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ORIGINAL

Decision No. 39692

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of HIGHLAND TRANSIT, INC., a California corporation, to increase rates and fares for the transportation of passengers.	Application No. 27729
In the Matter of the Application of ROBERT LANDIER, an individual doing business as "La Rambla Bus Line," for authority to increase passenger fares and alter rules and regulations between San Pedro, City of Los Angeles and La Rambla, County of Los Angeles.	Application No. 27720

Appearances

In Application No. 27729:

Herbert Cameron, for applicant;
Roger Arnebergh and T. V. Tarbet, for the City of Los Angeles, protestant;
George M. Stephenson, for Robert Landier, doing business as La Rambla Bus Line, interested party.

In Application No. 27720:

George M. Stephenson, for applicant;
Roger Arnebergh, T. V. Tarbet, and T. M. Chubb, for the City of Los Angeles; Herbert Cameron and Charles Boehn for Highland Transit, Inc., interested parties.

OPINION

Applicants, Highland Transit, Inc., a corporation, and Robert Landier, an individual, operating as passenger stage corporations within San Pedro and in the vicinity thereof, by these applications seek authority to increase adult one-way passenger fares from five cents to seven cents, and to make incidental changes in children's fares.

The two applications were heard and submitted on separate records, and each will be decided on its own merits. Because certain phases of the two operations have points in common, they are considered in this single decision as a matter of convenience.[1]

Applicants are two of three urban bus lines serving San Pedro, a community in Los Angeles city and county territory, part of the Los Angeles Harbor area. Highland Transit, Inc. operates buses over three separate routes within the community, and Robert Landier operates buses over two routes. The third company is the San Pedro Motor Bus Co., whose operations are wholly within Los Angeles City. It operates over five routes. By special agreement with the San Pedro Motor Bus Co., Robert Landier manages the operations of two of its five routes in addition to conducting the passenger stage business which he owns.

The three companies provide San Pedro with a substantial quantity of transportation facilities. Maps introduced as exhibits show that the various lines extend to virtually every section of the community, and that in considerable areas the separate routes are adjacent. The record indicates that for transportation performed within the principal San Pedro area the companies assess a fare of five cents per adult passenger for a one-way ride and permit passengers to transfer between the lines without the payment of additional fare.[2] Highland Transit, Inc. in its application proposes to establish a seven-cent fare over all of its routes and Robert Landier proposes the same fare to apply over one of his routes, that designated as the La Rambla Line. Neither applicant proposes any restriction of the present transfer privileges.

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[1] Public hearings were had before Examiner Bryant in the San Pedro district of Los Angeles, and in the State Building in Los Angeles.

[2] Higher fares are charged on three routes which extend to outlying districts of San Pedro. On one of these routes school children are afforded transfer privileges. Otherwise, the fares charged on these three routes do not include transfers to other lines.

Witnesses of each applicant testified that increases in operating expenses had brought about the need for the fare increases sought. The higher operating expenses were attributed principally to increases in labor costs. The application of Robert Landier states that a labor agreement was reached on March 13, 1946, retroactive to January 16, 1946, which increased drivers' wages from 95 cents per hour to $1.10 per hour, and provided similar increases for other classes of employees. Robert Landier testified that this agreement had been amended on August 22, 1946, increasing drivers' wages to $1.11 per hour for the first six months of employment, and to $1.21 per hour thereafter. The witness for Highland Transit, Inc. estimated that wage increases had augmented this company's labor costs by $1000 a month. Another exhibit of Highland indicated that, in addition to labor, almost all operating costs had advanced during 1946 over 1945.

Both applicants asserted they were in urgent need of additional revenues to overcome the losses incurred because of these additional expenses. According to financial exhibits they submitted, Highland Transit, Inc. suffered a net loss of $7,641 from operations during the seven-month period ending July 31, 1946, and Robert Landier lost $2,180 from operations of the La Rambla Line during the first six months of 1946. Applicants held that the proposed seven-cent fares were reasonable and necessary to permit continuance of present operations and return a fair profit.

Representatives of the City of Los Angeles participated in both proceedings, as a protestant in the application of Highland Transit, Inc. and as an interested party in the application of Robert Landier. With respect to Highland Transit, Inc., the city's representative contended that the loss figure of $7,641 claimed for the seven months ending July 31, 1946, did not properly establish a need for the rate increase sought. A witness for the city introduced an exhibit relating to the acquisition by Highland Transit, Inc. of the operating rights and properties of a predecessor company in the middle of 1945.[3] According to this exhibit the depreciated value of the physical properties, as carried on the books of the predecessor company, was $5,629 as of May 31, 1945. The purchase agreement dated June 1, 1945, a copy of which was included in the exhibit, indicates that Highland Transit, Inc. paid $4,300 for the operative rights and other intangible assets and $70,700 for the physical properties acquired. The Los Angeles City representative held that the purchase price of the properties was excessive, that Highland's charges to depreciation, based on such purchase price, were excessive, and that the loss "might well be merely a bookkeeping entry."

