

ORIGINAL

Decision No. 42552

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Sacramento City Lines for an)
order granting permission to in-)
crease its present token rate of)
fare from 5 tokens for 35¢ to 4)
tokens for 30¢.)

Application No. 30442

Appearances

Downey, Brand, Seymour and Rohwer, by Harry B. Seymour,
for applicant.
Edward M. Glenn, B. W. Cavanaugh, and D. J. Faustman,
for City of Sacramento, protestant.
Florine Thompson, for Fruitridge Manor Home Owners'
Association; Mrs. E. A. Schwing, for Sacramento
Women's Council; and Julius Uhlig and
Lydia Harris, in propria persona; protestants.

O P I N I O N

Applicant is a passenger stage corporation engaged in the transportation of passengers within and in the vicinity of Sacramento. By this application, as amended, it seeks authority to establish increased fares.

A public hearing was had at Sacramento on September 22 and 23, 1949, before Examiner Jacopi.

Applicant's present fares are based upon two fare zones. The adult fares are 10 cents cash or one token, and 20 cents cash or two tokens, according to the zone or zones involved. The tokens are charged for at the rate of 5 tokens for 35 cents. Authority is sought in the amended application to increase this charge to the basis of 5 tokens for 40 cents. No other change in the existing fare structure is proposed.

The record shows that wage increases amounting to 5 cents per hour for drivers and 4 cents per hour for shop employees were granted under the new labor agreements effective August 1, 1949 and September 1, 1949, respectively. It is alleged that the margin between applicant's revenues and expenses has become unsafe due to the greater expenses involved in the wage adjustment coupled with a steady drop in the volume of traffic. It is further alleged that the sought increase is necessary to avoid impairing the service.

Evidence concerning applicant's financial condition was offered by its general auditor, by an engineer from the Commission's Transportation Department and by an engineer (hereinafter referred to as the city engineer) from the City of Sacramento's Traffic Engineering Department. The witnesses submitted and explained exhibits generally consisting of balance sheets, operating statements, studies of revenues, expenses and traffic flows and trends, depreciation and rate base statements, and forecasts of the estimated results of operation for future 12-month periods under the present and proposed fares.¹ The Commission engineer also introduced an estimate of the operating results under alternate fares. The figures in the following table were taken from the exhibits in question. ✓

¹ Most of the city engineer's exhibits were in graph form. They included analyses of revenues and expenses, trends of revenues and expenses for the various routes operated, traffic flows, vehicle miles, passengers per vehicle, expenses per mile by major accounts, accident experience, commodity price index, and growth trends of Sacramento as indicated by newspaper circulation, telephone connections, gas customers, and bank debits. The witness also submitted a study of the management fees paid by the applicant to its parent company.

Estimated Results of Operation For Future 12-Month Periods
Under The Present, Proposed and Alternate Fares

Present Fares (1)

	(3) <u>Applicant</u>	(4) <u>Commission Engineer</u>	(4) <u>City of Sacramento</u>
Revenues	\$1,221,425	\$1,260,320	\$1,276,021
Operating Expenses	<u>1,215,754</u>	<u>1,155,065</u>	<u>1,186,832</u>
Net Operating Revenues before Income Taxes	5,671	105,255	89,189
Income Taxes	(5)	40,160	35,771
Net Operating Income	\$ 5,671	\$ 65,095	\$ 53,418
Rate Base	\$ 881,704	\$ 843,820	\$ 788,246
Rate of Return	.0064%	7.71%	6.78%
Operating Ratio before Income Taxes	99.54	91.65	93.01

Proposed and Alternate Fares (2)

