

ORIGINAL

Decision No. 6016.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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|   |   |                       |
|---|---|-----------------------|
| In the Matter of the Application of<br>Stockton Electric Railroad Company<br>for an Order Granting Permission to<br>Increase Fares for the Transportation<br>of Passengers. | } | Application No. 3803. |
|---|---|-----------------------|

Arthur L. Levinsky, for Applicant.  
Daniel B. Marceau, City Attorney, for  
the City of Stockton.

GORDON, Commissioner.

O P I N I O N

Applicant, a street car company operating in and about the City of Stockton, seeks permission to increase its passenger fares, alleging they are unreasonably low, that the revenue derived therefrom is insufficient to meet the cost of operation and furnish an adequate return upon the property devoted to the service. Furthermore, that the increase sought is necessary to provide additional revenue for the advances in wages of employees, mounting costs of materials, equipment and higher taxes.

Present tariff of petitioner provides one way fare of five cents for adults within the city limits of Stockton and like fare for two children under five years of age. Provision is also made for school children's fares by the sale of books at the rate of twenty rides for fifty cents.

Applicant proposes to increase the five cent fare to seven cents and sell tickets in books containing five rides for thirty cents.

The usual information of hearing held July 19, 1918, was given the press and notices mailed to different organizations, also posted in each of the company's street cars, notwithstanding which no objections were offered to the application, although the City of Stockton entered an appearance at the hearing through its City Attorney.

The Stockton Electric Railroad Company was incorporated December 29, 1891 under the laws of the State of California, with an authorized capital stock of \$500,000.00, all of which has been issued and is held by the Southern Pacific Company.

At the time of incorporation the company purchased from the Stockton Street Railway Company, which operated a horse car line, the road and equipment of that company and thereupon reconstructed the line into a double track narrow gauge electric road. During the year 1906 the entire railroad was reconstructed and converted into a standard gauge track, at which time new equipment and power machinery were installed at a total cost of approximately \$400,000.00. Other amounts were expended, from time to time, for reconstruction, additions and betterments, and the company's ledger as of June 30, 1918 shows a balance in capital accounts totaling \$814,984.44. The accounts of the company prior to the year 1912 were not kept in accordance with the classification of accounts adopted by this Commission, but they have been thoroughly checked by the Commission's Auditing Department, and the following is a complete statement of the fixed capital spread over accounts in compliance with the standard classification:

|                            |                  |
|----------------------------|------------------|
| Old road and franchises,   | \$192,310.92     |
| New road and franchise,    | 345,528.45       |
| Additions and betterments, | 30,049.69        |
| Construction,              | 151,339.18       |
| Equipment,                 | 83,829.17        |
| Real Estate,               | <u>11,927.03</u> |
| Total -                    | \$814,984.44     |

The following table compiled from annual reports on file with the Commission shows the income and profit and loss accounts of applicant for the fiscal years ending June 30, 1912 to 1916, inclusive, together with calendar years for 1916 and 1917:

INCOME AND PROFIT AND LOSS STATEMENT OF THE STOCKTON ELECTRIC RAILROAD COMPANY, IN DETAIL, FOR THE FISCAL YEARS ENDING JUNE  
30, 1912 to 1916, INCLUSIVE, AND THE CALENDAR YEARS 1916 and 1917.

