

**ORIGINAL**

Decision No. 36242

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on the )  
Commission's own motion into the reason- )  
ableness of the rates, rules, regulations, ) Case No. 4672  
charges, classifications, contracts, prac- )  
tices, operations and service, or any of )  
them, of Vallejo Bus Company. )

MORRISON, HOFFELD, FOERSTER, SHUMAN & CLARK, By FORREST  
A. COBB, for Respondent Vallejo Bus Company

FRANK O. BELL, for Respondent Vallejo Bus Company

JOHN STEWART, Mayor, City of Vallejo

ROLLIN L. POPE, City Attorney, City of Vallejo

GEORGE J. O'NEILL, for Petaluma Subdivision

C. F. HATCHE, for Vallejo Chamber of Commerce

OLLIE ROSS, for certain tax payers

SACHSE, COMMISSIONER:

O P I N I O N

On February 4, 1943, an investigation into the reasonable-  
ness of the fares of the Vallejo Bus Company was instituted by the  
Commission on its own motion, after a preliminary survey of the  
situation and recommendation by the staff.

Public hearings were held in Vallejo March 3 and 10, 1943.  
The matter is now under submission and is ready for decision.

At the hearing a report was presented by the Commission's  
Transportation Research Engineer Homer H. Grant as Exhibit No. 1  
setting forth the past operating results of the Vallejo Bus Company,  
together with estimated results which would obtain under different  
fare structures.

It is shown in this exhibit that Vallejo has had a tremen-  
dous war-time growth and that the operations of the company have in-  
creased correspondingly. The population of the city increased from

approximately 30,000 in 1940 to more than 90,000 on January 1, 1943 (an increase of 200 per cent), whereas the number of passengers carried by the company increased about ten times, viz., from 345,000 in 1940 to nearly 3,000,000 in 1942.

A very large number of temporary housing units have been constructed in government housing projects in and adjacent to the city. The type of construction employed in these projects is in keeping with their present use as contrasted with a normal and more permanent building program. Service of the Vallejo Bus Company has been extended to include all of the new projects except Chabot Terrace, which is approximately five miles from the business center of the city. This new subdivision is provided with local transportation by buses operated by the Navy when not engaged in its regular service in transporting passengers to and from the Navy Yard at Mare Island.

A recent revision of routes effective January 1, 1943, increased the number of routes in operation from six to nine. The coach mileage was thereby increased from 1,500 miles per day to more than 2,100 miles per day, or 45 per cent. Sections of the highway along some of the routes are in a bad condition owing to heavy travel and inadequate maintenance.

Since June 1, 1941, the company has been owned by Luther E. Gibson, President, Harry B. Seanes, Vice President, and Frank O. Bell, Manager, having control relationships of 25 per cent, 50 per cent, and 25 per cent, respectively. The company operated as a corporation until June 1, 1942, after which time it became a partnership.

It is shown in Exhibit No. 1 that from June 30, 1941, to January 31, 1943, the book cost of property devoted to public service, including \$350 for organization, materials, and supplies, increased from approximately \$10,000 to \$96,000. The depreciated book cost of

property increased from \$9,757 to \$82,078 during the same period. Depreciation reserves were calculated by the engineer on the basis of depreciable lives used in the report, namely: two years for old equipment; for fairly new equipment, five years for coaches costing approximately \$4,500 and six years for coaches costing approximately \$6,500 each. It was assumed that old equipment would be retired at the end of the present emergency, whereas new equipment would continue to be used under the substantial peace-time operations which may be expected to continue during the postwar period.

The company owns no land at the present time. Transit equipment consists of 25 motor coaches, nine of which are at least ten years old, one is six years old, and the remaining 15 are quite new. The new coaches are largely of Ree manufacture with transit type bodies seating 32 persons. These were purchased at an average cost of approximately \$6,000.

Present fares in Vallejo are 10 cents cash, or three tokens for 25 cents, with a 5-cent school fare. With these fares in effect operating revenues of the company increased from \$10,614 in January, 1942, to \$35,998 in January, 1943.

The record shows that based on the average depreciated book cost of property, with no allowance for working capital but after payment of income taxes,<sup>(1)</sup> the company, after showing a loss in 1938, earned a rate of return as follows: 19 per cent for 1939; 59 per cent for 1940; 103 per cent for 1941; and 121 per cent for 1942. The operating figures for this five-year period, are shown on the following Table I, which is taken from Exhibit I, Schedule IV.

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(1) Estimated for 1942 by the Commission's engineer.