	(3) <u>Applicant</u>	(4) <u>Commission Engineer</u>	
	<u>Proposed Fares</u>	<u>Proposed Fares</u>	<u>Alternate Fares</u>
Revenues	\$1,332,825	\$1,361,760	\$1,313,190
Operating Expenses	<u>1,225,099</u>	<u>1,157,030</u>	<u>1,156,090</u>
Net Operating Revenues before Income Taxes	107,726	204,730	157,100
Income Taxes	38,256	80,425	61,145
Net Operating Income	\$ 69,470	\$ 124,305	\$ 95,955
Rate Base	\$ 881,704	\$ 843,820	\$ 843,820
Rate of Return	7.88%	14.73%	11.37%
Operating Ratio before Income Taxes	91.92	84.97	88.04

- (1) Present fares are 10 cents and 20 cents cash with tokens 5 for 35 cents.
- (2) Proposed fares are 10 cents and 20 cents cash with tokens 5 for 40 cents.
Alternate cash fares are the same as proposed fares but tokens would be 4 for 30 cents.
- (3) Estimated results are for the 12 months ending August 31, 1950.
- (4) Estimated results are for the 12 months ending September 30, 1950.
- (5) Income tax not payable account interest credit exceeds the net operating income shown.

The foregoing estimates show that the Commission engineer and the city engineer sharply disagreed with applicant's auditor as to whether or not the present fares would be inadequate for future operations. The computations of the witnesses indicate that material differences exist in the forecasts of future revenues and operating expenses and in the estimates of the rate base. These differences must be reconciled in order to determine the adequacy or inadequacy of the present fares for future operations.

The variations in the witnesses' estimates of future revenue under the present fares are indicated by the following figures taken from exhibits of record:

<u>Applicant (1)</u>	<u>Commission Engineer (2)</u>	<u>City of Sacramento (2)</u>
\$1,221,425	\$1,260,320	\$1,276,021

- (1) Estimated revenue for the 12 months ending August 31, 1950.
- (2) Estimated revenue for the 12 months ending September 30, 1950.

The witnesses were in agreement that the volume of traffic for the next 12 months would drop below that heretofore prevailing. They disagreed, however, with respect to the amount of the anticipated decrease. Applicant's general auditor estimated that the traffic would amount to 6.0 per cent less than that for the 12 months ended August 31, 1949. The Commission engineer and the city engineer calculated that the traffic level would be 5.0 per cent and 3.4 per cent, respectively, below that prevailing in the year 1948. The 6.0 per cent rate of decrease used by the auditor was based upon a drop in traffic of 5.88 per cent in the

four months May to August, 1949, and consideration of the continuance of the decrease during the first ten days of September, 1949, the last period for which records were available. The witness felt that the steady decline in traffic during the four months in question indicated an accelerated downward trend for the future. The 5.0 per cent decrease in traffic employed by the Commission engineer was based upon a drop of 2.9 per cent in the traffic for the first 8 months of 1949 below that for the same period of 1948, together with consideration of the more marked decrease shown for the months of July and August and the first ten days of September, 1949. The estimated decrease in traffic calculated by the city engineer was predicated on the traffic volume for the first 7 months of 1948 and 1949. It does not give effect to the further decline in traffic that occurred in August and the first ten days of September, 1949.

The general auditor's estimate of the anticipated decrease in traffic was developed on the basis of traffic trends for a period of only 4-1/3 months. It is well recognized that passenger travel fluctuates considerably from month to month; the traffic volume being small in some months and relatively heavy in other months. These fluctuations may be given appropriate effect in forecasts of traffic when the calculations are based upon past operations embracing a reasonably substantial period of time. The period used by the auditor in developing his estimate of the drop in future traffic is too short to be considered representative of the traffic trend.

The amount of the anticipated reduction in the volume of traffic as developed by the Commission engineer rests upon broader bases than those used by the auditor and the city engineer. This estimate appears to be reasonable and will be adopted.

