

Decision No. 32240

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the)	
LOS ANGELES RAILWAY CORPORATION for an)	
order pursuant to Section 53 of the)	Application No. 22792
Public Utilities Act authorizing it to)	
place into effect increased interim fares)	
for the transportation of passengers.)	

RILEY, COMMISSIONER:

S. M. HASKINS, General Counsel, and WOODWARD M. TAYLOR, General Attorney, by WOODWARD M. TAYLOR, for the Applicant.

RAY L. CHESEBRO, City Attorney, and FREDERICK VON SCHRADER, Assistant City Attorney, for the City of Los Angeles.

K. CHARLES BRAN, Chief Engineer and General Manager, and STANLEY M. LANEAM, Assistant Chief Engineer, for the Board of Public Utilities and Transportation of the City of Los Angeles.

THEODORE K. RESMEY, for Public Interest League, a civic organization.

DON L. CAMPBELL, RODNEY F. WILLIAMS, EDWARD J. BURNS, and WARE & BEROL, by WALLACE L. WARE, for Pasadena-Ocean Park Stage Line, Inc., and Original Stage Line, Inc.

T. D. PLUMER, Commissioner of Finance of the City of Santa Monica, for the City of Santa Monica, Protestant.

WILLIAM R. LAW, for Maude Mendenhall, a tax payer.

J. A. WIMANS, for Nightengale Better Transportation Association and Better Transportation Association of Los Angeles.

CARLTON H. CASJENS, City Attorney, for the City of Bell.

CHRISTOPHER J. GRIFFIN, City Attorney for the City of Huntington Park.

J. E. CRAGIN, City Attorney, for the City of Maywood.

CARL BUSH, for the Hollywood Chamber of Commerce.

GEORGE E. LINDELOF, City Attorney, for the City of Hawthorne.

CLYDE WOODWORTH, City Attorney, for the City of Inglewood.

R. D. GRIFFITH, for the Defenders of the Home, Inc.

HOMER D. CROTTY and ELMO H. CONLEY, of Gibson, Dunn and Crutcher.

INTERIM OPINION

In this proceeding Los Angeles Railway Corporation seeks authority to place into effect on an interim basis increased fares for the transportation of passengers pending the time when a more permanent fare structure can be determined.

Public hearings were conducted in this matter in Los Angeles on July 6th, and August 3rd and 4th, 1939, and at the latter date the matter was taken under submission upon the basis that consideration would be given to the issuance of an interim order in the near future and that the matter would be put on the calendar for further hearing, the date to be determined within the next three months.

Specifically, applicant seeks authority to increase its fares as follows: present 7-cent cash fare to 8 cents cash; present token fare of 6½ cents (4 for 25 cents) to 7 cents (5 for 35 cents); school fares from 3½ cents to 4 cents; and the elimination of both the \$1.00 and the \$1.50 weekly passes (the \$1.50 joint weekly pass to be retained), with no changes in other existing fares.

Applicant is not seeking a reasonable return on its investment at this time, but merely desires to meet the added cost of operation imposed upon it by reason of adoption of the Two-man Car Ordinance.

As justification of the requested interim order applicant alleges that as a result of initiative Ordinance No. 81319, (1)

(1) "An Ordinance requiring crews of at least two persons on all street cars, interurban cars, trolley cars and other vehicles operated on rails for the transportation of passengers for hire, in or along, across, over or under any public street, road, alley, or highway in the City of Los Angeles, excepting on cars operated as trailers, and prescribing penalties for the violation thereof.

"Section No. 1. Excepting as herein otherwise specifically provided, no person, firm or corporation shall operate or cause to be operated in, on, along, across, over or under any public street, road, alley or highway within the City of Los Angeles any street car, interurban car, trolley car, or other vehicle operated on rails, for the transportation of passengers for

sometimes herein referred to as the Two-man Car Ordinance, passed

(1) Cont'd

hire, unless such street car, interurban car, trolley car, or other vehicle shall be operated by, and there shall at all times during this operation be therein or thereon, and in charge of the operation thereof, a crew of at least two persons, one of whom shall be the motorman, who shall be stationed at the front end of such car, or other vehicle, and the other of whom shall be the conductor, who shall be stationed at the rear or center of the car, or other vehicle and each of whom shall be over the age of twenty-one years.

"Section No. 2. There shall be excepted from the provisions of this ordinance any such car, or other vehicle, being operated as a trailer, following and attached to another such car or vehicle, provided that each such trailer car or vehicle shall at all times during its operation as such have thereon, and be operated by, a crew of at least one person and that the leading car or other vehicle shall be operated by a crew of at least two persons, as provided in Section 1 hereof.

