

Decision No. 39516**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
 the MARE ISLAND FERRY for an Order )      Application No. 27805  
 authorizing an increase in rates. )

O'HARA, RANDALL, CASTAGNETTO and KILPATRICK  
 by ELLIS R. RANDALL for Mare Island  
 Ferry.

ROWELL, Commissioner

O P I N I O N

In this application, as amended at the hearing, Mare Island Ferry, a corporation, seeks authority to increase its present passenger fare from 5 cents to 10 cents cash or 7-1/7 cents tickets to be sold in blocks of 14 for one dollar. (1)

A public hearing was conducted in this matter at Vallejo, September 30, 1946, and it is now ready for decision.

Mare Island Ferry, a corporation, conducts a passenger service across Mare Island Strait between one terminal on the Vallejo side and two on the Mare Island side. At this location the strait is about one-quarter of a mile in width. This service is conducted through the operation of eight boats each having a capacity of 200 passengers. In addition to this floating equipment applicant has in reserve two 75-passenger boats and the Steamer Issaquah with a capacity of 900 passengers. This fleet is provided pursuant to the terms of a contract between Mare Island Ferry and the Federal Government, Navy Department, a copy of which was filed in this proceeding as Exhibit No. 2. (2)

(1) The present fare was authorized by the Commission in Decision No. 37735, dated March 20, 1945, in Application No. 26491.

(2) This contract is on an annual basis for the fiscal year ending June 30, 1947. The following is quoted from the specifications under Item 1 of the contract:

"Location of ferry slip to be supplied by contractor  
Foot of Georgia Street, Vallejo, California.  
Names of ferry boats: Dolphin, Eagle, Falcon, Heron,  
Pelican, Penguin, Robin, Sparrow, Swallow and Widgeon.  
Name of substitute ferry boats Steamer 'Issaquah'."

The passenger traffic transported by applicant for the greater part consists of civilian employees of the navy yard traveling under official badge, the uniformed personnel being only a very small percentage of the total. Casual visitors to the island are required to pass through security gates at the causeway. The greater portion of traffic is moved under one-way peak loads between 7:00 and 8:00 a.m., and 4:00 and 5:00 p.m. There is a small peak movement at midnight when the swing shift goes off duty.

Service is maintained throughout the 24 hours of the day with a base headway of ten minutes during the daytime and 15 minutes during the night hours. This service is provided through the operation of three 200-passenger boats used in shifts of 8 hours each. During time of peak travel, however, the five other 200-passenger boats are placed in service. The two smaller 75-passenger boats are used as stand-bys and the steamer Issaquah is held in reserve as an emergency facility.

The record shows that the volume of civilian employment at Mare Island has decreased from approximately 28,000 in January, 1946 to 12,000 at the end of September, 1946, and that the trend in the volume of applicant's traffic has followed this reduced employment. Applicant alleges that notwithstanding the fact that the management has endeavored to reduce operating expenses to a minimum under prevailing conditions, the revenue received from this operation now falls short of meeting the cost of providing the service.

The following tabulation is prepared from data shown in applicant's Exhibit No. 1 which shows the estimated operating results that would obtain during a typical month for the ensuing year employing the present fare of 5 cents, together with a 10-cent cash fare in combination with various commute or ticket fares.

Item	FARE STRUCTURE			
	Present 5%	10% 12 Tickets for \$1	10% 14 Tickets for \$1	10% 16 Tickets for \$1
Commute	\$ 6,209.50	\$10,349.00	\$ 8,870.70	\$ 7,762.00
Single Fare	781.50	1,563.00	1,563.00	1,563.00
Revenue	6,991.00	11,912.00	10,433.70	9,325.00
Expense	10,431.78	10,431.78	10,431.78	10,431.78
Net Revenue	<u>\$(3,440.78)</u>	\$ 1,480.22	\$ 1.92	<u>\$(1,106.78)</u>

(Red Figure)

The President of Mare Island Ferry testified that in his opinion a fare structure of 10 cents cash in combination with 14 tickets for one dollar was the maximum fare the traffic would bear. This conclusion is reached notwithstanding the fact that the carrier's estimate shows that such a fare structure will barely meet the cost of providing the service with no return on the investment. It was his opinion that with a higher fare the increased revenue as applied to the remaining traffic would be more than offset by the loss due to diversion to private autos, jitneys and taxis operated over the causeway connecting Vallejo and Mare Island.

Exhibit No. 3, presented by the Commission's staff, shows the estimated operating results for a typical month for the ensuing year applying different fare structures. The following tabulation is taken from the summary of this exhibit.

Item	FARE STRUCTURE		
	Present 5%	10% 16 Tickets for \$1	10% 14 Tickets for \$1
<u>Monthly Basis</u>			
Passenger Revenue	\$ 7,513	\$ 9,458	\$10,414
Other Operating Revenue	75	75	75
Total Operating Revenue	7,588	9,533	10,489
Operating Expense Table II	9,925	9,925	9,925
Operating Income	<u>\$(2,337)</u>	\$ (392)	\$ 564
<u>Annual Basis</u>			
Operating Inc. before Income Taxes			\$ 6,768
Income Taxes			1,634
Net for Return			7,134
Rate Base			\$64,100
Return			8.0%

(Red Figure)

It may be observed that the two estimates referred to above show that applicant's operation under the present fare structure of 5 cents will be conducted at a loss during the ensuing year. Applying the proposed fare structure of 10 cents cash or 14 tickets for one dollar, according to applicant's estimate, the revenue will barely meet the cost of providing the service with no return on investment. In the case of the Commission staff's estimate, however, it shows that under this fare structure applicant will earn a return of 8 per cent on its investment. Each of these estimates assume that approximately 88 per cent of the traffic will travel on commute fare and 12 per cent on cash fare. Also, that there will be a diminution of 20 per cent in the cash fare traffic and 5 per cent in the commute traffic as a result of an increase in fare to the level proposed by applicant.