In regard to the operating expenses, the principal differences in the witnesses' forecasts of the total expenses under the present fares resulted from variations in certain of the individual expense items as shown below:

	<u>Applicant</u>	<u>Commission Engineer</u>	<u>City of Sacramento</u>
Repairs to revenue equipment	\$132,000	\$123,505	(1)
Servicing revenue equipment	64,500	59,340	(1)
Drivers' wages and bonuses	450,000	431,970	(1)
Employee welfare	18,000	12,600	(1)
Management and supervision fees and expenses	48,215	30,000	\$32,100

(1) The witness considered all operating expenses as a group. No breakdown was furnished.

The expenses assigned by the general auditor for repairs to and servicing of equipment and for drivers' wages admittedly were not based on recorded book costs for the operations in any past period of time. For example, the substantial labor costs involved in repairing and servicing equipment were computed by including all employees involved at their full weekly wages for the entire year without consideration of any differences in past experiences. Like procedure was followed in computing the drivers' wages. The auditor also included about \$7,000 in the maintenance expenses to cover a greater amount of maintenance materials said to be required because of the age of the equipment. On cross-examination, however, he admitted that applicant's past experience showed that the use of more materials than ordinarily required for such equipment would seldom be necessary.

The Commission engineer's estimates of the expense of maintaining the equipment and of the drivers' wages were based upon

consideration of the operations and the recorded book costs for the year 1948, the 12 months ended June 30, 1949, and for the year 1949 as projected from the book records for the first six months thereof. The engineer's figures included adjustments for the recent wage increases and other operating factors influenced by the anticipated drop in traffic. He also gave effect to economies resulting from the installation of new fare boxes in the buses. The engineer calculated that the use of fare boxes would eliminate a material amount of the 15 minutes per day allowed drivers for making their reports and returns of cash and token fares and that the savings involved would virtually offset the wage increase granted to the drivers.

It is evident that the auditor's estimates of the cost of maintaining the equipment and of the drivers' wages require revision to bring them into reasonable conformity with future conditions as indicated by the record. On the other hand, the Commission engineer's calculations were based upon recorded book costs with compensating adjustments for wage increases, known economies and other anticipated changes in applicant's future operations. His estimates appear to be reasonable.

The greater cost shown by the auditor for applicant's employee group insurance and welfare plan appears to be proper. The record shows that under a recent agreement with the employees the entire cost of the group insurance will be borne by applicant.

In regard to the charge for management, accounting and supervision, the record shows that applicant does not maintain its own staff of general officers and that the functions in question are performed by the parent company under a contractual arrangement. The

latter is compensated therefor on the basis of a percentage of the
3
monthly gross revenue.

The auditor asserted that the charge resulting under the percentage basis was reasonable for the services performed. According to his testimony, all of the managerial duties, with the exception of limited authority delegated to the local manager, and all of the accounting work, are performed by the parent company. In addition, the superintendents of transportation, maintenance, construction, inventory, and safety and personnel were said to advise and assist applicant's local employees in solving problems encountered in conducting the operations. The centralized purchasing also involved in the contractual arrangement was said to afford applicant prices for materials and supplies lower than those otherwise obtainable. The auditor claimed that the broad knowledge and experience possessed by the members of the parent company's staff were invaluable to applicant and could not be duplicated in the event that it maintained its own staff. With respect to the variations resulting in the cost of the services to applicant under the percentage basis, it was conceded that an increase in fares would not impose greater managerial responsibilities on the parent company's staff.

The city engineer asserted that the amount sought by applicant under the percentage basis for the services in question was excessive and should not be allowed for rate-making purposes. He contended that the charge should be based on the amount ordinarily required for applicant to maintain its own staff of general officers

³The parent company is the Pacific City Lines. Under the arrangement the monthly charge is computed at the rate of 5 per cent of the first \$50,000 of gross revenue, 3 per cent of the next \$50,000, and one per cent of the gross revenue in excess of \$100,000.

and employees. He submitted an exhibit purporting to show the number of employees and the annual salaries that would be involved in maintaining the separate staff. Applicant's auditor made similar calculations.

The estimates submitted by the two witnesses are shown in the margin below.

