

Decision No. 5636

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of)
San Jose Railroads for an Order)
Granting Permission to Increase rates) Application No. 3788.
for the Transportation of Passengers)
on the Lines of the San Jose Railroads)
in the State of California.)

William F. James, Louis Cneal and Frank Karr, for Applicant.
Earl Lamb and Thomas H. Reed, for the City of San Jose.

LOVELAND, COMMISSIONER:

O P I N I O N

This is an application on behalf of the street railway corporation operating in the City of San Jose and its suburbs and between San Jose and Santa Clara, all within the confines of Santa Clara County.

The petition alleges that the revenues of this company are insufficient to meet its operating expenses and fixed charges, in support of which it attaches an exhibit showing a deficit of \$131,602.60 for the twelve months' period ending April 30, 1918, and directs attention to additional financial burdens already allowed and advances under consideration, concluding with a prayer that the Commission authorize increased passenger fares in accordance with a schedule to be submitted, which will permit it to meet fixed

charges and operating expenses.

FARES

The present one way fare is now five cents, except to points east of Capitol Avenue, on the Linda Vista Line, where the charge is 10 cents, with reduced fares for school children and a 30-ride family commutation fare. The system is divided into eleven operating lines, with transfer privileges to connecting cars moving in the same general direction.

Exhibit No. 2, submitted at the hearing by applicant's Traffic Manager, shows in detail the fares it desires to establish. The one way fare is increased from 5 cents to 7 cents, new stops are established and joint fares published to Alum Rock and intermediate points in connection with the Peninsular Railway Company. The Alum Rock fare is to be increased from 10 cents to 15 cents, and intermediate fares in proportion; tickets to be sold in lots of five or more at rate of 6 cents, such tickets to be without time limit and good for passage of bearer. It is also proposed to issue cash coupon books, with 125 coupons, having a transportation value of 5 cents each, to be sold at \$5.00, unrestricted in their use, and honored between any points where the fare is 10 cents or more. School childrens' 46-ride tickets will be issued on a graduated scale at practically 60 per cent the charge for adults.

A witness for applicant testified that in his judgment approximately 75 per cent of all passengers would move on coupon tickets instead of paying the straight cash fare of 7 cents, or the fares in the other zones where the charge is 10 cents and over.

Mr. Paul Shoup, the company's Vice President, did not agree that a cash fare of 7 cents, with tickets at 6 cents, would produce satisfactory results; he was inclined to the establishment

of a straight 6 cent fare, with 4 cents for school children, but suggested that the ~~subsequent~~ rates be left to the judgment of the Commission.

DESCRIPTION OF PROPERTY

The San Jose Railroads is an electric line operating a total of 42.62 miles of track. Of this mileage 27.05 is main line within the cities of San Jose and Santa Clara, 11.75 is second track, 1.40 is joint track, with 2.42 sidings and turnouts. The lines connect with the Peninsular Railway Company at Second and Market Streets, San Jose.

Applicant does not seek to secure a return based on the value of its property devoted to the public service, but is merely endeavoring to obtain sufficient revenue to meet fixed charges and operating expenses, giving no consideration to valuations. However, it might be well to state that the total book value, as shown by its annual report on file with this Commission as of December 31, 1917, was \$8,715,805.14. The company has outstanding two bond issues; the first amounting to \$1,152,000.00, secured by a mortgage dated April 2, 1906, against the San Jose & Santa Clara County Railroad Company; the second, amounting to \$1,373,000.00, secured by a mortgage dated January 1, 1910, against the San Jose Railroads, making a total of \$2,525,000.00. Interest on the first mentioned bonds is at the rate of $4\frac{1}{2}$ per cent and on the second 5 per cent per annum. In addition to this bonded indebtedness there is due the Southern Pacific Company on an open book account \$684,732.05, covering principle and interest, and applicant also has an interest liability against its bonds, matured and unpaid, of \$275,937.50, or a total secured and unsecured indebtedness of \$3,485,669.55.

REVENUE AND EXPENSES

This Commission's Auditor submitted an exhibit showing financial conditions. It includes balance sheet, income sheet, profit and loss statement and the operating revenues and operating expenses for the years June 30, 1912 to and including December 31, 1917.