|  | FISCAL YEAR      |                  |                  |                  |                  | CALENDAR YEAR        |                      |
|--|------------------|------------------|------------------|------------------|------------------|----------------------|----------------------|
|  | June 30,<br>1912 | June 30,<br>1913 | June 30,<br>1914 | June 30,<br>1915 | June 30,<br>1916 | December 31,<br>1916 | December 31,<br>1917 |
| <b>OPERATING REVENUE</b>                   |                  |                  |                  |                  |                  |                      |                      |
| Passenger Revenue                          | \$ 172,346.24    | \$ 189,664.03    | \$ 207,730.45    | \$ 199,044.18    | \$ 217,147.78    | \$ 218,755.74        | \$ 235,248.12        |
| Revenue from other Railway Operations      | 1,717.73         | 1,824.60         | 1,921.49         | 1,083.01         | 4,148.26         | 7,304.02             | 5,554.15             |
| Total Operating Revenue                    | 174,063.97       | 191,488.63       | 209,651.94       | 200,127.19       | 221,296.04       | 226,059.76           | 240,802.27           |
| <b>OPERATING EXPENSES</b>                  |                  |                  |                  |                  |                  |                      |                      |
| Way and Structures                         | 11,224.71        | 16,008.42        | 12,566.10        | 13,320.90        | 17,114.03        | 14,684.97            | 13,240.86            |
| Equipment                                  | 8,255.78         | 8,728.95         | 15,209.11        | 16,075.12        | 15,038.07        | 15,570.93            | 18,050.00            |
| Power                                      | 14,049.40        | 14,693.94        | 17,338.08        | 16,206.51        | 21,286.23        | 23,738.89            | 23,965.04            |
| Conducting Transportation                  | 55,302.51        | 57,272.98        | 63,311.51        | 65,396.65        | 81,619.95        | 84,955.59            | 92,303.25            |
| Traffic                                    | 2,031.80         | 3,016.57         | 2,339.76         | 2,427.12         | 2,235.34         | 1,937.54             | 2,198.59             |
| General and Miscellaneous (x)              | 9,198.61         | 10,789.02        | 17,295.23        | 16,537.20        | 41,523.10        | 43,125.62            | 21,123.79            |
| Transportation for Investment              | --               | --               | --               | .62              | 27.92            | 1,448.54             | --                   |
| Total Operating Expenses                   | 100,062.81       | 110,509.88       | 128,059.79       | 129,962.88       | 178,788.80       | 185,462.08           | 170,881.53           |
| Net Operating Revenue                      | 74,001.16        | 80,978.75        | 81,592.15        | 70,164.31        | 42,507.24        | 40,597.68            | 69,920.74            |
| <b>TAXES</b>                               |                  |                  |                  |                  |                  |                      |                      |
| Operating Income                           | 67,130.70        | 72,423.91        | 70,894.04        | 59,443.43        | 31,107.50        | 28,973.40            | 53,458.60            |
| <b>NON-OPERATING INCOME</b>                |                  |                  |                  |                  |                  |                      |                      |
| Miscellaneous Rent Income                  |                  |                  |                  | 176.00           | 41.00            | 36.00                | 101.00               |
| Income from Unfunded Securities & Accounts |                  |                  |                  | 1,838.52         | 195.73           | 110.41               | 2,864.06             |
| Miscellaneous Income                       |                  |                  | 298.17           | 601.45           | 1,188.72         | 1,851.11             | 1,159.67             |
| Total Non-Operating Income                 |                  |                  | 298.17           | 2,615.97         | 1,425.45         | 1,997.52             | 4,124.73             |
| Gross Income                               | 67,130.70        | 72,423.91        | 71,192.21        | 62,059.40        | 32,532.95        | 30,970.92            | 57,583.33            |
| <b>DEDUCTIONS FROM GROSS INCOME</b>        |                  |                  |                  |                  |                  |                      |                      |
| Rent for Leased Roads                      |                  |                  |                  |                  | 2,895.00         | 5,790.00             | 5,790.00             |
| Miscellaneous Taxes                        |                  |                  |                  |                  |                  |                      | 321.10               |
| Interest on Unfunded Debt                  | 27,193.59        |                  |                  | 7,634.60         | 854.39           | 2,128.93             | 9,031.74             |
| Interest on Floating Debt                  |                  | 27,827.69        | 18,989.83        |                  |                  |                      |                      |
| Interest on Funded Debt                    |                  |                  |                  |                  | 7,611.64         | 7,611.64             |                      |
| Total Deductions from Gross Income         | 27,193.59        | 27,827.69        | 18,989.83        | 7,634.60         | 11,361.03        | 15,530.57            | 15,142.84            |
| Net Income                                 | 39,937.11        | 44,596.22        | 52,202.38        | 54,424.80        | 21,171.92        | 15,440.35            | 42,440.49            |
| Miscellaneous Additions to Surplus         |                  | 334.25           | 24,247.90        | 11,369.45        | 884.25           | 30.18                | 61,617.88            |
| Miscellaneous deductions from Surplus      | 993.55           | 849.44           | 12,835.59        | 4,851.49         |                  |                      | 1,510.79             |
| Surplus Beginning Year                     | 98,645.59        | 137,589.15       | 181,670.18       | 245,284.87       | 256,227.63       | 280,641.29           | 246,111.82           |
| Dividends                                  |                  |                  |                  | 50,000.00        | 50,000.00        | 50,000.00            |                      |
| Surplus End of Year                        | 137,589.15       | 181,670.18       | 245,284.87       | 256,227.63       | 228,283.80       | 246,111.82           | 348,659.40           |
| (x) Injuries and Damages                   | 167.85           | 2,554.87         | 4,152.85         | 888.31           | 23,888.22        | 23,082.79            | 2,033.81             |