A senior transportation engineer of the Commission's staff testified concerning a study he had made in connection with the application of Highland Transit, Inc. of the public transportation facilities in San Pedro.[4] He testified that Highland Transit, Inc., the La Rambla Line of Robert Landier, and three lines of the San Pedro Bus, Inc. compete for the local passenger business of San Pedro, operating with a five-cent fare limit and providing interline transfers. He found considerable overlapping of what he considered to be normal service areas. The engineer also testified that he had made checks of the passenger traffic volume of Highland Transit, Inc. and

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[3] Highland Transit, Inc. did not come under the jurisdiction of this Commission until its operations were extended into county territory at a later date (Decision No. 26878, September 18, 1945).

[4] No data were presented by the Commission's engineering staff in connection with the application of Robert Landier.

had found that, except during the peak periods, the buses moved under relatively light loads. He believed that the fare increase proposed would not provide Highland with the revenue increase desired; on the contrary, he thought that because of the availability of competing services to many of the patrons of Highland, a fare increase would result in a substantial diversion of traffic and lower operating revenues than are earned under the existing fares. He asserted that the competition of other lines would also prevent Highland from improving its load factor through reduced schedules since some passengers would be attracted to the lines providing a more frequent service. Because of the various competitive aspects, the engineer could see no real solution to Highland's revenue problems other than bringing all the lines in San Pedro under one management, so that the present routes could be realigned to eliminate service duplication, to minimize overlapping, and to establish an efficient operation commensurate with the public need. He said that such integration would also permit such orderly fare adjustments as might be found necessary.

The view of the Commission engineer that solution of the passenger transportation problems of San Pedro could be reached only through coordination of the existing companies was shared by an engineer of the Board of Public Utilities and Transportation of the City of Los Angeles. He believed that granting of the fare increase sought by Highland Transit, Inc. would impede the attainment of such coordination. Basing his conclusions upon studies he had made of transportation problems elsewhere in Los Angeles, he said that as fares become more divergent between separate companies serving an area, the difficulties of developing a coordinated operation are increased.

A principal accountant of the Commission's staff testified concerning examinations he had made of applicants' records. He introduced balance sheets and income statements which he had developed from the books of account. According to the income statements, Highland Transit, Inc. lost $8,422 from operations during the first eight months of 1946 and the La Rambla Line lost $2,013 from operations during the first six months of 1946.

With respect to Highland Transit, Inc., it appears that charges totalling $15,895 to depreciation expense for the seven months ending July 31, 1946, are excessive. The exhibits indicate that the depreciation charges were computed on the basis of price paid for the properties at the time of their acquisition by Highland from its predecessor, plus the costs of properties purchased subsequently. Counsel for this applicant stated that the prices paid for the properties were determined after appraisal by an officer of the applicant, and represented fair market values at the time of purchase. However, the wide spread between the $70,700 paid by Highland for the tangible assets and the $5,629 book value of those assets reflected by the balance sheet of the prior owner raises serious doubts as to the reasonableness of the valuation. These doubts are strengthened by the fact that four of the twelve buses included in the properties were sold within a year of their acquisition at a total price of $3,450, whereas Highland's recorded book cost of these four vehicles was $11,200. Depreciation reserves accumulated by Highland on these four vehicles to the time of their sales amounted to $5,444, and the recorded book loss from the transaction was $2,306.

Highland Transit, Inc. was not subject to the jurisdiction of this Commission when it commenced operations in San Pedro. Nevertheless, the fairness of the property valuations included in Highland' books should be fully supported by affirmative evidence in this application to increase fares, particularly in view of the important bearing which such valuations may have upon the fares in question. For rate-fixing purposes the consideration paid by a purchaser of public property is not binding upon the Commission as a measure of value. For the reason that the property valuations were not reasonably established for rate-fixing purposes, the charges to depreciation expense are not acceptable components of the loss claimed.

In another respect Highland's depreciation charges are subject to question. The record indicates that depreciation schedules established by this applicant for each of the twelve buses acquired from its predecessor were established on the basis of an estimated service life of two years for each vehicle. Of the twelve buses, one was built in 1924, one in 1936, one in 1937, three in 1939, and six in 1942. It was not explained why two years were reasonable estimates of the remaining service lives of all of the vehicles, or why the depreciation charges computed on such service lives should be accepted as reasonable.

For the foregoing reasons, it cannot be determined from the record whether the loss of $7,641 recorded on Highland's books for operations from January 1 to July 31, 1946, is an actual loss, or whether it is largely a bookkeeping loss resulting from excessive depreciation charges. The full amount of $15,895 charged to depreciation expense for the period has not been shown to be a proper charge to operating expense, but no specific adjustment in this item can be calculated on this record.