It will only be necessary to produce here the Income Statement, as follows:

SAN JOSE RAILROADS

INCOME STATEMENT YEAR ENDING JUNE 30, 1912 to DECEMBER 31, 1917

| | June 30, 1912 | June 30, 1913 | June 30, 1914 | June 30, 1915 | June 30, 1916 | December 31, 1916. | December 31, 1917. |
|--|------------------|-------------------|----------------------|-------------------|-------------------|-----------------------|-----------------------|
| OPERATING INCOME | | | | | | | |
| Railway operating revenues | \$ 213,038.78 | 366,951.76 | 358,711.18 | 346,547.48 | 329,531.76 | 320,612.58 | 309,383.48 |
| Railway operating expenses | 146,666.37 | 251,188.15 | 247,932.73 | 249,463.53 | 239,929.05 | 244,630.03 | 256,605.83 |
| Net revenue - - - | 66,372.41 | 115,763.61 | 110,778.40 | 97,083.95 | 89,602.70 | 75,982.55 | 52,777.65 |
| Taxes assignable to railway operations | 8,375.72 | 14,908.31 | 18,081.38 | 19,045.75 | 20,619.45 | 19,094.78 | 20,860.52 |
| TOTAL OPERATING INCOME - - | 57,996.69 | 100,855.20 | 92,697.02 | 78,038.20 | 68,983.25 | 56,887.77 | 31,917.13 |
| NON OPERATING INCOME | | | | | | | |
| Miscellaneous rent income | 493.75 | 1,288.69 | 948.66 | 1,202.56 | 896.41 | 403.67 | 19.30 |
| Income from unfunded securities and accounts - - - | 12,245.58 | 34,865.40 | 42,332.86 | 5,368.81 | 2,908.34 | 255.35 | 224.58 |
| Miscellaneous income | - | 2.20 | - | 110.99 | 25.82 | 100.50 | 4.61 |
| TOTAL NON-OPERATING INCOME - | 12,739.23 | 36,156.29 | 43,281.62 | 6,682.36 | 3,830.57 | 759.52 | 209.89 |
| GROSS INCOME - - - | 70,736.02 | 137,011.59 | 135,978.64 | 84,720.56 | 72,813.82 | 57,647.29 | 32,127.02 |
| DEDUCTIONS FROM GROSS INCOME | | | | | | | |
| Miscellaneous Rents | - | - | - | - | 55.00 | 55.00 | 95.00 |
| Interest on Funded Debt | 66,399.25 | 134,550.00 | 142,050.00 | 124,096.67 | 122,864.00 | 122,239.00 | 120,878.62 |
| Interest on Unfunded Debt | 16,266.08 | 23,810.28 | 43,473.18 | 33,298.85 | 39,046.09 | 41,244.54 | 50,068.08 |
| Amortization of discount on unfunded debt - - - | 656.00 | 2,512.80 | 2,516.18 | 2,512.80 | 2,512.80 | 2,512.80 | 2,512.80 |
| Miscellaneous debits | - | 7,416.66 | 14,823.38 | 524.36 | 977.43 | 572.27 | 566.15 |
| TOTAL DEDUCTIONS FROM GROSS INCOME | 83,321.33 | 168,289.84 | 188,039.36 | 160,432.68 | 165,455.32 | 166,623.61 | 174,120.65 |
| INCOME BALANCE TRANSFERRED TO PROFIT AND LOSS | 12,585.31 | 31,278.25 | 52,060.72 | 75,712.12 | 92,641.50 | 108,976.32 | 141,993.63 |

Applicant's greatest operating revenue was \$366,951.76 for the year ending June 30, 1913. This source of revenue fell to \$309,383.48 for the year ending December 31, 1917. Operating expenses year ending June 30, 1913 totalled \$251,188.15, and for the year ending December 31, 1917 \$256,605.83. These operating expenses declined during the years 1913-14-15-16, and increased some \$12,000.00 in 1917 over 1916. Taxes were \$14,908.31 for the year ending June 30, 1913 and \$20,860.52 for the year ending December 31, 1917, or an increase of approximately \$6,000.00. Gross income declined from \$137,011.59 in 1913 to \$32,127.02 in 1917. Interest on funded debt shows a gradual decrease, while interest on unfunded debt rose from \$23,810.38 in 1913 to \$50,068.08 for the year ending December 31, 1917. Attention is directed to the continued and increasing net loss; for the year ending June 30, 1912 the deficit was \$12,585.31, while for the twelve months ending December 31, 1917 it was \$141,993.63.

The total railway operating expenditures have not materially increased since the peak year of 1913, but this result was accomplished by reductions in service, deferment of proper repairs to ways, structures, equipment and in the conducting of transportation.

Applicant's Exhibit No. 7 gives the actual operating expenses for the twelve months ending April 30, 1918 and the approximate expenses for the twelve months ending May 31, 1919, and shows an estimated increase in operating expenses of nearly \$20,000.00. Materials and supplies have steadily increased, some as much as 100 per cent, and labor costs have continually grown; in December, 1915, the average monthly pay of one hundred platform men was \$78.18, in 1916 it was \$81.25, in 1917 \$94.97, while for the month of June, 1918 the average for the same number of men was \$96.78, an increase of 24 per cent.

