

Decision No. 35971

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of LASSEN  
TRAILWAYS, a corporation, for an order author- )  
izing an increase in passenger fares. ) Application  
No. 25116

In the Matter of the Application of LASSEN  
TRAILWAYS, for an extension of its operative )  
rights in the City of Marysville. ) Application  
No. 25224

W. P. RICE, of Rich and Weis, for applicant Lassen Trailways.

NORMAN H. ROBOTHEAM, for applicant, Lassen Trailways.

BY THE COMMISSION:

O P I N I O N

By Interim Order in Decision No. 35891, dated October 20, 1942, disposition was made of the matters in the above entitled applications, with the exception of the request for authority to increase fares. The matter of fares is now ready for determination.

Applicant is now providing service and charging fares as authorized by the Commission's Decision No. 34969.

Applicant alleges that present fares have failed to provide revenue sufficient to meet costs of operation which have materially increased during the past year. In order to remedy this situation, applicant has proposed to institute an individual fare of 10 cents and a 15-ride ticket for \$1.00 for adults. He also proposes a 15-ride ticket for 60 cents for children attending school. In support of the request for increased fares an exhibit prepared by a public accountant was submitted showing the financial condition of the company.<sup>(1)</sup> This statement showed an operating loss of \$101.18 for the six and one-half month period of operation with no income tax and before interest charges. Applicant testified that he had recently ended his practice of buying his own tires and had entered into a contract for tires on a basis of one-half cent (\$.005) per mile which would tend to increase

(1) Exhibit No. 2-A, Balance Sheet and Income and Surplus Account at August 31, 1942.

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his tire costs. He further testified that on October 1, the wages of bus operators would be increased from \$142.00 to \$157.00 monthly, or 10.9 per cent. Applicant contends that he should be entitled to an allowance in the rate base of \$1,500 for working capital.

Numerous public witnesses testified that the service rendered by applicant was of high standard. Representatives of various associations testified in favor of the proposed fare increase provided such an increase was determined to be necessary by the Railroad Commission.

No public opposition developed to the granting of these applications.

A Commission engineer, Mr. Otto B. Liersch, prepared and introduced a study indicating that the company sustained an operating loss of \$49.74 for the six and one-half month period, after depreciation and taxes with no allowance for income taxes.<sup>(2)</sup> He also introduced an exhibit showing that applicant had a depreciated book cost of property of \$10,285.93 as of August 31, 1942.<sup>(3)</sup> Based on this depreciated book cost of property the company shows a loss of 0.09 per cent for the time it has been in operation, with no allowance for income taxes. The record further shows that applicant operated at a deficit of \$217.23 for the three and one-half months from February 16, to May 31, 1942,<sup>(4)</sup> but that for the following three-month period ended August 31, 1942, operating income amounted to \$167.49.<sup>(5)</sup> The Commission's engineer made no allowance for working capital because

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(2) Exhibit No. 16-A, Adjusted Operating Statement and Rate of Return.

(3) Exhibit No. 17-A, Statement of Book Cost and Depreciated Book Cost of Property.

(4) On a yearly basis this would represent a rate of loss of 7.24 per cent on the depreciated book cost of property, with no allowance for income taxes or interest charges.

(5) On a yearly basis this would represent a rate of return of 6.51 per cent before income taxes, or 4.9 per cent after an income tax allowance.

no funds have been so invested by applicant.

Viewed by itself the foregoing indicates that applicant's request for authority to increase fares may have merit. However, it is noted that the expense item "Salaries and Expenses of General Officers" averages over \$300 per month. The question immediately arises as to whether this item is not unreasonably high for supervision of the operation of two or three buses, and if so, what effect would an adjustment have on operating income.

