ORIGINAL

Decision No. 8678

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of the Star Auto Stage Company, a corporation, for an order authorizing an increase in rates.	APPLICATION NO. 6424.

Harry A. Encell, for Applicant.

MARTIN, COMMISSIONER:

OPINION

The Star Auto Stage Company, a corporation, filed the above numbered application on December 22, 1920 for authority to increase the passenger fares of the automotive stage lines operated by it between Oakland and Stockton and intermediate points; Stockton and Sacramento and intermediate points; Stockton and Merced and intermediate points; Stockton and Tracy and intermediate points, and Stockton and San Jose and intermediate points. The application reads, in part:

> "That in order for applicant herein to maintain service heretofore rendered by it as a transportation company between the points above named, it will be necessary for applicants to immediately be permitted to publish a new schedule of rates, fares, tolls, rentals and charges which will produce an income to applicant sufficient to provide for applicant a sum of money large enough to enable it to meet its maintenance and operating expenses and provide a depreciation reserve and a return upon applicant's investment."

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The substance of the application is that under the present fares and with operating and other expenses, there is a loss to the corporation at this time of approximately $7,000. per month. A number of exhibits were introduced at the hearing, giving in detail the revenues and expenses covering the period October 23,1920 to December 31,1920, the first named date being that upon which the company assumed control of the services formerly conducted by the Star Auto Stage Association.

The Star Auto Stage Association, the predecessor of this applicant, was organized October 26,1916 with 71 members, as a cooperative business association, in accordance with the Civil Code of the State of California. The membership was changed from time to time by additions and withdrawals, until at the time of the transfer of the operative rights, on October 23,1920, to the Star Auto Stage Company, there was a membership of about 34.

The first tariffs of the Star Auto Stage Association were filed in February 1917, and the original operators holding membership in the association were not required to secure certificates of public convenience and necessity from the Commission by reason of the fact that they were operating in good faith on May 1, 1917, the date specified by Section 3 of Chapter 213, Statutes 1917.

No comprehensive bookkeeping system was ever in effect by the members of the association and, therefore, it is impossible for this Commission to determine positively whether or not the operations of each member of the association were maintained at a profit or at a loss.

Attached to the application was a statement of income and expenses covering the period August 19,1920 to October 23,1920, the figures being based upon the operating expenses and revenue of 58% of the owners. Upon cross examination at the hearing it developed that this statement included all of the gross revenue turned into the Association from August 19,1920 to October 23,1920, but that only 58% of the owners kept books showing revenue and expenses, and as to the expenses shown in the statement 58% were actual and 42% estimated. The total gross income during this period was $118,787.02 and the total operating and maintenance expense $113,084.06, leaving a gross profit from operations of $5,702.96. Deducting general expenses of $20,766.30, the net loss from operations is shown as $15,063.34. Other items of income, credits and debits, make the net loss for the period of 65 days $17,309.87.

The arrangements under which the Star Auto Stage Association operated permitted the association members that handled their own vehicles to retain 85% of the gross collections for expenses and profits, while the remaining 15% of the gross receipts were surrendered to the Association to cover, presumably, the expenses for maintaining the terminal depots, ticket offices and incidental accomodations used by all of the Association members.

Subsequent to the hearing in this proceeding a representative from this Commission's Auditing Department visited the offices of the company at Stockton and endeavored to secure a check of the statement covering the period August 19,1920 to October 23,1920, but could find no authentic data. The statement, therefore, is of little or no value in this proceeding.

At the hearing, held in Stockton, a statement, prepared by a firm of certified public accountants, was presented showing general balance sheet October 23,1920 and November 30,1920; also statement of income, and profit and loss for the period October 23,1920 to November 30,1920. Subsequent to the hearing other financial statements were presented giving data of the assets and liabilities, income, and profit and loss accounts for the period from October 23,1920, the date upon which this applicant took possession of the property, to January 31,1921.

The total property as of December 31, 1920 is valued at $309,219.13, while the current assets and other accounts, including profit and loss, make a total of $407,926.83. The largest item included in property is the operating rolling stock, carried on the books at $277,962.05. This includes 69 automobiles of various makes, the principal machines being Packards, Locomobiles, Whites and Pierce Arrows. These vehicles were taken over from the old organization and have not been appraised by this Commission, therefore their true value is not known.

The gross car earnings, October 23,1920 to December 31, 1920, were $103,597.20, with operating expenses, including depreciation, $109,191.95, a net car loss of $5,594.75. The operating expenses are those directly chargeable to the operation of the cars; the general expenses include $5,026.96 for ticket offices and $9,234.64 for salaries of general officers, clerks and miscellaneous. These, with other items, make a total general expense of $21,023.61, or a net loss from operations during this 70-day period of $26,618.36. Taking the month of December,1920, the total gross car earnings were $43,477.78, operating expenses $43,847.37, a net car loss of $369.59. The expenses of ticket offices, general offices, etc. totaled $9,312.90, leaving a net loss from operations of $9,682.49.

During this 70-day period a charge is shown in the operating expense of $15,250.44 for tires, an arbitrary amount, computed on a basis of .035¢ per mile. No statement was furnished of the mileage, but the testimony would indicate that the charge was computed from the actual mileage traveled, as shown by the records. The company has not been in existence long enough to set up a correct expense for tires, and the amount claimed may be either more or less than the cost. During the same period of time a charge of $17,429.08 was made for depreciation, this at the rate of 4 cents per mile, it being purely estimated and based upon the theory that a car costing $8,000. will be worn out and must be junked after it has traveled 200,000 miles. The amount of depreciation claimed is approximately $85,000. per annum, or 30% of the operating rolling stock having a claimed value of $277,962.05.