"Section No. 3. Violation of any of the provisions of this ordinance shall constitute a misdemeanor, and shall be punished as follows:

"For a first offense, by a fine of not less than \$100.00 nor more than \$500.00, or by imprisonment in the City Jail for not less than one day nor more than five days, or by both such fine and imprisonment.

"For a second offense, by a fine not less than \$500.00 nor more than \$1,000.00, or by imprisonment in the City Jail for not less than five days nor more than ten days, or by both such fine and imprisonment.

"For each subsequent offense, by imprisonment in the City Jail for not less than six months, nor more than one year.

"Section No. 4. Every separate operation of any car, or other vehicle, contrary to the provisions of this ordinance shall constitute a separate misdemeanor, and every individual owner of such car, or other vehicle, and each member of any partnership owning any such car, or other vehicle, and every corporation, and every director, and every responsible officer of such corporation, owning any such car, or other vehicle, which shall be operated contrary to the provisions of this ordinance, shall be subject to the penalties herein provided.

"Section No. 5. If any section, sub-section, sentence, clause or phrase of this ordinance is for any reason held to be unconstitutional or void, such decision shall not affect the validity of the remaining portions hereof. The people of the City of Los Angeles hereby declare that they would have passed this ordinance, and each and every section, sub-section, sentence, clause and phrase hereof, irrespective of the fact that any one, or more, of such sections, sub-sections, sentences, clauses or phrases be declared unconstitutional."

by the City of Los Angeles May 2, 1939, and made effective May 10, 1939, it was required to employ two men on each and every street car operated within the City of Los Angeles at an increased annual payroll cost of \$840,403 during the first year of such operation. The record shows that on May 10, 1939, applicant complied with this ordinance. This added operating expense was set forth in applicant's Exhibit No. 10 for three years as follows:

	<u>WAGES</u>	<u>TAXES</u>	<u>TOTAL</u>
<u>1st Year of Operation</u>	\$808,080	\$ 32,323	\$840,403
<u>2nd Year of Operation</u>	911,316	36,473	948,289
<u>3rd Year of Operation</u>	963,685	38,547	1,200,232

In addition to the added expense as a result of complying with the Two-Man Car Ordinance, applicant pointed out that pursuant to agreements with its employees, for each \$300,000 increase in gross revenue for 1939 in excess of that earned during the corresponding period of 1938, a wage increase of one cent per hour must be paid to its employees and that if such increase were made, costs of operation would be further increased in amount of \$105,000 for each such increase of \$300,000 in gross revenue.

Quoting from page 21 of the application, the company alleged as follows:

"Applicant's net revenue available for return (gross revenue less operating expenses and taxes) in the twelve months' period ending April 30, 1939 (under partial one-man operation) was \$860,522.11, or a rate of return of 1.76% upon a rate base as of said date of \$48,900,000. If applicant's operating expenses for the first year of operation under said Ordinance No. 31319 are increased in the sum of \$840,000.00 as a result of compliance with the provisions of said Ordinance as hereinabove in Paragraph VII alleged, applicant's net revenue available for return at the end of said first year of two-man operation will be reduced to a deficit of \$101,000.00, producing no return whatever on applicant's rate base."

Further quoting from page 22 of the application, the company stated its financial condition as follows:

"In the twelve-months period ending April 30, 1939, applicant's earnings after operating expenses and taxes have failed by \$334,648.63 to meet interest and sinking fund requirements on its outstanding bonds issued pursuant to the Commission's Decisions Nos. 29806, 29375, 31153, to which reference is hereby made, as shown in the following summary of Income and Profit and Loss Statement:

INCOME AND PROFIT AND LOSS STATEMENT
YEAR ENDED APRIL 30, 1939

<u>Income</u>	
Operating Revenue	\$12,217,741.85
Operating Expenses	<u>10,446,950.85</u>
Net Operating Revenue	\$ 1,770,791.00
Taxes	<u>910,268.89</u>
Operating Income	\$ 860,522.11
Non-Operating Income	<u>10,310.94</u>
Gross Income	\$ 870,833.05
Miscellaneous Rents	\$ 1,200.00
Interest on Funded Debts	849,099.29
Interest on Unfunded Debt	<u>8,326.90</u>
Total Deductions	\$ 858,626.19
Net Income to Profit and Loss	\$ 12,206.86
<u>Profit and Loss</u>	
Income for Period	\$ 12,206.86
Sinking Fund Appropriations	<u>346,071.45</u>
Miscellaneous Credits	\$ 322,864.59 (red)
	<u>8,129.16</u>
Miscellaneous Debits	\$ 325,735.43 (red)
Balance for Period	<u>199,422.07</u>
	\$ 727,157.50 (red)

An increase in expenses by reason of two-man car operation of \$840,000 will make it impossible for applicant to meet its interest and other fixed charges and will make impossible the financing of absolutely necessary capital and replacement and renewal expenditures essential for efficient and proper conduct of its public service."