The Commission engineer's estimate of the cost of management accounting and supervision was developed from a study of the expenses actually incurred for such services in the year 1948 by other passenger stage corporations maintaining their own administrative, accounting and supervisory staffs. In the calculations, he developed the ratio of administrative and general expenses (including supervision of transportation and shop and garage) to the total of all other operating expenses. The results were compared with applicant's experience for the same period under the percentage basis hereinabove indicated. The engineer's calculations showed that for applicant the ratio in question was 15.8 per cent, for Bay Cities Transit Company of Santa Monica it was 9.8 per cent, and for nine other passenger stage corporations it was an average of 12.1 per cent.

	<u>Applicant</u>	<u>City's Engineer</u>
President	\$12,000	\$12,000
Vice-President-Secretary-Treasurer	7,500	--
Auditor	6,000	6,000
Assistant Auditor	--	4,000
Director of Safety and Personnel	5,400	--
Accountant	3,600	--
Clerks	6,300	5,400
Stenographers	4,800	2,700
Calculating machine operator	2,400	--
General Expenses	<u>2,000</u>	<u>2,000</u>
Totals	\$50,000	\$32,100

The engineer stated that he considered the Bay Cities Transit operation substantially comparable to that of applicant. He indicated that the other nine carriers reviewed involved smaller operations. Counsel for applicant contended that the figures for Bay Cities Transit were deficient in that no charges were shown for supervision of shop and garage and the operation was not fully comparable with applicant's with respect to mileage operated and volume of traffic. The engineer showed, however, that his estimate was based upon a ratio of 13.5 per cent instead of the 9.8 per cent developed from the actual figures for Bay Cities Transit. The upward adjustment was said to be for the purpose of bringing differences in the operations to a comparable basis.

The record discloses that the percentage basis used by applicant's auditor in determining the charge for management, accounting and supervision was established by the parent company's board of directors. It was said to be a judgment figure. No attempt was made to show the considerations given effect in arriving at the percentage basis or the actual cost incurred by the parent company in providing the various services in question. Neither was any other evidence of probative value submitted showing that the charge was not excessive. The estimates of the expenses involved in applicant's maintaining its own administrative staff introduced by the auditor and the city engineer were not supported by studies of factors ordinarily influencing the determination of the size of the force required. On the other hand, the Commission engineer's approach to the problem on the basis of the actual experience of a substantially comparable operation furnishes material guidance in determining the amount that should be allowed for the managerial and other services in question. On this record, it is concluded that \$30,000 per year should reasonably compensate the parent company.

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The cost of public liability and property damage insurance was developed by applicant's auditor on the basis of 4.25 per cent of the passenger and charter revenue. The insurance is carried on this basis with an insurance firm which is affiliated with the parent company and which provides such coverage for bus operations controlled by the latter. The city engineer contended that the cost of the insurance in question was excessive. He submitted exhibits indicating that applicant's accident experience for the years 1947 and 1948 was unusually high in comparison with that of six other California bus lines controlled by the parent company. The engineer alleged that applicant's high accident experience resulted in much greater insurance costs than would ordinarily obtain. He urged that the entire accident and insurance problem should receive the Commission's attention.

The safety director of the parent company testified that applicant's high accident experience was mainly due to narrow streets, unusual traffic congestion and the condition of the streets and curbs. He asserted that a large proportion of the accidents occurred while passengers were boarding or alighting from the buses and that such accidents were attributable to the poor condition of the streets and curbs at the bus stops. The witness explained in detail applicant's safety program for reducing the number of accidents and his activities in connection therewith. He conceded, however, that the results obtained thus far were not substantial. Applicant's auditor disputed the claims of the city engineer that the cost of insurance would be lower if it were placed with an independent company. He asserted that the manual rates would amount to about 11 per cent of the revenue instead of 4.25 per cent now paid.

