Decision No. 44890

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Ray Withers and Andrew Byrd, a copartnership, doing business under the firm name and style of San Mateo Transit, for an order authorizing an increase in rates.	Application No. 31249

Appearances

Edward M. Berol, for the applicant.
Arthur J. Harzfeld, City Attorney, for the City of San Mateo.
I. Karmel, City Attorney, for the City of Burlingame.
Helen Negrin, interested party.
Will T. Van Voris, for the San Mateo Union High School District.
Wilson E. Cline, attorney for the Transportation Department, Public Utilities Commission.

O P I N I O N

Ray Withers and Andrew Byrd, copartners, doing business as San Mateo Transit, conduct a passenger stage corporation within and between the contiguous municipalities of Burlingame, San Mateo, Hillsborough and Belmont. By this application, as amended, authority is sought to establish increased fares.

Public hearings were had before Examiner Lake at San Mateo and San Francisco.

Applicants' present fares are established, generally, on a zonal basis. The adult one-way fare for the transportation within one zone is 10 cents with a reduced commutation fare of 24 rides for $2. For transportation between two and three zones the adult fare is 12 cents and 15 cents, respectively. A two-zone 10-cent fare is provided for transportation between Broadway Avenue in Burlingame and

Third Avenue in San Mateo.[1] Higher fares ranging from 20 cents to 35 cents are maintained by applicants for transportation beyond three zones. Reduced fares are provided for children under 12 years of age and for students.

The authority herein sought is to increase the 10-cent fare to 12 cents and the 12-cent fare to 15 cents, and to increase the commutation fare to 25 rides for $2.50. Authority is also sought to increase the present one-way adult fare between Delmar Way and Isabelle Avenue in San Mateo and Black Mountain Road and Marlborough Road in Hillsborough from 32 cents to 35 cents. No change is proposed in the children's fares, students' fares nor in other fares maintained by applicants. As an alternative basis of fares, applicants submitted a proposal which contemplates a one-zone fare structure with a basic fare of 15 cents and reduced fares of 8 tokens for $1 or 50 tickets for $5.

Applicants' fares were last increased in 1948. It is alleged that since that time substantial increases have occurred in the cost of labor, licenses and fuel. For these reasons it is contended the increased fares herein sought are necessary if adequate and efficient service is to be continued.

Evidence was offered by the applicants, a certified public accountant, an appraiser of real property, a transportation consultant, an engineer from the Commission's transportation department and by another interested party. Exhibits were submitted consisting of balance sheets, operating statements, studies of traffic flows and

---

[1] According to the record, this fare was established to meet the competition of the Municipal Railway of San Francisco and the Pacific Greyhound Lines. The former competitor no longer conducts operations in this area. The fares of Pacific Greyhound Lines are now higher than those maintained by applicants.

trends, depreciated rate base statements and forecasts of the estimated results for a test year under present, proposed and alternate fares.[2]

The figures set forth in the tables below were taken from these exhibits.[3]

Estimated Results of Operations for Test Year

Under Present Fares

	Applicant	Commission Engineer
Number of Passengers	1,133,946	1,184,810
Revenue (1)	$142,895.52	$148,472.00
Expenses	151,479.88	139,304.00
Net Operating Revenue before income taxes	(8,584.36)	9,168.00
Operating Ratio	106.00%	93.8%
Rate Base	$84,928.18	$58,800.00
Rate of Return	----	15.6%

( ) Indicates loss.

Under Proposed and Alternate Fares

	Applicant		Commission Engineer(2)
	Proposed Fares	Alternate Fares	Proposed Fares
Number of Passengers	1,089,849	1,067,687	1,138,200
Revenue (1)	$155,408.03	$159,398.61	$161,851.00
Expenses	151,479.88	151,479.88	139,304.00
Net Operating Revenue before income taxes	3,928.15	7,918.73	22,547.00
Operating Ratio	97.47%	95.03%	86.07%
Rate Base	$84,928.18	$84,928.18	$58,800.00
Rate of Return	4.63%	9.32%	38.35%

(1) Includes revenue received from advertising, mail and school contracts.
(2) The Commission witness did not submit operating results under the alternate fares.

