

Decision No. 7677

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of)
Union Traction Company, a corporation,)
for an order increasing its passenger) APPLICATION NO. 5637
fares in the City of Santa Cruz and)
on its suburban line to Capitola,)
County of Santa Cruz, Cal.)

S. Waldo Coleman, for applicant.

LOVELAND, Commissioner -

O P I N I O N

On April 29, 1920, the Union Traction Company filed this application for authority to increase its present one way passenger fares from six (6) to ten (10) cents and to sell books of tickets containing eight coupons at rate of fifty (50) cents, equivalent to $6\frac{2}{3}$ cents per ride, these tickets good any time within sixty days from date of sale and accepted as presented.

The summary of the financial and operating conditions of this company as set forth August 10, 1918, in Application No. 3805, Decision No. 5660 (15 C.R.C. 1038) is by stipulation made a part of this proceeding insofar as it may be relevant. The company was authorized in August 1918 to increase zone fares from five to six cents and make minor changes in express rates. This relief granted, however, did not cure the financial difficulties and the present application is but another effort to secure sufficient funds for a continuation of the service.

The company submitted statements relating to its income, expenses, trainmen's wages and franchises. A larger amount of testimony was given by its Manager, Secretary and other employees. All of the financial records of the company have been carefully checked by the Commission's auditing department and in addition the Commission's engineers made an inspection of the physical condition of the property and the method of operation.

The following summary taken from annual reports of the income and expense accounts for the past four calendar years discloses the financial situation:

<u>INCOME STATEMENT</u>	<u>1916</u>	<u>1917</u>	<u>1918</u>	<u>1919</u>
Railway operating revenues	\$64,017.95	\$60,810.71	\$56,721.22	\$71,115.57
Railway operating expenses	<u>48,579.14</u>	<u>44,354.23</u>	<u>46,548.11</u>	<u>86,575.66</u>
NET REVENUE	\$15,438.81	16,456.48	10,173.11	*15,460.09
Taxes	<u>3,766.98</u>	<u>3,543.70</u>	<u>3,269.03</u>	<u>3,993.83</u>
Operating income	11,671.83	12,912.78	6,904.08	*19,453.92
Non-operating income;				
Income from unfunded securities and accounts	-	214.49	34.56	285.32
Gross Income	<u>11,671.83</u>	<u>13,127.27</u>	<u>6,938.64</u>	<u>*19,168.60</u>
Interest on funded debt	<u>31,550.00</u>	<u>31,550.00</u>	<u>31,550.00</u>	<u>31,550.00</u>
Balance transferred to profit and loss	* \$19,878.17	* 18,422.73	* 24,611.36	* 50,718.60

*LOSS

The company's operating expenses are segregated as follows:

	<u>1919</u>	<u>1918</u>	<u>1917</u>	<u>1916</u>
<u>OPERATING EXPENSES:</u>				
Way and structures	\$ 7,325.73	\$ 4,260.18	\$ 3,834.44	\$ 4,884.20
Equipment	8,851.78	5,036.32	4,783.11	7,453.69
Power	12,022.68	10,848.60	11,405.20	11,443.60
Conducting transportation . .	24,882.99	21,658.51	19,987.98	20,075.67
Traffic -	347.75	280.89	437.36	613.57
General and				
Miscellaneous .	4,765.44	4,463.61	3,856.14	4,108.41
Depreciation	<u>28,379.29</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	\$ 86,575.66	\$46,548.11	\$44,354.23	\$48,579.14

The net revenue and operating expense figures for the year 1919 do not afford a proper comparison, however, with those figures for the preceding years. This is for the reason that for 1919 there is included an operating expense for depreciation of \$28,379.29, while no depreciation expense is shown for 1916, 1917 and 1918. It is apparent that a reasonable depreciation allowance should be made and set aside in a depreciation fund if this property is to continue in the future to serve the public. The Engineering Department has estimated that the sum of approximately \$15,000.00 per annum is adequate for that purpose on the basis of the depreciable property at present existing. The company, in my opinion, should be ordered to set aside this sum in monthly cash installments into a depreciation fund, and this fund should be administered and used under rules laid down or approved by the Commission.

Assuming that the sum of \$15,000.00 is a proper allowance for depreciation in 1919, the operating loss in 1919, after operating expenses, depreciation and taxes, amounts to \$6,074.63.