Highland estimated that it would have lost $17,988 for the year ending July 31, 1946, if costs prevailing at the end of the period had been incurred throughout the entire year. The amount charged to depreciation expense during the same period was $34,119. Since the record indicates that some indeterminate adjustment should be made in depreciation, it cannot be determined what the net loss or profit would have been after such adjustment. Turning to the future, Highland estimated that it would incur a loss of $21,792 for the year ending July 31, 1947 if present fares were continued. This estimate, however, includes a revenue reduction of about $27,000 predicated upon extension for the year of reduced patronage experienced during a period of only three months; and is subject in part to the depreciation questions already raised.

Under all the circumstances, the revenue needs of Highland are so indeterminate that there is not an acceptable basis on this record for authorizing any specific increase in rates. The application will be denied.

We turn now to consider the justification submitted in support of the proposed fare increase on the La Rambla Line. In this connection certain aspects of the other bus operations of Robert Landier command attention. From an exhibit it appears that about thirty per cent of the route of his La Rambla Line is traversed by the other three lines managed by Landier. At least one of these lines maintains a five-cent fare in which no increase is proposed. Since the public should not be burdened with the costs of needless duplication of service, Landier should, before seeking to increase fares, ascertain whether he can effect operating economies by rerouting his La Rambla Line or consolidating or coordinating it with the other lines he operates.

Robert Landier expected some increase in operating expenses. Basing estimates upon his experience for the six months ending June 30, 1946, he believed that higher costs for the remainder of the year would increase total expenses by $1,829 over a six-month period. This expense increase, added to the six-months' operating loss of $2,180 actually experienced, produces a total anticipated loss of $4,009 from six months' operations. Not all of the expense increases claimed in the exhibits were shown to be definitely certain, and some of them may not materialize in full. Also, as hereinbefore indicated, it may be that some operating economies in the La Rambla line can be developed through rerouting, or through coordination or consolidation with Landier's other lines. However, although there is question whether the full fare increase sought by Landier for his La Rambla Line is necessary, the record is convincing that the revenues of this line are deficient and should be augmented.

Nevertheless, for a reason now to be considered, the record does not permit the granting of any specific fare increase for the La Rambla Line at this time. An integral part of the proposed fare structure is the continuance of existing transfer privileges from and to certain other lines operating within San Pedro. Under the prevailing transfer rules, passengers boarding the buses of other lines may transfer to the La Rambla Line without payment in addition to the initial five-cent fare. The same transfer privileges are accorded passengers who wish to transfer from buses of La Rambla Line to buses of the other lines. Should a fare in excess of five cents be authorized for the La Rambla Line without change in present transfer provisions, passengers riding locally on that line would pay such higher fare, but passengers transferring from other lines would be privileged to travel to any point on the La Rambla Line for the five-cent fare paid to the originating line. No attempt was made to justify a discriminatory situation which would result if passengers travelling on the La Rambla Line only were required to pay a higher fare than were passengers transferring to that line from other lines. Since Robert Landier's proposal contains no alternative to the continuance of existing transfer privileges, his application must be denied because, among other reasons, of the discriminatory fare structure it would produce.[5]

The overlapping of service areas among the three companies serving San Pedro, and the low load factors developed in connection with the application of Highland Transit, Inc., are indications that the competition among the three carriers for the available traffic may be resulting in wasteful and inefficient practices which are needlessly dissipating the resources of these carriers. It appears that such competition limits the extent to which the carriers individually can reduce wasteful practices, since reductions of schedules or other operating changes would result in diversion of traffic to other lines. This competitive factor likewise limits the extent to which the carriers individually can increase their revenues through fare increases.

The record in Landier's application shows that the staffs of the Commission and of the Board of Public Utilities and Transportation of the City of Los Angeles are now studying the operations of all passenger transportation facilities in the San Pedro area. Through such studies, with the cooperation and assistance of the applicants herein, it may be that changes beneficial to the operators

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[5] The fare proposal of Highland Transit, Inc. is subject to a similar objection. The record in the Landier application indicates that San Pedro Motor Bus Company has filed with the Board of Public Utilities and Transportation of the City of Los Angeles an application to establish a seven-cent fare on three routes.

and to the residents of the community can be developed. In the meantime, the applicants are free, of course, to propose to this Commission such fare revisions as they believe to be justified in light of the foregoing discussion and conclusions.

Upon careful consideration of all of the facts and circumstances of record in these proceedings, the Commission is of the opinion and finds that the increases sought have not been justified. The applications will be denied.

ORDER

The above entitled applications having been heard and submitted, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that the above entitled applications be and they are hereby denied.

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 3rd day of December, 1946.

Harold P. Huls
Justus F. Craemer
Franklin [illegible]
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R. F. [illegible]
Commissioners