---

2 The test period used was for the year ending June 30, 1951.

3 In some instances the figures shown in the exhibit were adjusted to eliminate errors in addition and extension, and to reflect conditions under the amended application.

The differences between the witnesses' forecasts of the results of future operations stem largely from the revenue estimates and differences in anticipated operating expenses and in the rate base. Because of the substantial variations in the witnesses' estimates, it is necessary, in order to determine the adequacy or inadequacy of the existing fares, to first reconcile the differences.

The transportation consultant engaged by applicants testified that the revenue estimate he had employed in his study was founded on the total revenues appearing on the Company's books for the 12-month period ending May 31, 1950. He stated that he had allocated these revenues to the fare zones by means of percentages and divided the result thereof by the applicable fare to determine the number of passengers transported in each fare zone.

The Commission engineer testified that the revenue figures he had used in his study were based upon a passenger count developed from a survey conducted over a five-day period and the results thereof expanded for 12 months.[4] By applying the number of passengers in the various fare zones to the applicable fare, the revenue for each fare zone was established. The commutation revenue and the number of commute passengers were determined from the Company's records of sales. Other revenues, such as revenues for mail, advertising and charter service, were based upon the experience of 1949.

The Commission witness was of the opinion that the differences in estimates of revenue were caused by an undercollection of existing fares. He stated that in the conduct of the survey heretofore referred to, the revenues collected did not equal the number of

---

[4] The study was conducted by members of the Commission's staff, assisted by employees of the applicants. It was said to include a passenger count in each fare zone for three week days and two Saturdays.

passengers counted. On several occasions, he stated, it had been observed that passengers traveling in interzone service did so at single-zone fares.[5] The witness asserted that applicants did not maintain an adequate system for the collection of fares from inter-zone passengers but relied solely upon the memory of the drivers to determine when passengers traveled between zones. He stated that if applicants collected their present fares from all passengers the estimated revenue result he had developed would most likely prevail for the test year.

To the extent that applicants' estimates do not include all of the revenues which are applicable under their tariff fares, they are of little value in forecasting expected results. The anticipated number of passengers and the amount of revenue derived therefrom as developed by the Commission engineer rest upon broader bases than those used by the applicants. The estimates submitted by the staff witness appear to be reasonable and will be adopted.

The principal differences in the estimates of anticipated expenses for the test year under present fares result from variations in the salaries and expenses for the general officers and in the estimate of the depreciation expense.

The carrier claims $14,400 for salaries and $665 for expenses for the two partners. Both of the officers of the Company testified that they spend their full time in the conduct of the operation, and the majority of their time is devoted to managerial and supervisory duties. They believed that the amounts they had allocated

---

[5] Another Commission witness testified that he had traveled on applicants' buses between zones and on four occasions at a single zone fare. He stated that he was not asked to pay the additional fares required by applicants' tariff. He also observed other passengers not paying the tariff fares.

were reasonable in view of the service they rendered and would be necessary if they were to employ efficient personnel to perform the same duties.

The staff's witness allowed $11,000 for management salaries. He testified that his estimate was based upon the results of a study of similar expenses of other carriers conducting operations of the same size and character as those performed by applicants. He submitted evidence of like costs of four carriers who operate greater mileages and handled more revenue than applicants. The sum of the salaries and expenses of the officers of three of the carriers studied was less than the amount assigned by the Commission witness. For one of the carriers the amount was the same. Applicants' estimate, he contended, was out of proportion with the size of the operations. He asserted that it would not be fair to burden the rate payers using applicants' service with administrative costs which were higher than those prevailing elsewhere.

Admittedly, applicants' estimates are judgment figures. They were not supported by evidence of probative value. In light of the size and nature of the operations here involved, the amounts claimed have not been shown to be proper. On this record it is concluded that $11,000 per year is sufficient for fare-making purposes, for salaries and expenses for management.

