

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application of Santa Barbara & Suburban Railway Company for an investigation of its services and financial condition, and for an order authorizing it to so operate its system for the transportation of passengers by means of street cars and motor busses upon certain of the streets of the City of Santa Barbara, that the income will be sufficient to pay the cost of service.

Application No. 4775.

Roy V. Reppy and William G. Griffith, for applicant,  
W. P. Butcher, Fred L. Johnston and J. E. Sloan,  
for the City of Santa Barbara.

MARTIN, Commissioner.

O P I N I O N

The Santa Barbara and Suburban Railway Company, hereinafter referred to as the Company, asks that the Commission make an investigation of the service and financial condition of the Company, for the purpose of making an Order that will result in the operation of this transportation system within the City of Santa Barbara in such a manner that the income will be sufficient to pay the cost of service. The applicant states that it has long been, and is now, sustaining a very heavy financial loss, and that such loss is a result not only of the increase of wages and the cost of materials, but that there has been sustained by applicant, at all times since the commencement of operation of its street railway and auto-bus lines, an exceedingly heavy loss. It is stated that during the past two

years wages have increased at least 40 per cent and the cost of materials at least 50 to 200 per cent, or more, but that there has never been any increase in the rates of fare.

The applicant states that it is its desire to so operate this system, if possible, that it will be unnecessary, in order to pay legitimate operating charges, to increase the existing rates of fare or lower the standard of service, and that it is willing to co-operate in any manner that may be suggested to obtain this result. The applicant desires the benefit of such advice and recommendation as this Commission may make after a careful investigation and study, and declares itself willing to put into practice operating economies that it may be found possible to make.

An investigation of the nature asked for by the Company was made by the Commission's engineering department and copies of the department's report were furnished to the parties in this proceeding. A public hearing was held in Santa Barbara, at which evidence was introduced by the Company and by the Commission. At that hearing the Company filed an amendment to its application. This amendment was filed as a result of the investigation made by the Commission's engineers and by the Company, which had led the Company to the conclusion that an increase in the existing rates of fare would be necessary, in order to obtain an income sufficient to pay operating expenses and fixed charges. A rate schedule was suggested by the Company in this amendment.

It appears from the investigation the Commission has had conducted, as also from the exhibits introduced, that the Company has operated with a steady deficit since 1914, and since 1916 has failed to earn operating expenses and taxes without having consideration to fixed charges or

fair return on any rate base, this being the result in spite of the fact that adequate allowance for depreciation has not been made by the Company.

Investment in this property stands on the books of the Company as of January 1, 1920, at \$1,115,830.23. There are included in this amount, however, certain intangible items (franchises) to the amount of \$662,782.20. If, for the purpose of this proceeding, intangibles are ignored altogether, there remains an investment figure of \$453,048.03. A detailed valuation of the property has not been made. The Commission's chief engineer testified, however, that a valuation on an historical reproduction cost basis would lead substantially to the figure last given, and that a valuation on the basis of reproduction cost new, depreciated, would give a figure considerably in excess of that amount. The Company is capitalized as follows:

- (1) First mortgage 6 per cent 25-year gold bonds dated March 15, 1912, outstanding to the amount of, . . . . . \$236,000.

(All of these bonds are owned by the Southern California Edison Company. During the last fiscal year no interest has been paid on these bonds).

- (2) Second mortgage 5 per cent 30-year gold bonds dated March 15, 1912, outstanding to the amount of, . . . . . \$163,000.

(Of these, \$53,000 are owned by the Southern California Edison Company, and on these bonds no interest has been paid during the last fiscal year. The interest on the remaining \$130,000 par value issued and outstanding was paid on the basis of 40 per cent of the amount accruing thereon at the rate of 5 per cent.)

- (3) Common stock issued and outstanding on May 31, 1919, 5,000 shares par value of . . . . . 500,000.

(No dividends have ever been paid on this stock.)

- (4) Total stock and bonds, . . . . . \$899,000.

From the standpoint of investment, or the value of the physical property, in view of the approximate valuation figures given above, it does not appear that the Company is over-bonded.