Prior to May 10, 1939, approximately 50 per cent of applicant's street railway service was provided by one-man cars.

Approximately 750 street cars were used daily on 25 rail lines in order to provide necessary service, and in addition to the rail mileage, consisting of about 369 single track miles, approximately 110 route miles of wholly owned motor coach lines were

operated requiring some 150 vehicles.

Exhibit No. 7 indicates provision for converting from two-man to one-man car operation involved expenditures by applicant during the period from January 1, 1934, to April 30, 1939, of approximately \$4,000,000 in equipment and track changes as follows:

	<u>Number</u>	<u>Type</u>	<u>Cost</u>
Cars Remodelled	398		\$ 900,332.51
Cars Purchased	95	P.C.C.	1,681,663.98
✓ Loop and Off-street Terminals	7		131,587.47
Special Work	6		48,414.49
Electric Switches	12		12,083.68
Overhead	2		<u>105.04</u>
			\$ 2,774,187.17
Motor Coaches Purchased	122		<u>1,282,082.67</u>
			<u>\$ 4,056,269.84</u>
Expended out of Revenue			\$ 2,989,153.76
Funded, Certificates and Notes			<u>1,067,116.08</u>
			<u>\$ 4,056,269.84</u>

For the period 1930 to 1939, inclusive, and for the 12 months ended April 30, 1939, Exhibit No. 24 introduced by A. C. Jenkins, Senior Engineer of the Commission's staff, shows that the company's cash balance has averaged \$631,057. (2)

(2)	Year	Receipts	Disbursements	Net Receipts	Bal.-Yr. Ended
	1930	\$14,247,372	\$14,519,622	\$ 272,250*	\$ 705,950
	1931	12,759,904	13,273,230	513,326*	192,624
	1932	10,759,561	10,558,704	200,857	393,491
	1933	9,454,404	9,066,497	397,907	791,388
	1934	9,814,457	10,088,980	274,523*	516,865
	1935	10,723,727	10,611,671	112,056	628,921
	1936	12,093,290	11,818,794	274,496	903,417
	1937	12,818,172	13,184,137	365,965*	537,452
	1938	12,430,709	12,037,961	392,748	930,200
	12 mo. ended				
	4/30/39	12,366,259	12,336,915	29,344	710,274

* Denotes Red Figures

Obviously the cash balance of this applicant must be maintained at a sufficient level to ensure continued normal operation and in addition provide a cushion to meet unpredictable emergencies. Material curtailment of cash reserve below such a reasonable average would result in an unhealthy financial condition, serious not only from the carrier's standpoint but also from that of the general public.

Under current operating conditions, and prevailing rates and service in compliance with the Two-Man Car Ordinance, Exhibit No. 26, also introduced by Mr. Jenkins, indicates the cash balance will be reduced from \$710,274 as of April 30, 1939, to \$188,274, as of April 30, 1940. Sometime during the 12-month period immediately following the latter date, under similar conditions of operations, fares and service, available funds would be insufficient to meet current costs of operation, with no cash balance available. In the interest of maintaining a sound financial basis it would be unwise to permit the cash balance to reach the low figure of approximately \$200,000 as indicated by Exhibit No. 26.

Various operating estimates were presented by applicant, the City of Los Angeles, and the Engineering staff of this Commission, the conclusions of which differ considerably in two major respects. First, with respect to the added labor cost and second, the estimated results that would obtain under applicant's proposed fare structure. With respect to the increased operating costs as a result of the Two-man Car Ordinance, estimates were submitted showing the additional costs by reason of compliance with the ordinance, for the first year of operation, as follows:

<u>Source</u>	<u>Amount</u>	<u>Exhibit No.</u>
Company	\$ 840,403	10
City	537,300	30
Commission	635,000	26

Estimates of anticipated increased revenue by reason of introducing the fares proposed by applicant were as follows:

<u>Fare Change</u>	<u>Applicant Exhibit #17</u>	<u>City Exhibit #39</u>	<u>C.R.C. Exhibit #29</u>
7¢ to 8¢ cash	\$ 68,432	\$ 68,524	\$ 69,278
6½¢ to 7¢ token	158,080	157,925	157,925
3½¢ to 4¢ school	14,040	13,023	13,058
Elimination of \$1.00 and \$1.50 weekly passes	544,960	(531,304)	(178,437)
Other	-	-	-
Total	\$785,512	(5291,832)	\$ 61,824

(.....) Indicates Loss

The City of Los Angeles, through the engineering staff of its Board of Public Utilities and Transportation and its city attorney's office, takes the position that no increase in fare should be authorized pending the time that a permanent fare structure can be worked out. It has not, however, offered any plan of fare adjustment or other source of immediate financial betterment whereby the company's impending financial emergency may be alleviated.

