

ORIGINALDecision No. 39559

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SOUTHERN CITIES TRANSIT, INC.,
a corporation, to increase rates
and fares for the transportation
of passengers between points in
the vicinity of Compton, Los
Angeles County, California.

Application No. 27493

HERBERT CAMERON, for Applicant; RALPH K. PIERSON,
City Attorney, for City of Compton, Interested Party;
BENJAMIN CHAPMAN, Senior Price Attorney, for Office
of Price Administration, Interested Party;
MRS. KENNETH L. CORRELL, for Women's Club of Bellflower,
Interested Party; MRS. NATHAN L. MILLER and MRS. R. H.
RUSSELL, for Royal Neighbors Iris Club of Bellflower,
Interested Party; E. B. KENNEDY, for Chamber of Commerce
of Bellflower, Interested Party; and R. L. SWANSON, for
Chamber of Commerce of Hynes, Interested Party.

O P I N I O N

By this application Southern Cities Transit, Inc., a corporation engaged in the business of transporting passengers as a passenger stage corporation between points in and in the vicinity of Compton, Los Angeles County, seeks authority to make certain increases in its passenger fares. Public hearings in this proceeding were held at Los Angeles, before Examiner Ager, on June 18 and 19 and September 3, 1946. On the latter date the matter was taken under submission and is now ready for decision.

Applicant alleges that for a substantial period in the past insufficient revenue has been received to enable it to pay its expenses of operation and proposes that the existing 5¢ fare in each of four zones on its system be increased to 7¢, with no change in the interzone fares, and that the present school fare of 3¢ per ride be increased to 5¢. Applicant also proposes to change the provision in the present tariff which provides that "Children under six years

of age, when accompanied by an adult passenger, will be carried free", to read "Children under five years of age, when accompanied by an adult passenger, will be transported free."

Southern Cities Transit, Inc. acquired at a cost of \$125,000 the property of Highland Transportation Company. The transfer of the property was authorized by Decision No. 38181, dated August 28, 1945, in Application No. 26819. Two new lines ⁽¹⁾ have subsequently been added.

The testimony shows that applicant failed to record the cost of the properties acquired from Highland Transportation Company in the manner directed by Decision No. 38181. That decision directed the company to distribute the purchase price of \$125,000 as follows:

Acct. 1201 Land and Land Rights	\$ 5,000.00
Acct. 1211 Structures	5,052.87
Acct. 1221 Revenue Equipment	38,200.00
Acct. 1241 Shop and Garage Equipment	9,697.70
Acct. 1511 Franchises	250.00
Acct. 1550 Other Intangible Property	<u>66,799.43</u>
Total	\$125,000.00

Of the purchase price the company included in Account 1550 \$45,580. The remainder was distributed over the other accounts. A witness for the company testified that the company's records would be adjusted to conform with Decision No. 38181.

Since the date of Decision No. 38181 the company sold all of its equipment except one bus. All other equipment used by it is leased from Crown Body and Coach Corporation. Exhibit No. 3 shows equipment rentals of \$9,815 for the first five months of 1946. This rental is included in the company's operating expenses totaling

(1) By Decision No. 38741, dated March 5, 1946, in Application No. 27030, a certificate of public convenience and necessity was issued for the Bellflower and Hollydale Lines.

\$74,278.31. For the five months, the company's operating revenues are reported at \$66,497.50 and its net operating loss at \$8,380.81.

Applicant's Exhibit No. 6 is a breakdown by months of the unit costs of operation for the period June, 1945 to and including April, 1946. This exhibit consists of fourteen individual items and supporting data which purport to show that for the eleven months' period an operating loss of \$7,776.59 was incurred. It indicates that the most substantial losses have been sustained during the four months' period ending April 30, 1946.