It has not been shown on this record that the estimated cost of the insurance in question would be excessive under the present

operating conditions and those which are expected to prevail during the next twelve months. In fact, the record indicates that if the insurance were placed elsewhere the cost would be substantially more than that presently obtaining. Applicant's relatively high accident experience will be hereinafter dealt with. It should be pointed out that the foregoing finding is not to be taken as approval of applicant's theory that the insurance costs would be increased in the event that the sought adjustment of the fares were granted. It was not established that the insurance risk would be greater under such circumstances. It is reasonable to assume that the risk would vary with the trend in the number of passengers, which the evidence indicates will be downward (Decision No. 42268 of November 23, 1948, in Application No. 29607 of Pasadena City Lines, Inc.).

We turn now to the differences in the witnesses' calculations of the estimated rate base. Applicant's auditor allowed a total of \$24,500 as the use value of seven fully depreciated buses. The Commission engineer and the city engineer made no allowance for use value.⁵ However, the buses are now used and useful in applicant's service.

The auditor asserted that the vehicles were in excellent condition and that the rate base would have reflected a substantially greater amount than the sought use value had applicant purchased new buses. He stated that the amount included in the rate base represented the current market value of the equipment. The amount claimed by applicant, however, appears excessive. For the

⁵ No depreciation on these buses was included by the three witnesses in the estimates of operating expenses.

purpose of this proceeding, the sum of \$14,000 will be allowed, but no further depreciation may be charged against the buses.

With the adjustments hereinabove indicated, the estimated result of applicant's operations for a future 12-month period under the present fares would be as follows:

Revenue	\$1,260,320
Operating Expenses	<u>1,160,465</u>
Net Operating Revenue	
before Income Taxes	99,855
Income Taxes	<u>37,590</u>
Net Operating Income	\$ 62,265
Rate Base	857,820
Rate of Return	7.26%
Operating Ratio	
before Income Taxes	92.08

In addition to the protest of the City of Sacramento, the granting of the sought increase was opposed by representatives of Fruitridge Manor Home Owners Association and Sacramento Women's Council and by two interested parties appearing in their own behalf. The representative of the aforesaid Association also objected to the existing interzone fare being higher than the intrazone fare, and the representative of the Women's Council requested the elimination of skip-stops on the ground that such method of operation allegedly worked a hardship on passengers during the winter months. However, no evidence was submitted showing that the interzone fare is improper nor what effect its elimination and discontinuance of skip-stops would have upon the financial results of operation. It appears that any downward adjustment of the interzone fare without compensating increases in other fares would

reduce applicant's revenues and that the elimination of the skip-stops would result in a material increase in operating expenses. Under the circumstances, this record affords no basis for making the changes suggested.

The record indicates that applicant's operations for a future 12-month period under the present fares would result in an operating ratio of 92.08 before provision for income taxes and a rate of return of 7.26 per cent. Under the circumstances, it must be concluded that it has not been affirmatively shown on this record that applicant's present fares are inadequate or that the sought increase is necessary. The application should be denied.

As hereinabove discussed, the record indicates that applicant's accident experience has been unduly high in comparison with that of certain other bus lines. Although applicant has taken action for the purpose of reducing the number of accidents, the Commission is not satisfied with the results thus far obtained. Applicant will be expected to intensify its accident prevention activities at once and to report to the Commission on February 1 and May 1, 1950, the progress made toward improving its accident experience. In this connection, the city manager of the City of Sacramento testified that the city authorities had heretofore cooperated with applicant in various respects, including maintenance of bus stops and improvement of streets, and that such cooperation would be continued in the future. This policy should be of material aid to applicant in endeavoring to improve its accident experience.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that the sought increased fares have not been justified. The application will be denied.

O R D E R

Public hearing having been had in the above-entitled application and based upon the evidence received at the hearing and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that the above entitled application, as amended, be and it is hereby denied.

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

Dated at San Francisco, California, this 22nd day of November, 1949.

R. F. Johnson
Justice J. Cravens
James J. Lawrence
Harold P. Hyde
Herbert P. Potts
Commissioners