The depreciation expense, claimed by applicants and recommended by the staff engineer, was $20,652.92 and $16,138.00, respectively. The differences therein arise principally from the lives assigned to the revenue equipment. The Commission witness's estimate is based upon a service life of seven years for new equipment and four and five years' life for used equipment, as compared with lives of five years for all equipment employed by applicants. Applicants' revenue equipment lives, according to the certified public accountant, corresponded to book values and values which were used for income tax purposes, whereas the engineer developed the lives of the equipment upon (a) the condition of the equipment when originally purchased and the use to which it was put and (b) upon the experience of other carriers operating like equipment under similar circumstances. The amount of depreciation expense claimed by applicants has not been justified on this record. For the purpose of this proceeding, depreciation expense in the amount of $16,138 will be allowed.

Other expense items claimed by applicants as "judgment figures" could well be challenged.[6] For the purpose of this record, however, and in view of the order which follows, the expense estimate of applicants corrected to reflect the adjustments hereinbefore indicated will be allowed. The expenses so developed amount to $142,899.96.

With the adjustments hereinbefore indicated, the estimated results of applicants' operations for the test period, under present fares, would be as follows:

Revenue	$148,472.00
Operating Expenses	142,899.96
Net Operating Income before income taxes	5,572.04
Operating Ratio	96.25%

The rate of return as calculated by applicants' and the Commission engineer's rate bases would be 6.56% and 9.48%, respectively.[7]

[6] For example, applicants claim the following expenses for the test year compared with those experienced in 1949:

	1949	Test Year
Repairs to shop equipment	$ 16.70	$ 100.00
Tariffs and schedules	303.36	600.00
Tickets and transfers	144.64	400.00
Law Expense	150.00	1,000.00

[7] The difference in the rates of return is attributable to the use of different rate bases. It is caused largely by applicants' use of appraised value of the building and land as compared with the use of book values by the Commission witness.

The Commission engineer recommended that applicants be authorized to restrict the use of school tickets to school days and school hours so that the reduced fare would be used for the purpose for which it was established. He also suggested that authorization be granted applicants to eliminate the two-zone competitive fare of 10 cents and to permit in lieu thereof the 12-cent fare for a two-zone ride to apply. He stated that since the competition in fares no longer existed there was no longer any justification for maintaining a lower fare for a two-zone ride between points in these zones than prevailed between other zones.

A further discussion of the evidence is unnecessary. It is clear that applicants have failed on this record to demonstrate their need for the additional revenues which would result from the fare increases herein sought to be established. The results of operations under the present and proposed fares estimated by applicants' witness appear to be understated. It has not been shown that applicants' fares are inadequate or that the sought adjustments are necessary.

The recommendations of the transportation engineer relating to the restriction of school children's fares and the elimination of the two-zone competitive fare appear to be reasonable. They will be adopted. The competitive zone adjustment alone will increase applicants' net operating income proportionately to the increased revenue and will produce an operating ratio of approximately 94 percent.

It has been pointed out that applicants do not maintain an adequate system for the collection of interzone fares. In order to remedy this situation applicants will be expected to take such steps as are necessary to insure collection of its tariff fares from all passengers using its service.

Upon careful consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that, except to the extent provided by the order herein, the sought increased fares have not been justified.

ORDER

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

IT IS HEREBY ORDERED that Ray Withers and Andrew Byrd, a copartnership, doing business as San Mateo Transit, be and they are hereby authorized to cancel their two-zone competitive fare of 10 cents cash and to restrict school children's fares to apply only on school days.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 31249, as amended, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to establish the increased fares and regulations shall expire ninety (90) days after the effective date of this order.

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

Dated at San Francisco, California, this 10th day of October, 1950.

R. F. [illegible]
Justus F. Craemer
Harold P. Huls
Kenneth Potter
[illegible signature]

Commissioners