Exhibit No. 7 is an analysis of estimated increased labor costs throughout the year of 1946 and was presented by applicant in support of its statement that the basic hourly wages of drivers after six months' employment have increased from 90¢ per hour as of December, 1945 to \$1.10 per hour as of March 1, 1946. The net result is that the unit cost of drivers' wages in cents per coach mile operated will be increased from 9.07% in December, 1945 to 11.82% in August, 1946, and continuing at the latter rate until the end of the year. The exhibit also shows that additional drivers' costs have been added pursuant to the provisions of the new labor contract which provides the operators with certain guarantees, time allowances and benefits. These added items result in estimated total drivers' costs for the year 1946 of 12.14% per mile.

Applicant's Exhibit No. 8 consists of a series of tabulations purporting to show estimated operating results that would obtain assuming various conditions. The gross revenue figures in these tabulations are prepared upon the premise that there would be no loss in the number of riders, if and when the increase in fares is granted and put into effect. These revenue estimates also assume that a 4% to 6% interzone increase in fares would be granted. Since there is no such proposal, this specific increase in

fare is not before the Commission. In each case the estimated revenue is based upon the application of present fares for a portion of the period and employs the increased fares after June 1, 1946, with the result that the net profits shown do not apply to any one given fare structure. Had the proposed increased rates been used throughout the period, a substantially larger net income would have resulted.

Exhibit No. 9 shows a comparison of schedules and miles operated as of June 1, 1945, with those as of April 30, 1946. During this period the miles operated have increased by 22,691 per month. Of this total mileage, 15,808 miles per month is accounted for by the Bellflower and Hollydale Lines, service on which was instituted on or about April 1, 1946.

Applicant's Exhibit No. 10 is a statement of value of property, used and useful in rendering public service. Certain obvious discrepancies are readily discernible in this exhibit, some of which are herein set forth. A repair parts item of \$1,734.35 is included as part of the inventory for equipment. The breakdown of this item shows that a substantial amount of the total is made up of International and Chevrolet bus parts and accessories, whereas the record shows that no equipment is operated on the property, except Ford transit buses. Similarly, there is no justification in this record that sixteen Johnson fare boxes should be required for the performance of service by eleven buses, even allowing for spares.

One of the items included as a part of Exhibit No. 6 is a copy of the maintenance and service agreement between Coach Maintenance, Inc. and Southern Cities Transit, Inc., pursuant to which Coach Maintenance, Inc. agrees to provide certain maintenance and service on Southern Cities' coaches at a rate of 3 $\frac{1}{2}$ ¢ per mile during the term of the contract. This agreement is specific as to the

obligations of each of the two parties and with certain minor exceptions, provides that Coach Maintenance shall furnish all tools, equipment and spare parts necessary to keep the coaches in proper operating condition. Exhibit No. 10 includes \$5,563.15 for machinery and equipment. A breakdown of this account shows that a substantial number of the items included therein, according to the contract, should be furnished by Coach Maintenance, such items, therefore, should not be allowed as used and useful equipment in the performance of applicant's service.

Exhibit No. 10 includes \$7,043.59 covering 158 tires and 111 tubes. This item includes the 66 tires on the equipment and in daily use and 92 spare tires which were purchased because of favorable market prices. Cross-examination of applicant's witness developed the fact that some of these tires were purchased for use on Belvedere Transit, Inc. and Highland Transit, Inc. (TR. 167, Line 23), which are two affiliated operations of the applicant, therefore, they should not be included as a part of the inventory of equipment, used and useful, in the operation before us.

Applicant's Exhibit No. 12 is a tabulation showing revenue in cents per mile operated by lines for the ten-week period from April 1, 1946 to June 9, 1946. This exhibit shows that the Bellflower Line and the Hollydale Line (the two newly instituted services) are far below the system average as to earnings, and that for the period covered by Exhibit No. 12 there has been little change in the operating results since the date of their inception.

A comparison of revenue and expenses by years from 1940 to and including May 31, 1946 is shown on applicant's Exhibit No. 13. The expenses are broken down into various classifications, both as to total amounts and costs per mile. In comparing the year 1944 with the twelve months' period ending May 31, 1946, the exhibit shows

that the most substantial increase in cost per mile has taken place in the item headed "General and Miscellaneous", in which case this cost has risen from 6.27¢ to 13.92¢. Cross-examination of applicant's witness failed to reveal any satisfactory reason for the wide divergence in these two figures; nor was he able to inform this Commission as to what items were included in the figures prior to 1945. He did state, however, that the figure for the twelve-months' period ending May 31, 1946, included officers' and other administrative salaries.

