business district.

Not the least important, part of our receipts have been, and continue to

be, used in-house training programs for bus operators, mechanics, clerks, first and second level supervision and middle management to insure a source of trained management personnel. The District has led the industry in this type of training. We have also developed our own training program to teach the mechanical trade to our utility grade employees. This is traditionally a dead-ended group in the transit industry composed almost entirely of Black and Chicano employees. Now these people, through our own program, have hope of becoming skilled mechanics. We're known in the industry as innovators in training and we're proud of it.

From November 1, 1971 to date, the District has actively participated in the Emergency Employment Act which has resulted in our having employed some 53 unemployed individuals. The primary classifications of employees covered by this Act have been bus drivers, who were hired to put additional peak-hour trips on heavily traveled freeway routes, and information clerks, who have helped us improve the capability of providing schedule information to the public.

Insofar as we can determine, only one other transit property in California is participating in this program.

The funds have enabled us to maintain one of the largest service information centers in the United States. Our 72 information operators handle nearly 7,000 telephone calls daily, furnishing information on routing, schedules and fares.

These are just some of the things we have been doing to carry out the

mandate of the Legislature.

By way of summary, we have been giving the public a better ride than was possible in 1965, one that is improving every year. We are convinced we are providing maximum transit service for the public funds being made available to our agency. We are building the best possible surface system to complement the rapid transit system that will be proposed to the voters next year.

Mr. Chairman and Members, that completes my statement. The Board of Directors, staff and I appreciate your time.