FRANCHISES

Some opposition developed from the City of San Jose as to the authority of this Commission to disregard 5 cent provisions of franchise ordinances granted to petitioner by different municipal and county authorities. Practically all of the franchises, as shown by Exhibit No. 12, provide for a fare not greater than 5 cents within certain limits. These franchise provisions would be violated if this application were granted. While this Commission gives great consideration to franchises and contractual relations entered into between communities and transportation companies, it has heretofore held that it has the authority to permit or order changes in rates when circumstances make such action necessary. (Decision No. 2816- Town of Sausalito vs. Marin Water & Power Co., Vol. 8, Opinions & Orders of the Railroad Commission of California, p. 252).

As to street railroads, the Commission has direct power under Section 27 of the Public Utilities Act:

"No street or interurban railroad corporation shall charge, demand, collect or receive more than five cents for one continuous ride in the same general direction within the corporate limits of any city and county, or city or town, except upon a showing before the Commission that such greater change is justified; provided, that until the decision of the Commission upon such showing, a street or interurban railroad corporation may continue to demand, collect and receive the fare lawfully in effect on November 3, 1914".

EMERGENCY

The facts presented reveal an actual emergency in the affairs of this applicant. Since 1913 revenues have been insufficient to even pay operating expenses and interest on bonds, to say nothing of the interest due on unsecured debts or a return to stockholders. Profit & Loss statement for year ending December 31, 1917, shows a total debit of \$645,123.08. In 1917 the net loss, as heretofore shown, was \$141,993.63.

The evidence disclosed economy in the management and

operation of the property. Wages and salaries are in some instances below the present standards, but the actual performance on the different lines appears to be reasonably efficient. In some sections the service is being performed with one man cars and more are soon to be installed. Further reductions in operating expenses can only be reached by the rendering of inadequate and unsatisfactory service.

The valuation of this property has been given no consideration in this proceeding.

The City Manager of San Jose interposed objections to the increasing of fares between San Jose and Alum Rock Park, but withdrew the same after the Vice President of the railroad had agreed to establish round trip tickets, with coupons attached, for the use of certain concessions in the park, and to protect the city against loss because of the changes in rates.

Railroads are merely the servants of the public, and the costs entering into their operations must be reflected in the rates charged. It is, therefore, to the interest of all that these street railroads and other utilities be kept from financial difficulties in order that their efficiency be not impaired during this war crisis. This applicant presents an extreme situation and even if the high cost of living, due to the war, had not developed, it would be in need of increases in rates.

I am in accord with the suggestion of Vice President Shoup that better financial results may obtain from a straight 6 cent cash fare than from a cash fare of 7 cents, with tickets at 6 cents. The straight cash fare will also remove discriminations between passengers within the street car zone.

After carefully considering all evidence submitted by petitioner in justification of the proposed increases, the statements and arguments by intervenors, City of San Jose and the Exhibit pre-

pared by our Auditor, I am of the opinion and find that the present rates of applicant are unremunerative.

I recommend that the San Jose Railroads be authorized to make the following increases: Street car fares from 5 cents to 6 cents; joint one-way fare between San Jose and Alum Rock from 10 cents to 15 cents, and to issue coupon books containing 125 coupons having a transportation value of 5 cents per coupon, for \$5.00, to be honored only between points where the fare is 10 cents or over. Also that applicant be authorized to make other adjustments as outlined in its Exhibit No. 2 not in conflict with the rates specifically set forth above.

I submit the following form of Order:

O R D E R

Public hearing having been held in above entitled proceeding, testimony having been presented, the case having been submitted for decision, and the Railroad Commission having reached the conclusion that rates now being charged are unjust and unreasonable,

IT IS HEREBY ORDERED that the San Jose Railroads be authorized to establish within twenty (20) days from the date of this order the following rates, which are found to be just and reasonable:

Street car fare, six cents,
(with usual transfers for use)
(in same general direction)
(within the street car zone)
(limits.)

Between San Jose and Alum Rock, one-way fare, 15 cents.
(Joint fare with Peninsular Railway)

Cash fare book, with 125-5 cent coupons for \$5.00
(These coupons to be honored only between)
(points where fare is 10 cents and over).

Applicant is also authorized to make adjustments at other

points, as outlined in Exhibit No. 2, not in conflict with this opinion and order.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 26th day of July, 1918.

Edwin O. Egerton
H. D. Howard
W. G. Gordon
Commissioners.