Applicant's Exhibit No. 14 is a tabulation of a three-day revenue and passenger survey which shows that more than 91% of applicant's revenue is derived from 5¢ fares, whereas approximately 5% is derived from 10¢ fares and 4% from 15¢ fares. The exhibit shows that there is relatively little local riding in Zones 2, 3 and 4; and that the preponderance of the 5¢ fares is collected from persons who are riding within Zone No. 1, in and about the City of Compton. While discussing the matter of fares, it seems pertinent to comment upon the fact that applicant's tariff provides for a school fare of 3¢ (TR. 21, Lines 9 to 12). Although Exhibit No. 14 covers a period when school was still in session, there are no such fares included in the tabulation; and cross-examination of applicant's witness developed the fact that at no time since Southern Cities Transit has taken over this operation have school fares been consistent with published tariffs.

The Commission's engineering staff made an investigation and prepared certain exhibits in connection with applicant's proposal. Exhibit No. 16 is an organization chart as of June, 1946 and shows in graphical form the chain of authority in the administrative staff of Southern Cities Transit, Inc., and two affiliated corporations; namely, Belvedere Transit, Inc. and Highland Transit, Inc.

The staff's Exhibit No. 17 shows the duties and salaries (2) of these various administrative officers. It shows that \$1,400 in monthly salaries is being charged to the executive and management functions of Southern Cities Transit, which amount is approximately ten per cent of applicant's gross revenue. The exhibit also shows that for the same functions Belvedere Transit, Inc. pays \$1,375 per month while Highland Transit, Inc. pays \$560 a month. Highland Transit's relatively small cost, according to applicant's witness, is directly attributable to the fact that its earning position has not been comparable with those of Belvedere Transit and Southern Cities Transit, and that if and when Highland's earning position is improved salaries for the president and executive vice president positions will be changed (TR 196, Lines 25 and 26).

Exhibit No. 18, offered in evidence by the Commission's witness, shows that for the month of April, 1946 applicant's Bellflower Line produced revenue of 7.22¢ per mile, while the Hollydale Line produced 15.78¢ per mile. Corresponding figures for May, 1946 (the second full month of operation) are 10.11¢ and 17.32¢. This witness testified that comparative figures for the month of July for these same two lines are 11.57¢ per mile and 21.62¢ per mile respectively. It would appear from these results that these lines are developing new business and that the growth would eventually result in the lines earning sufficient to at least defray the out-of-pocket cost of operation. The testimony shows, however, that between the date service was instituted on these lines and the month of July, the gross revenue has dropped in each instance and that the apparent increase in revenue per mile is directly attributable to a decrease

(2) President	\$500.00	Secretary	\$ 25.00
Exec. Vice-President	250.00	Manager of Oper.	150.00
Vice-President	--	Stenographer	50.00
Treasurer	25.00	Manager, Local	300.00
Assistant Treasurer	100.00	Total	\$1,400.00

in mileage operated, plus the fact that the Atlantic Tripper service was entirely discontinued during this period, and some of the traffic which formerly used that tripper is now handled on the Hollydale Line. The evidence shows that more than 25% of applicant's total system mileage is performed on these two lines, and produces 13.8% of applicant's system revenue (TR 279, Lines 1, 2 and 3).

Exhibit No. 19, submitted by the Commission's witness, is similar to applicant's Exhibit No. 14 and substantiates the statement that approximately 91% of applicant's revenue is derived from 5¢ fares, 5% from 10¢ fares and 4% from 15¢ fares. The exhibit shows further the average number of 5¢, 10¢ and 15¢ fares by trips by lines on June 11 and 12, 1946. The Bellflower Line on June 11 averaged twelve 5¢ fares and two 10¢ fares per trip. The Hollydale Line averaged sixteen 5¢ fares and two 10¢ fares, while the Downey Line averaged twenty-seven 5¢ fares, five 10¢ fares and seven 15¢ fares per trip. The figures vary slightly for the June 12 tabulation. On June 11, 92% of the passengers were 5¢ fares, 4% were 10¢ fares and 4% were 15¢ fares. The Bellflower, Hollydale and Downey Lines being the only lines which operate outside of the City of Compton into Zones 2, 3 and 4, the above figures support the conclusion that most of the riders are local riders in the City of Compton.