The company has outstanding 5 per cent first mortgage bonds to the face value of \$631,000.00, with interest charges accruing at the rate of \$31,550.00 per annum. It is apparent that no interest whatever was earned in 1919. The amount of the outstanding bonds exceeds by over \$63,000.00 the undepreciated reproduction cost of the company's physical property as of June 30, 1915, plus additions and betterments to December 31, 1919. This valuation figure is according to the company's estimates and has not been checked by the Commission.

If this applicant were before the Commission asking for a fair return on its investment or the value of its property, the

matter of a proper relation of the amount of outstanding bonds to the value of the property would be of importance. The circumstances are such, however, that applicant can hope to earn only operating expenses, a reasonable amount for depreciation, taxes, with a portion of the bond interest. No bond interest has been paid since August 31, 1915, and the matured interest unpaid as of December 31, 1919 amounts to \$139,345.86. The company is operating the properties for the benefit of the bondholders and in the past any earnings not necessary to pay operating expenses and taxes have been accumulated for the purpose of bond interest, overdue coupons being paid as soon as sufficient moneys are secured to pay all of the coupons due on any one date. As heretofore stated, the last coupons paid were those due August 31, 1915.

The operating expenses of the company during the past few years have steadily increased. In May of this year trainmen's wages were again advanced; platform men who in 1917 were receiving per hour 26 cents first year, 27 cents second and 28 cents third, are now being paid 42, 44 and 46 cents per hour, while men operating the one-man cars are receiving 46, 48 and 50 cents per hour.

Our engineers report that the company is operating one-man cars wherever possible, that the equipment and tracks are well maintained and the cars kept painted, and that there is no possibility of further operating economies.

In the readjustment of fares there will be an increase of but one-quarter of a cent per ride to regular patrons who purchase the eight-ride tickets for 50 cents, which tickets will be on sale by all conductors. To those who travel infrequently and who do not desire to purchase tickets, the fare will be 10 cents. During the

months of June, July, August and September, Santa Cruz is visited by large numbers of tourists and vacationists and these people, no doubt, will in most instances pay the 10 cent fare. It is not possible to estimate with any degree of certainty the financial results of the proposed rate increase. There has been an increase in the number of cash fares in the first four months of 1920 as compared with the first four months of 1919 of approximately 40 per cent, and while a similar large increase cannot be expected to continue for the rest of the year at that rate, an increase of from 15 to 20 per cent may confidently be expected. To what extent this normal increase will be interfered with by the higher proposed fares it is impossible to say. The Commission's Engineering Department estimates that it is reasonable to expect a gross revenue for 1920 of from \$110,000.00 to \$120,000.00. Operating expenses, depreciation and taxes will run from \$90,000.00 to \$95,000.00, so that at best the net revenue will not exceed \$30,000.00

After a consideration of all the statements and testimony, I am of the opinion that the present passenger fares of the Union Traction Company are inadequate and unreasonable, that the rates proposed in the following order are reasonable and should be put into effect.

I submit the following form of order:

O R D E R

The Union Traction Company having applied for permission to increase its passenger fares, a public hearing having been held,

and the Railroad Commission being fully advised in the premises.

IT IS HEREBY FOUND AS A FACT that the existing rates are unjust, unreasonable and insufficient and that the rates herein established are found to be just and reasonable.

Basing this order on the findings of fact which precede

IT IS HEREBY ORDERED that the Union Traction Company be and the same is hereby authorized to establish, within twenty (20) days from the date of this order, a zone fare of ten (10¢) cents, and coupon books containing eight (8) rides for fifty (50¢) cents; coupon books to be on sale with all conductors, to be transferable and good for passage any time within sixty (60) days from date of sale.

IT IS FURTHER ORDERED that applicant set aside from the date of this order, in monthly installments in cash, a depreciation fund of \$15,000.00 per annum. All earnings of the fund from whatever source and to whatever amount shall be added to the fund. This depreciation reserve shall be held and accounted for under the direction of, and shall not be used without the authority of this Commission. Applicant is ordered to work out and submit to the Commission within thirty (30) days of the date of this order such rules for the accounting for and use of this fund as will embody the desires and recommendations of the applicant in this matter. Such rules shall not become effective until approved by the Commission.