Passenger revenue shows a gradual growth for each year except 1915 and it will be noted this revenue was \$172,346.24 in 1912 and \$235,248.12 in 1917, an increase of \$62,901.88, or 36.5%. During the same time operating expenses advanced from \$100,062.81 to \$170,881.53, or \$70,818.72, equal to 70.7%.

The testimony and annual reports show that the Stockton Electric Railroad Company leases from the Central California Traction Company certain tracks within the City of Stockton necessary in the rendering of a satisfactory street car service. The lease provides for an annual payment of \$12,500.00; of this amount \$5,790.00 is deducted from the gross income under the caption of "rent for leased roads". The expense of this trackage right is an operating burden and if the property of the Central California Traction Company could not be rented, this applicant would be put to the necessity of building additional tracks, thus incurring increased capital investment; therefore, the sum of \$5,790.00 should be added to the operating expenses, making them, in 1917, \$176,671.53 instead of \$170,881.53, an increase over the year 1912 of \$76,608.72, or 76.5%.

Operating expenses for 1916 as compared with 1917 decreased from \$185,462.08 to \$170,881.53, or \$14,580.55. This radical reduction is accounted for by the payment in 1916 of abnormal injury and damage claims amounting to \$23,082.79, which included a damage judgment of \$18,000.00. Damage claims for 1915 and 1917 were \$888.31 and \$2,033.81, respectively, while the average of all injury and damage claims over a five-year period

(fiscal years 1912-13-14-15 and calendar year 1916) was but \$6,169.33. A deduction of \$18,000.00, representing this judgment claim, should at least be made from the \$185,462.08 of operating expenses for 1916 to secure for comparison purposes the true or approximate expenses; this would leave \$167,462.08 for 1916 as against \$170,881.53 for 1917, or an increase in operating expenses over 1916 of \$3,419.45. Taxes increased from \$11,624.28 in 1916 to \$16,462.14 in 1917, or \$4,837.86. The net operating income as shown by the preceding table (that is, the net operating revenue less taxes) was \$28,973.40 in 1916 and \$53,458.60 in 1917, but with the damage claim of \$18,000.00 paid in 1916 disregarded, for the purpose of comparison, we find after allowing the \$5,790.00 from leased roads, an operating income of \$41,183.40 in 1916 as against \$47,668.60 in 1917, or an increase of only \$6,485.20.

Applicant prepared, subsequent to the hearing, a statement of its revenues and expenses for the first six months of 1918, showing a total operating revenue of \$125,987.52 and an operating expense, including depreciation, of \$91,676.60, making a net operating revenue of \$34,310.92; after deducting taxes in the sum of \$8,533.71 and rental of leased roads \$2,895.00 there remains an operating income of \$22,882.21. Assuming that the revenue and expenses for the entire year of 1918 will be in proportion to the first six months there will be an operating income of \$45,764.42.

