

ORIGINAL

Decision No. 45196

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application)
of SACRAMENTO CITY LINES for)
an order granting permission)
to increase its present token)
rate of fare from 5 tokens for)
35¢ to 5 tokens for 40¢.)

Application No. 31434

Appearances

A. R. Thompson, D. S. Peck, Harry B. Seymour
and George H. Hook, for applicant.

D. J. Faustman and Everett M. Glenn,
for protestant.

Walter R. Sutherland, Charles W. Mercer,
Francis W. Bunker and Florine Thompson,
for interested parties.

O P I N I O N

Applicant is engaged in the transportation of passengers in and near the City of Sacramento. It seeks authority to increase its present token fare applicable to interzone and intrazone traffic from 5 tokens for 35 cents to 5 tokens for 40 cents.¹

Public hearing was had on the application at Sacramento before Commissioner Potter and Examiner Lake. An additional hearing was had for the further consideration of the interzone fares.

Applicant alleged that the need for the fare increase herein sought was occasioned by increased costs of operation coupled with a decline in passenger traffic. It further alleged that increased revenues were necessary to provide for an expansion of service on present lines and for extension of service into newly developed areas where service is not now accorded.

¹ Applicant's cash fare is 10 cents for a one-zone ride and 20 cents for a two-zone ride. In lieu of cash fares, which are not proposed to be changed, tokens may be used.

According to George H. Hook, auditor for applicant, the net operating income, after provision for income taxes, was \$36,836 for an 8-month period ending August 31, 1950. He stated that, based upon the existing downward trend of traffic and higher costs of operations, the net result under present fares for a 12-month period ending October 31, 1951, would be \$13,090. The proposed fares, he said, would produce for the same period an estimated net revenue of \$49,747. The following tabulation is a summary of exhibits submitted by this witness:

	<u>Present</u>	<u>Proposed</u>
Operating Revenue	\$1,197,500	\$1,286,000
Other Revenue	<u>600</u>	<u>600</u>
Total Operating Revenue	\$1,198,100	\$1,286,600
(1)		
Operating Expenses	\$1,177,831	\$1,184,291
Other Expense	<u>2,815</u>	<u>2,815</u>
Total Operating Expenses	\$1,180,646	\$1,187,106
Net Income Before		
Federal Income Taxes	\$17,454	\$99,494
Federal Income Taxes	<u>4,364</u>	<u>49,747</u>
Net Income	\$13,090	\$49,747

(1) Includes State Corporation Franchise Tax.

Included in the estimated expenses was \$47,900, under present fares, and \$48,860, under proposed fares, for management, supervision and accounting fees.² The Commission by Decision No. 43552, dated November 22, 1949, in Application No. 30442, declared that the \$30,000 was reasonable compensation to the parent company

²

Applicant has a contract with its parent company, the Pacific City Lines, whereby the charge for the services named is computed upon a percentage of gross revenues.

for the services it rendered. It was not shown that \$30,000 is now unreasonable. Applicant also improperly included as "Other Expense" \$2,815, interest on equipment loans. Federal income taxes were computed under the proposed fares at a rate greater than those now in effect. The estimated results of the operations adjusted to reflect a reduction in the management fees and exclusion of interest charges together with a correction in the income tax charges would be as follows:

	<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Revenue	\$1,197,500	\$1,286,000
Other Revenue	<u>600</u>	<u>600</u>
Total Operating Revenue	\$1,198,100	\$1,286,600
Operating Expenses	\$1,177,831	\$1,184,291
Adjustments for		
Management Fees	17,900	18,860
Interest	<u>2,815</u>	<u>2,815</u>
Total Adjusted Operating Expenses	\$1,157,116	\$1,162,616
Net Income Before Federal Income Taxes	\$40,984	\$123,984
Federal Income Taxes	<u>12,176</u>	<u>49,526</u>
Net Income	\$28,808	\$ 74,458
Operating Ratio After Income Taxes	97.59%	94.21%
Rate Base	\$812,859	\$812,859
Rate of Return After Income Taxes	3.54%	9.16%

The results of studies of applicant's operations under present and proposed fares for 12-month test period ending October 31, 1951, were also submitted by T. J. Canty, an Associate Transportation Engineer of the Commission. In developing his estimates, this witness

stated that consideration had been given to prevailing decline in passenger traffic and to increased operating costs. According to this witness, the net income after provision for income taxes would be \$33,503 under present fares and \$78,315 under the proposed fares for the test year ending October 31, 1951. The operating ratios would be 97.12% and 93.73%, respectively. The corresponding rates of return would be 4.26% and 9.96%.³

The differences in the estimates of applicant's witness adjusted as heretofore indicated and those of the Commission engineer stem largely from the methods of calculating the estimated number of passengers to be transported; the anticipated mileage to be operated and the variable expenses attributable thereto; and the depreciation expense.