In the opinion of the Commission a reduction of \$150 per month would leave a liberal allowance for supervision. This sum must therefore be regarded as part of the return on investment, increasing adjusted operating income from a deficit of \$49.74 to an income of \$925.26 for the six and one-half month period before income taxes, or approximately \$693.00 after an income tax allowance. (6)

Taking into account applicant's testimony previously set forth relating to a new tire contract and increased wages for bus operators soon to be effective, tire expenses for the period of operation of the company would be increased \$122.85 and operators' wages \$297.18. These items would, therefore, decrease operating income to \$505.23 before income tax and \$378.93 after income tax. (7)

Based on the record in this proceeding the Commission is of the opinion and finds:

- (1) Supervisory expense of \$300 per month for a two or three coach operation is unreasonable and,

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- (6) On a yearly basis this would represent a rate of return of 16.6 per cent on the depreciated book cost of property before income tax and 12.4 per cent after an income tax allowance. No allowance is made for working capital because fares are collected as service is rendered and applicant is, therefore, not under the necessity of advancing funds to meet expenses since prepayments are more than offset by accounts payable.
  - (7) On a yearly basis this would represent a rate of return of 9 per cent on the depreciated book cost of property before income tax and 6.8 per cent after an income tax allowance.

therefore, applicant has not effected all reasonable economies. Reduction of supervision expense by \$150 per month through an owner-driver combination or part-time supervision would have provided income more than sufficient for this property.

- (2) Based on the experience of the company for the relatively short period of its operation, operating income would still be adequate after allowing for increased tire and wage costs.
- (3) The future revenue producing possibilities of the company are somewhat uncertain at this time because:
  - (a) The company's brief period of experience includes the summer months which, in the opinion of the applicant and the Commission's engineer, may prove to be the best revenue months of the year.
  - (b) The completion of construction at Camp Beale will release numerous construction workers now living in the area who may move to other points.
  - (c) This dislocation will be offset to an unknown extent by additional riding occasioned by the many thousands of troops and the civilian employees who will be stationed at Camp Beale, the latter living largely in territory which will be served under the certificate granted in Decision No. 35891. In serving the new passengers the average round trip length of each of applicant's two routes will be increased from 6 to 7.5 miles.
- (4) If, after introducing all possible economies and having experience with the enlarged operations, applicant fails to show a reasonable return he may again apply to the Commission for authority to increase rates, bearing in mind that such increases are against the war policies established by the Federal Office of Price Administration unless the necessity therefor is established beyond question.
- (5) Applicant's request for an increase in fares to the general public at this time should be denied. The following order will so provide.
- (6) With regard to school fares, the proposed fare of 15 tickets for 50 cents is higher than the general average of school fares throughout the State. However, it would seem at this time that such a fare is not unreasonable owing to the fact

that equipment to serve this traffic is at a premium. Applicant's request for a school ticket of 15 rides for 60 cents is justified and should be established. The following order will so provide.

O R D E R

By Interim Decision No. 35891, dated October 20, 1942, in Applications Nos. 25116 and 25224 the Commission granted a certificate of public convenience and necessity to Lassen Trailways to establish and operate a bus service between and within the Cities of Marysville and Yuba City in lieu of operative rights heretofore held by this applicant. Included in the same applications and still pending before the Commission is the matter of a request for an increase in fares for which this order will provide.

Public hearings having been held in the above entitled proceedings, the matters having been duly submitted, the Commission now being fully advised, and it being found as a fact that public convenience and necessity so require,

IT IS ORDERED that Lassen Trailways be and it is hereby authorized to establish school fares of fifteen (15) rides for sixty (60) cents to children attending school.

IT IS FURTHER ORDERED that

Applicant shall comply with the rules of the Commission's General Order No. 79 by filing, in triplicate, and concurrently making effective tariffs satisfactory to the Commission within sixty (60) days from the effective date hereof and on not less than five (5) days' notice to the Commission and the public.

IT IS FURTHER ORDERED that the request for authority to increase rates to the general public embodied in the above entitled applications of Lassen Trailways be and they are hereby denied without prejudice.

IT IS FURTHER ORDERED that the authority herein granted shall become void if not exercised within sixty (60) days from the date hereof.

The effective date of this order shall be the date hereof.

Dated at Los Angeles, California, this 18<sup>th</sup> day of November, 1942.

*G. L. Baker*  
*Francis D. Havens*  
*Richard R. Baker*

Commissioner.

~~CERTIFIED AS A TRUE COPY~~

~~SECRETARY, RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA~~