TABLE I  
VALLEJO BUS COMPANY  
STATEMENT OF OPERATING INCOME AND RATE OF RETURN  
1938-1942, INCLUSIVE

Item	YEARS				
	1938	1939	1940	1941	1942
Revenue Passengers	278,587	273,988	345,535	702,386	2,909,888
Operating Revenue	\$25,262.20	\$20,267.62	\$31,098.19	\$65,079.83	\$265,627.62
Operating Expenses	26,618.95	19,789.66	27,297.11	51,372.58	140,979.67
Operating Income (Before Income Tax)	\$ 1,356.75*	\$ 1,077.96	\$ 3,201.08	\$13,707.25	\$124,647.95
Income Tax	-	-	\$ 278.07	\$ 5,500.00	\$ 59,328.13
Operating Income (After Income Tax)	\$ 1,356.75*	\$ 1,077.96	\$ 3,523.01	\$ 8,207.25	\$ 65,319.82
Book Cost of Prop.	\$15,346.98	\$12,137.52	\$14,644.08	\$35,459.13	\$ 95,549.75
Less Reserve for Depr.	8,783.49	7,513.33	7,418.43	10,766.25	12,859.15
Deprec. Book Cost	\$ 6,563.49	\$ 4,624.39	\$ 7,225.65	\$24,692.88	\$ 82,690.60
Avg. Depreciated Book Cost	\$ 8,282.13	\$ 5,593.94	\$ 5,925.02	\$ 7,983.03	\$ 53,869.83
Rate of Return on Avg. Deprec. Book Cost After Income Tax (%)	16.38*	19.27	59.5	103.0	121.3

\* = Red Figure

The present service and operation is on a somewhat different basis from that before January 1, 1943, as the routing was materially increased. The month of January, 1943, provides the only actual operating experience under the company's expanded service program. After showing that January was a representative month in Vallejo, the Commission's engineer expanded January figures to a yearly basis, using

actual passengers carried with no allowance for any increase in the number of passengers who undoubtedly would be attracted by a reduction in fares. On this conservative basis, but using 1942 income tax rates, the rate of return for 1943 would be 106 per cent under present fares and 24 per cent under a straight 6-cent fare, whereas a straight 5-cent fare would indicate a substantial yearly loss calculated on the rate base used in the engineer's report. Increased income taxes in 1943 would further reduce these rates of return.

Mr. Grant testified that while a 6-cent fare would appear to be liberal he suggested that the Commission give consideration to a token fare of five tokens for 30 cents with a 10-cent cash fare because the company is not at this time equipped with fare boxes to register pennies and new coin boxes cannot now be obtained.

Representatives of the company requested and were granted a week to study the report of the Commission's engineer, after which time another hearing was held in Vallejo on March 10, 1943. At the adjourned hearing the representatives of the company pointed out that the owners of the property had reinvested the earnings in purchasing new equipment to further improve the service in the city, that the service has been very greatly expanded from the normal peace-time operations, and that the risk incurred by the company is abnormally high owing to the war-time temporary development of the city and the possibility of collapse if the war should be suddenly ended. The company also stated its belief that a fare of four tokens for 25 cents, 10 cents cash, would tend to increase the speed of operations somewhat over a fare of five tokens for 30 cents and 10 cents cash, because of the shorter time necessary in making change. It was further contended by the company that the net increase in revenue would be small because in its opinion the number of persons purchasing tokens under a four for 25 cents arrangement would be materially

greater than the number who would purchase tokens under a fare of five for 30 cents:

The Mayor of the City of Vallejo stated that the city was interested in having the best possible service at the lowest reasonable fare, and indicated that a rate structure with four tokens for 25 cents would be more convenient for the majority of passengers than a required purchase of five tokens for 30 cents.

This record supports the following conclusions: That fares in Vallejo should be immediately reduced; that in view of the highly uncertain war-time conditions existing in Vallejo and the consequently increased financial risk, together with the extraordinary burden on equipment owing to war-time overloading, the Commission is justified in allowing rates of return proportionately higher than would obtain under normal peace-time conditions; that in the interest of providing reasonably satisfactory local transportation for the City of Vallejo at reasonable rates it appears that under the present unusual operating conditions a close check should be kept of the financial and operating results under the lower fare structure prescribed in this decision; and that a fare of four tokens for 25 cents and 10 cents cash, with a 5-cent school fare should be instituted on a temporary basis until such time as changed conditions require a further adjustment. Accordingly the following form of order is recommended.

O R D E R

Public hearings having been held in the above entitled matter, the matter having been submitted, and the Commission being fully advised,

IT IS ORDERED that Vallejo Bus Company shall, within fifteen days from the effective date of this order, establish a fare of four tokens for 25 cents and 10 cents cash without change in the present school fare.

IT IS FURTHER ORDERED that notice of the reduced fares shall be conspicuously displayed in all motor coaches of Vallejo Bus Company for a period of sixty (60) days.

IT IS FURTHER ORDERED that Vallejo Bus Company shall comply with the provisions of General Order No. 79 by filing in triplicate Tariffs satisfactory to the Commission, within fifteen days from the date hereof, on not less than one day's notice to the Commission and the public.

IT IS FURTHER ORDERED that jurisdiction herein shall be and it is hereby reserved by the Commission to make such further order or orders in this proceeding as the Commission in its discretion may deem just and proper.

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

Dated at *San Francisco*, California, this 23<sup>rd</sup> day of *March* 1943.

*Francis W. Havenner*  
*J. Baker*  
*Justin F. Garner*  
*Richard H. Chase*  
*Francis W. Deery*  
Commissioners