Applicant deducted from its operating revenue as miscellaneous taxes \$3,247.14 in 1917 and \$1,555.17 for the first six months of 1918 to cover federal income taxes; of these amounts, \$1,777.80 in 1917 and \$1,047.25 in 1918 are properly chargeable to war income taxes under the rule set forth in Decision No. 5889, November 4, 1918, Application No. 3062 of the Western States Gas & Electric Company for authority to increase electric rates. In accord with this principle the amount of federal taxes deducted from

operating revenue should be reduced \$1,777.80 in the year 1917, and \$1,047.23 for the six-months period ending June 30, 1918. With these federal war income taxes eliminated from operating expenses, there remain the following operating incomes,- for the year 1916 \$41,185.40; for the year 1917 \$49,446.40 and for the year 1918 \$47,856.88 (based on estimate of the first six months). Using these figures, applicant's operating income upon a valuation of \$814,984.44 was 5.05% in 1916; 6.07% in 1917 and 5.87% in 1918, (estimated).

The records show that the property was originally purchased in December 1891 for \$45,810.00 and consisted of a single track line operated with horse power. Immediately upon the purchase, applicant abandoned the old line and installed a double track narrow gauge road. Improvements were continually made on the narrow gauge property until 1906, when the company again rebuilt the entire line, making it standard gauge with heavy rail construction. The total capital investment as of June 30, 1918 was \$814,984.44, the greater part of which was put into the property prior to the close of the year 1906.

From December 1, 1902 to December 31, 1917, applicant accumulated a surplus of \$348,659.40, and in the years 1915 and 1916 paid two dividends of \$50,000.00 each, thus making the income balance (profit) \$448,659.40 for this period of fifteen years, an average annual return of \$29,910.62. It will thus be seen that at no time has this applicant secured adequate returns from the property devoted to the public use.

There have been substantial increases in the pay of employees during the past few years and since the exhibits presented at this hearing were prepared, additional increases in wages averaging 11% have been granted, effective July 1, 1918.

Notice is directed to the preceding table showing the cost of conducting transportation, which expense consists principally of wages paid conductors and motormen, the total increased from \$65,396.65 in the year 1915 to \$92,303.25 in the year 1917, or 41.14%. Attention might also be called to the fact that in November, 1918 the Western States Gas & Electric Company, from which source this applicant secures its power, was authorized to increase its electric rates; this further adds to the operating costs of applicant.

Petitioner is unlike many street car companies in California; it has no bonded indebtedness and serves a thriving community with no expensive lines to maintain in sparsely settled territory. It is apparent, however, that under the increased cost of operation the property cannot, with a five cent fare, produce operating expenses, depreciation, taxes and a fair return upon the value of the investment even under the favorable circumstances and a careful and economical management.

Applicant seeks authority to increase its fare to seven cents, with books of tickets of six rides for thirty cents, but this advance has not been justified by petitioner's exhibits or testimony nor by the investigation of our Auditing Department.

After giving careful consideration to the entire situation, I am of the opinion that the present fare of five cents is unjust and unreasonable and that, under the existing conditions, applicant should be authorized to establish a six cent fare, which is found to be just and reasonable.

The following form of order is submitted:

O R D E R

The Stockton Electric Railroad Company having applied under Section 63 of the Public Utilities Act for permission to increase its passenger fares, a public hearing having been held, and the Railroad Commission being fully apprised in the premises, it is hereby found as a fact that the existing five cent fare is unjust, unreasonable and insufficient and that the rate herein established is found to be just and reasonable. Basing this order on the findings of fact which precede,

IT IS HEREBY ORDERED that the Stockton Electric Railroad Company be and the same is hereby authorized to establish within twenty (20) days from the date hereof a fare of six (6¢) cents within the City of Stockton.

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 23<sup>d</sup> day of December, 1918.

Edwin O. Edgerton

W. H. Leonard

Clifford

Frank Wilson

Commissioners.