Another Associate Transportation Engineer of the Commission's staff, W. R. Peters, submitted a report on the service and operations of applicant. In general the witness recommended additional service on existing lines in order to insure uniform and efficient service. Adoption of the recommendation, he stated, would increase the existing mileage approximately 17,500 miles a year. At the further hearing an applicant witness testified that the recommendation had been adopted.

Representatives of the City of Sacramento appeared as interested parties and assisted in the development of the record. They did not oppose the fare increase but directed their efforts to improvements in the service such as referred to above. A representative of Fruitridge Manor Home Owners Association stated that the Association was in favor of the proposed increased fare provided that the double fare for a two-zone ride was eliminated and that a single fare would apply throughout the system. She alleged that the present zonal arrangement contemplated a double fare when service was rendered a comparatively short distance beyond the first-

³ The rates of return were calculated upon a rate base of \$786,330.

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zone boundary. The proposed fare under the present double fare arrangement, she contended, would create a hardship upon families, and especially those with school children, compelled to use the service for a relatively short additional distance.

At the further hearings witnesses Hook and Canty introduced evidence with respect to the effect upon the operating results under present and proposed fares with (a) a reduction in the second-zone fare to 5 cents, and (b) the elimination of the second zone so that a single fare would apply between all points.

The net effect upon the estimated operating results as shown above under present and proposed fares by the elimination of the second-fare zone would be according to these witnesses as follows: 5

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant Witness(1)</u>	<u>Commission Engineer</u>	<u>Applicant Witness(1)</u>	<u>Commission Engineer</u>
Decrease in Revenues	\$19,700	\$17,250	\$21,510	\$19,010
Net Operating Income After Income Taxes	\$17,698	\$24,393	\$63,254	\$68,280
Operating Ratio After Income Taxes	98.50%	97.88%	95.00%	95.44%
Rate of Return After Income Taxes	2.18%	3.10%	7.78%	8.68%

(1) Adjusted as heretofore indicated.

The record is clear that under either estimate the present fares are insufficient to insure the continuance of an adequate and efficient service in the face of necessary expansion of service and the upward trend in costs of operation and decreasing volume in passenger traffic. 6 Clearly, additional revenues are necessary.

⁴According to witness Peters, the second zone embraced milcages from .8 to 2.1 miles except on routes where infrequent runs are made.

⁵Under the proposal to reduce the second-zone fare to 5 cents, the operating ratios would be slightly more favorable and the rates of return somewhat higher than those shown in the table.

⁶By Decision No. 45083, dated December 5, 1950, in Application No. 31734, applicant was authorized to extend service on certain of its routes.

The proposed fares do not appear to be unreasonable in the light of circumstances of record, except as they would relate to interzone travel. The proposal of the Fruitridge Manor Home Owners Association would remove the inequities in the present zonal arrangement and would produce sufficient revenues to permit adequate and efficient operations.

Upon careful consideration of all of the facts and circumstances of record we are of the opinion and find that the increased fare as sought in Application No. 31434, modified by the cancellation of the second-fare zone, is justified. The application, with the modification indicated, will be granted. In view of the evident need for increased revenues, applicant will be authorized to make the changes effective on less than statutory notice.

O R D E R

Public hearings having been held in the above-entitled application, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that Sacramento City Lines be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, a fare of 5 tokens for 40 cents in lieu of its present fare of 5 tokens for 35 cents.

IT IS HEREBY FURTHER ORDERED that Sacramento City Lines be and it is hereby directed to cancel from its tariffs the second-zone fare concurrently with the establishment of the increased fare herein authorized.

IT IS HEREBY FURTHER ORDERED that applicant be and it is hereby directed to post and maintain in its vehicles a notice of the increased fare. Such notice shall be made not less than five (5) days prior to the effective date of such increased fare and shall be maintained for a period of not less than thirty (30) days.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 31434 be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted 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 27th day of December, 1950.

Justice F. Gacuan
Charles H. Powell

Percey H. Potter
Commissioners