Exhibit No. 20, prepared by the Commission's staff, shows certain recommended service changes for consideration which include the complete abandonment of the newly established Bellflower and Hollydale Lines, together with a 50% reduction in the amount of service provided on the Downey Line. Other minor changes are recommended, all of which collectively add up to a reduction in the total daily mileage of 823 miles. The recommendations in this exhibit are predicated upon applicant's daily mileage as of June, 1946 and, in

the opinion of the Commission's witness, will if adopted provide applicant's patrons with reasonable and adequate transportation.

The staff's Exhibit No. 21 was prepared to show the result which would obtain should applicant choose to accept the recommendations of the Commission's staff and revise the operations in accordance therewith. Assuming that these changes were to be placed into effect, equipment requirements would be reduced from eleven units and no spare to eight units, including one spare. Using June 12 as a typical day and assuming no change in existing rates of fare, applicant would have realized a net income of \$82.46 if the economies recommended had been in effect. This estimate is based upon unit costs substantially identical with those prepared by applicant in its Exhibit No. 6 and does not take into consideration any economies in administrative expenses that might be effected.

Exhibits Nos. 22, 23 and 24 were submitted by applicant in an attempt to refute the contentions of the Commission's engineers, but these exhibits also show that if the economies suggested by the Commission's staff were instituted an operating profit would be realized even under existing 5¢ fares.

Public witnesses, produced by applicant, testified that their primary interest was directed to adequate service and that the matter of the proposed increase in fares was of no great import. In this connection it should be pointed out that approximately 92% of applicant's patrons reside in or in the immediate vicinity of the City of Compton. It is upon their patronage that this applicant is largely dependent for its existence and under applicant's proposed fare increase this group would be required to stand an increase of 40% in the existing fare, in order to support other lines which admittedly are a drain on the remainder of the system. The record does not support the conclusion that this large percentage

of the traffic should pay an added amount for their transportation in order to support service to outlying communities, which cannot reasonably be justified from an earning standpoint under conditions as they exist at present. Nor would it appear reasonable to prescribe a higher rate of fare on the losing lines due to the fact that the volume of traffic is so small that, regardless of the level of the fare that might be fixed, the lines could not be made self-sustaining on the available traffic.

Upon this record we find that:

1. Applicant's inventory of equipment is excessive due to the fact that it contains many items which should not be charged to this operation.
2. Applicant is not conforming with the provisions of its published tariffs in that it is collecting a 5¢ fare for the transportation of school children, whereas the tariff specifically provides that a 3¢ rate shall be charged.
3. The amounts allocated for administrative and executive expense appear to be excessive.
4. Applicant has failed to avail itself of a number of avenues which are open to it for the effectuation of operating economies which might produce an entirely different result than that which it has attempted to show in this proceeding.
5. Applicant's estimates of additional revenue are not consistent with the application since they are predicated upon additional revenue that would accrue by reason of increased interzone fares. There is no proposal in the application that the interzone fares be increased.
6. Applicant's books have not been kept in conformity with the orders of the Commission.

Predicated upon the foregoing opinion and findings, it is concluded that the application should be denied and the following order will so provide.

O R D E R

Public hearings having been held, the Commission being apprised of the facts, and the matter being under submission and ready for decision,

IT IS ORDERED that the application of Southern Cities Transit, Inc. for authority to increase its passenger fares be and it hereby is denied.

The effective date of this order shall be twenty (20) days from the date hereof.

Dated at San Francisco, California, this 22nd day of October, 1946.

Harold A. Auld
Justus J. Calver
Francis J. ...
Joseph A. ...
A. J. ...
 COMMISSIONERS