Since the hearing and submission of the application there has been filed a statement showing the income and expenses for the month of Jabuary,1921. The total gross car earnings were $38,857.62, being $4,620.16 less than in the month of December, and the net car loss $2,936.66, or $2,567.07 greater than in December. The general operating expenses were $10,931.11, making a net loss from operations during the month of January,1921 of $13,867.77, as compared with the net loss from operations for the month of December of $9,682.49, an increased loss of $4,185.28.

There are approximately 125 employees. From October 23, 1920 to December 31,1920 the expenses of the general office, including clerks and miscellaneous items, totaled $9,234.67, or at the rate of $50,000 per year. Included in these items is the salary of a president at $750.00 per month and of a general manager at $500.00 per month, or $15,000. per annum. In addition to these two directing officers the company employs two superintendents, whose salaries 244 are not included in the general office expenses. It would seem to the Commission that this large item, for so small an organization, is excessive. The compensation of the principal owners of the property should be derived from dividends and not from the payment of excessive salaries. The items for stationery, printing of tickets and legal expenses are also large, considering the time this applicant has been in existence. For the first 70 days the legal expenses were $1,446.55, although upon cross examination it was admitted that a reasonable average charge per month would be very much lower than during the formative period. Without doubt, some part of the amount carried as expenses for stationery, printing, legal, etc., should have been charged to Capital Account.

The exhibits presented and verified by our Auditing Department clearly demonstrate that there has been a net loss from operations since commencement of the service as follows: October 23 to November 30, 1920, $16,935.87; December 1 to December 31, 1920, $9,682.49; January 1 to January 31, 1921, $13,867.77; a total of $40,486.13, but the Commission cannot accept as controlling the net results indicated by these exhibits, for they embrace but a part of October and the months of November, December and January, probably the poorest operating months in the year and, therefore, would make the most unfavorable showing. Attention might be called to the fact that during these particular months there were heavy and almost continuous rainfalls; also that there has been an abnormal decline in travel, due to the general business situation. A true representative period should cover a full calendar year.

The proposed fares are not constructed upon any consistent mileage basis, the increases being built up arbitrarily over the fares at present in effect and, apparently, the changes are made between points where the greatest amount of additional revenue would be secured. It is proposed to increase the fare between Sacramento and Stockton from $1.40 to $1.70; between Sacramento and Galt from 70¢ to $1.00; between Sacramento and Merced from $3.00 to $4.10; between Stockton and Modesto from 75¢ to $1.00; between Stockton and Turlock from $1.15 to $1.55; between Stockton and Tracy from 60¢ to 75¢; between Stockton and Oakland from $2.25 to $2.80; between Stockton and San Jose from $2.25 to $2.85; between San Jose and Modesto from $2.50 to $3.25. Increases are applied to practically all of the fares and the instances cited are illustrative of the situation.

Using a travel check covering November 1920, the increase in gross revenue under the proposed fares based on the returns for November would be approximately 27%. However, this month is not representative and, without doubt, the proposed fares applied to a 12 months period would increase the gross revenue greatly in excess of the 27% as shown by this test period. It may be said that the higher the rate the lower is the value of the service and that a readjustment of the rates to the basis proposed might result in detriment to the applicant as well as to the traveling public.

The company is entitled to earn a sufficient sum annually, not only for current repairs but for making good the depreciation and replacing the property, so that at the end of a given period the original investment can be replaced out of the depreciation funds. The short time during which this applicant has operated makes impossible the establishment of a correct depreciation allowance to fit its particular needs, but certainly the exhibits and the testimony do not justify the allowance of 30% per year. I am also of the opinion that the charge of 3½¢ per mile for tires has not been justified, nor can I approve of the salary allowances of $15,000. per year for a president and a general manager. The record in this proceeding, however, clearly demonstrates that if no allowance at all had been made for depreciation or management expense, the company would still have operated at a loss of some $16,000. October 23,1920 to January 31,1921, without giving any consideration to the return upon invested capital.

I am not convinced that the proposed fares are proper, nor that the increase granted should be based upon the results obtained during the past few months. I am of the opinion that an increase in all fares of 15% should be authorized to meet the emergency now existing, with the understanding that applicant will, for the next six months, render a monthly report to the Commission giving in detail all of its operating revenues and expenses and that it make a careful study of the cost per mile for tires; also a more complete and comprehensive check of depreciation to the equipment.

If, within a reasonable time, applicant can show that the financial conditions of the company have not materially changed for the better, the Commission will consider an application for a further readjustment of the fares.

O R D E R

The Star Auto Stage Company having applied for permission to increase its passenger fares, a public hearing having been held and the Railroad Commission being fully apprised in the premises, it hereby finds as a fact that the existing fares of petitioner are unremunerative and that the fares herein established are just and reasonable.

The Railroad Commission, basing its order on the finding of fact and the further findings of fact which are contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that the Star Auto Stage Company, a corporation, be and the same is hereby authorized to file with the Railroad Commission within twenty (20) days from the date of this order a tariff increasing the present fares fifteen (15%) per cent; sufficient to be added in all cases to make the fares end in actual cents.

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 2nd day of March, 1921.

Frank R. Devlin

H. D. Loveland

Irving Martin

Commissioners.