It is clear from this record that compliance with the Two-Man Car Ordinance has placed this carrier in a serious financial condition and immediate relief should be afforded if it is to continue to provide the service to which the public is reasonably entitled and at the same time earn sufficient to pay at least its current obligations.

It is equally clear that the fare structure proposed by applicant has not exhausted the field of practical and equitable fare combinations to the extent that is justified in the interest of all parties concerned. To do justice to this important problem will require considerable time. The problem embraces the entire Los Angeles Metropolitan area and involves not only the applicant

in this proceeding but also the local fare structures of Pacific Electric Railway Company and the Los Angeles Motor Coach Company, which are both now before this Commission under separate proceedings. Obviously to do justice to this local transportation problem in the Los Angeles Metropolitan area we must give consideration to all three carriers' operations, looking toward the establishment of an equitable plan of service and rate structure for all portions of the territory.

Pending the time this major local transportation problem can be worked out we must afford applicant some relief. The primary question at this time is the determination of the nature of such relief. Granting of the fare structure as prayed for by applicant is not justified by the record. In consideration of the serious adverse effect upon revenue of eliminating the weekly passes and due to their extensive use and advantages in the way of facilitating the handling of peak-load traffic it is reasonable to conclude that the more practical and equitable way of accomplishing the desired end is to retain that class of fare.

In the light of all conditions as reflected by the record, I am convinced that the proper order, at this time, should provide that applicant be permitted to increase its present 6½-cent token fare to 7 cents and to increase the selling price of the \$1.00 weekly pass to \$1.25, retaining the existing \$1.50 company weekly pass and the \$1.50 joint weekly pass.

The record indicates that under the recommended fare structure stated above, a betterment in the companies' earnings will result in approximately \$480,000 annually. In order that close contact may be kept with the results of this interim fare structure, applicant shall be required to furnish to this Commission data which will indicate the financial results of these fares. Such data are to be in the nature of passenger revenue segregated between classes

of fares comparing the business of each month with that of the preceding month, and with that of the corresponding month in the preceding year. Such data to be filed with the Commission not later than the twentieth day of each month covering the operations for the preceding month.

If, after a fair trial of this fare structure, it appears that a change or changes should be made therein the same can be taken care of by an appropriate supplemental order pending final decision of the Commission on this application.

The following form of order is recommended.

INTERIM ORDER

Applicant Los Angeles Railway Corporation having requested emergency financial relief through increased fares for transportation of passengers over its local lines in and immediately adjacent to the City of Los Angeles in order to meet additional costs of operation imposed upon it by reason of the requirements of initiative Ordinance No. 81319 requiring that all street cars operating in or along, across, over or under any public street, road, alley or highway in the City of Los Angeles be operated by a crew of not less than two men; it having been established that a financial emergency does exist; that increased revenues are necessary to the continued operation of applicant's street car system; that such necessary increase in revenues will not accrue from the fare structure proposed by applicant; and it having been concluded that such necessary increased revenue will in greater measure be realized by the institution of a fare structure described in the above opinion;

IT IS HEREBY ORDERED that said Los Angeles Railway Corporation be, and it is hereby authorized to file with the Commission and put into effect within ten (10) days from the effective date of this

order upon not less than five (5) days' notice to the Commission and the general public the following schedule of fares:

- A. Seven-cent cash and/or token fare may be placed in effect in replacement of present 7-cent cash and 6 $\frac{1}{2}$ -cent token fares with free transfer and all other privileges now applying to the existing fares remaining in effect as specified by the existing tariff.
- B. The weekly pass now selling for \$1.00 may be increased in price to \$1.25 and in all other respects as to privileges and use, shall remain as specified in the existing tariff.
- C. With the exception of the above specifically outlined fare changes all other fares specified by existing tariffs, together with their privileges and conditions shall remain in effect.

IT IS HEREBY FURTHER ORDERED that applicant shall furnish to this Commission monthly statements indicating the results obtained from the fare changes herein ordered, said data to be in the nature of passenger revenue and passenger statistics by months segregated between the various classes of fares applied in a comparative manner showing the relationship between results of the current month and the preceding month, as well as the current month and the corresponding month of the previous year. Such monthly data shall be furnished on or before the twentieth day of each month for the preceding month.

The rates of fare as authorized herein shall be taken as temporary rates, the within application being held open for further hearings before final decision.

For all other purposes the effective date shall be twenty (20) days from the date hereof.

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

Dated at San Francisco, California, this 8th day of August, 1939.

Robert J. Quinn
James B. Miller
W. L. Kelley
W. H. M. M.
Justus J. Casner
Commissioners