The primary difference in the two estimates covering revenue and expense for a typical month during the ensuing year results from various assumptions. In the case of the estimated operating revenue applying the present 5-cent fare structure there is a difference of approximately \$600. This results from the fact that Exhibit No. 1 is based on the assumption that there would be the same diminution of traffic under the present fare of 5 cents as would obtain with the proposed higher fares, whereas in Exhibit No. 3 it is assumed that with the continuation of the 5-cent fare there will be no diminution of traffic during the ensuing year. With reference to the estimated operating expense the amount shown in Exhibit No. 1 exceeds that of Exhibit No. 3 by \$507. The two principal items of difference are the respective allowances for the accounts of hull insurance and depreciation on the floating equipment. The estimate shown in Exhibit No. 1 includes an item of approximately \$600 for hull insurance whereas in Exhibit No. 3 there

is no allowance for the item. The record shows that prior to 1946 applicant did carry insurance covering this account but subsequent to that time the insurance policies have been allowed to lapse as they expired, so the President testified, due to the present unfavorable financial condition of the corporation. It would appear reasonable that some allowance should be provided in the operating expense to cover this risk even though applicant assumes it as a self insurer.

Both Exhibits No. 1 and No. 3 contain an item covering the depreciation on the floating equipment and parts amounting to a monthly charge of \$2,044 in Exhibit No. 1 and \$2,404 in Exhibit No. 3. Exhibit No. 3 shows the original cost of the floating equipment to be \$208,943 and the accrued depreciation \$174,436, or in other words this equipment now stands on the books as approximately 83 per cent depreciated. The greater portion of this undepreciated investment is assigned to the eight boats having a capacity of 200 passengers. As stated above these boats, which are about four years old, are now performing the actual service. At the rate of \$2,404 per month for depreciation on floating equipment and parts the remaining investment for these facilities would be written off in approximately fourteen months. There is nothing in this record to justify this rate of depreciation. It would appear reasonable to assume that these eight boats may be continued in service for at least two years and, therefore, need not be depreciated within a shorter period. If accruals to the reserve were so adjusted as to permit writing off the remaining investment over two years, the monthly depreciation expense requirement would be reduced from \$2,404 to \$1,438.

Both Exhibits No. 1 and No. 3 contain an item of \$400 per month to cover "use and occupancy" insurance. The amount so

charged over a period of time has been accumulated in a reserve, which now amounts to approximately \$11,000. It would appear from this record that with this reserve there is little justification to continue such a charge in the operating expenses of this carrier, particularly in the light of the reduced risk subsequent to the cessation of hostilities.

With the adjustments referred to above the total monthly operating expenses in Exhibit No. 1 would be reduced from \$10,432 to \$9,426, and likewise in Exhibit No. 3 the monthly operating expenses would be reduced from \$9,925 to \$9,159. The resultant earnings and rate of return, including these revisions would be as shown below.

I t e m	FARE STRUCTURE			
	Exhibit No. 1		Exhibit No. 3	
	14 Tickets for \$1	16 Tickets for \$1	14 Tickets for \$1	16 Tickets for \$1
<u>Monthly Basis</u>				
Revenue	\$10,434	\$ 9,325	\$10,489	\$ 9,533
Expense	9,426	9,426	9,159	9,159
Operating Income	1,008	(101)	1,330	374
<u>Annual Basis</u>				
Operating Income	12,096	(1,212)	15,960	4,488
Income Taxes			3,989	1,063
Net for Return			11,971	3,425

(Red Figure)

The net for return shown above is based on the assumption that there will be no increase in the operating expenses or substantial decrease in traffic resulting from a decrease in the employment at the Mare Island Navy Yard. The Commission's witness testified that his estimate was based on what might be termed the minimum operating expense, and that in so far as he was able to determine there was a probability that the downward trend of employment at Mare Island Navy Yard would continue in the future.

The matter of the volume of the diversion from ferry to motor vehicle over the causeway as a result of an increase in the fare structure is an item which is vital to the financial results of this carrier's operation. It may reasonably be assumed that the greater the increase the greater will be the diversion.

A full consideration of this record with due consideration of the hazards attached to this operation impels the conclusion that applicant has not justified the establishment of the proposed rate structure of 10 cents in combination with 14 tickets for one dollar. On the other hand, it would seem that a fare of 10 cents with 16 tickets for one dollar would not provide sufficient revenue to defray the cost of providing the service, together with a reasonable return on the investment. It is therefore concluded, and we so find, that applicant should be authorized to establish a fare between these two limits; namely, a 10-cent cash fare in combination with a ticket fare of  $6\frac{2}{3}$  cents to be sold in books of 15 for one dollar.

The following form of order is recommended.

ORDER

Public hearing having been held, the matter having been submitted, and good cause appearing,

IT IS ORDERED that the Mare Island Ferry, a corporation, be and it hereby is authorized to increase its fares in accordance with the rules of the Commission, upon not less than five (5) days' notice to the Commission and the public from

5 cents one-way single fare

to

10 cents one-way single fare or

ticket fare of  $6\frac{2}{3}$  cents to be sold in blocks of fifteen for One Dollar.

IT IS FURTHER ORDERED that the authority herein granted shall be void unless the fares authorized are published, filed, and made effective within sixty (60) days from the effective date of this order.

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.

The effective date of this order shall be five (5) days from the date hereof.

Dated at San Francisco, California, this 15<sup>th</sup> day of October, 1946.

Harold J. Hill  
Justin F. Cassen  
Sam H. Powell  
R. R. [unclear]

COMMISSIONERS