It is apparent that the property is well managed and efficiently operated and that there is no possibility of effecting any material savings by way of better management. The service is very good. A lengthening of headway cannot be recommended since the result would be a corresponding loss in business that would more than offset any economies by reason of increased operating expenses.

There is a duplication between street car and auto-bus service that the Commission's engineers recommend should be done away with, with a saving of approximately \$6,000.00 per annum.

Since, in the matter of service, the franchise conditions imposed by the City of Santa Barbara are controlling, it was suggested at the hearing that the Company take up this matter with the City Council and obtain relief from the obligations causing such duplicate service. This the Company has done.

It also developed that the franchise obligation of the Company, in the matter of paving of the city streets used by the street railway, constitutes a heavy capital and operating expense burden which must, of course, be borne by the patrons of the street railway. An elimination of this paving expense, in whole or in part, would go a long way in reducing expenses and, consequently, reduce correspondingly the need of higher rates of fare. Since the matter of street paving is also one outside of the jurisdiction of this Commission, it was agreed that in this matter, too, the Company should attempt to obtain a modification of franchise conditions from the city council.

The City Council, passing on the formal application of the Company relative to these matters, decided at its meeting on July 19, 1920, to deny <sup>the</sup> application of the Company relative to a modification of the franchise conditions pertaining to paving, but granted the application asking for a change of schedule on Haley Street and a change of schedule for busses.

The Commission will expect the Company, therefore, to do away with duplicate service, and the fact that no relief is to be had by the Company from paving expense will have to be taken into consideration by the Commission.

It was suggested as one of the possible solutions of the street railway situation in Santa Barbara that a purchase or a lease of the property by the city might be considered.

The City Council seems to be unanimous, however, that such a solution is out of the question. Neither would the representatives of the city consider the possibility of the discontinuation of the street car service, and they were unanimous in their insistence that such service must be continued in Santa Barbara, even at an increased fare, if no other course is open.

I am satisfied that the necessary increase in revenue can only be brought about through an increase in fares. The establishment of a zone system seems to be out of the question in Santa Barbara, on account of the shortness of the street railway lines and a uniform fare, regardless of distance travelled, seems the only practicable method in the city.

The schedule of fares that I am recommending in the following order is, I believe, a fair and reasonable one, having in mind the service rendered, and will produce

sufficient revenue to enable the Company to continue operation. The Company, itself, is willing to put this schedule into effect, although it is not contemplated that the net earnings will be sufficient to meet all of the fixed charges.

Very considerable further savings can be effected by the substitution of one-man safety cars for the present type of equipment. If one-man cars are put into service, the platform expense and the power expense both will be very considerably lower than at present, and it will be possible to shorten the headway, increase the number of passengers and enlarge materially the net return. The change to one-man safety cars from present equipment should, therefore, be strongly urged upon the Company, although I do not believe it necessary, at this time, to include in the Commission's decision an order for the purchase of such cars. The Company will, I believe, wish to effect such a change as rapidly as possible, without an order from the Commission.

The following form of order is recommended:

#### O R D E R

Santa Barbara and Suburban Railway Company having filed with the Commission its application and its amended application for an investigation of its service and financial condition, and for an order authorizing applicant to put into effect a higher schedule of street railway fares than the one now in effect, and for such further orders with respect to service and other matters of operation as to the Commission shall seem advisable,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file with the Commission and put into effect upon its street railway system in the City of Santa Barbara, within 20 days from the date of this

order, the following schedule of fares:

- |     |  |        |
|-----|--|--------|
| (a) | Single cash fare,  | \$ .08 |
| (b) | Unlimited tickets in strips<br>of 5 coupons,   | .35    |
| (c) | Limited school children's books<br>of 40 coupons, applicable to<br>children under 12 years of age<br>and during days on which school<br>is held, | 1.00   |

2. Applicant shall eliminate duplicate service as referred to in the opinion preceding this order.

The Commission hereby reserves the right to make such other and further orders in this proceeding as to it may appear right and proper.

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 15<sup>th</sup> day of October, 1920.

Edwin C. Edgerly

Walter P. Glover

H. B. Brundage

Dwight M. Austin

Commissioners.