

Decision No. 45875

RECORDED

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CHESTER R. SMITH AND ORA B. SMITH,)
doing business as SANTA CRUZ TRANSIT)
COMPANY, for authority to increase)
rates.)

Application No. 32377

Appearances

Lucas, Wyckoff and Miller, by Loyd R. Miller,
for applicants.
A. R. Day and Owen Stanley, for the Commission's
staff.

O P I N I O N

Applicants are engaged in the transportation of passengers in and near the City of Santa Cruz. They seek authority to establish increased fares and to establish new fare zone boundaries on certain of their lines. Public hearing was held in Santa Cruz on June 13, 1951, before Examiner Lake.

Applicants' present adult one-way fare for transportation within one zone is 10 cents cash or one token which may be purchased in lots of 3 for 25 cents. For interzone transportation the adult one-way fare is 20 cents cash or 2 single zone tokens. The children's fares are 5 cents and 10 cents for intrazone and interzone transportation, respectively. The authority herein sought is to increase the intrazone fare to 15 cents, the interzone fare to 30 cents and the cost of tokens to 3 for 35 cents. Authority is also sought to cancel the children's fares and to permit the application

of the proposed adult fares to apply to this class of traffic.¹ In addition, applicants propose to make the fare zone boundaries the city limits of Santa Cruz. The present interzone fares apply only in connection with the Live Oak-Capitola run. The zone boundary for this line is presently 7th Avenue which is located approximately one-half mile outside of the eastern city limits. The Seabright line also extends beyond the city limits but is not now subject to interzone fares. The two segments of this line terminate about one-half mile beyond the city limits of Santa Cruz.

Applicants allege that the need for the fare increases herein sought was occasioned by increased costs of operation and a downward trend in the volume of passenger traffic.

Evidence with respect to the financial results of applicants' operations was submitted by their accountant and by a transportation engineer from the Commission's staff. The accountant testified that operations for a 12-month period ending March 31, 1951, resulted in losses of \$9,793. The Commission engineer testified that future operations for a 12-month period ending June 30, 1951, at present fares would result in losses of approximately \$23,310. Both of these witnesses introduced evidence with respect to anticipated results which may be expected for a 12-month period ending June 30, 1952, under various fare structures. The results of these estimates are shown in the following tabulation.

¹ Reduced fares are provided for school children. No increase, however, is proposed in these fares.

Results of Operation (1)

	<u>Applicants' Witness</u>		<u>Commission Engineer</u>			
	<u>Proposed Fares</u>	<u>Case I</u>	<u>Proposed Fares</u>	<u>Case I</u>	<u>Case II</u>	<u>Case III</u>
Operating Revenues	\$132,772	\$121,792	\$135,220	\$121,600	\$126,230	\$130,340
Operating Expenses	128,200	128,200	125,840	125,710	125,490	125,770
Net Income Before Income Taxes	4,572	(6,408)	9,380	(4,110)	740	4,570
Rate Base	48,612	48,612	33,800	33,800	33,800	33,800
Rate of Return	9.4%	---	27.8%	---	1.8%	13.1%
Operating Ratio	*96.56%	*105.26%	93.6%	*103.38%	99.6%	96.6%

() - Indicates Loss

* - Calculated Figure

(1) <u>Fares in Cents</u>	<u>Proposed</u>	<u>Case I (2)</u>	<u>Case II</u>	<u>Case III</u>
Intrazone				
Cash	15	12	15	12
Tokens	3 for 35	5 for 50	3 for 35	3 for 35
Interzone				
Cash	30	24	30	24
Tokens	2-(3 for 35)	2-(5 for 50)	2-(3 for 35)	2-(3 for 35)
Fare Zones				
Live-Oak				
Capitola				
Line	City Limits	City Limits	No Change	City Limits
Seabright				
Line	City Limits	City Limits	No Change	City Limits

(2) This fare structure was originally proposed by applicants. It was changed by an amendment to this application.

The variations in the witnesses' estimates of revenues under the proposed fares are attributable to different methods used in calculating the percentage of diminution which may result from the proposed increases in fares and changes in the fare zone boundaries. Applicants' witness stated that his estimated decrease, due to resistance to the proposed changes, was determined upon percentages of the total revenues and was based upon experience and judgment rather than on specific studies.

The engineer stated that in determining his estimate of diminution under the proposed fares he had considered each line operated by applicants and the various classes of fares separately and that he used recognized standards employed by the Commission's staff in other rate proceedings of this nature.

The engineer's estimate appears to be based upon a more detailed analysis than that developed by the accountant. We believe it more nearly reflects the result which may be anticipated during the test year. The engineer's estimate will be used.

The difference in expenses estimated by the two witnesses is approximately \$2,360. This difference stems largely from the estimates of the witnesses of anticipated increases in the costs of materials and supplies which may prevail during the period considered. The accountant testified that he had used the current basis of costs and made provision for a 10 percent increase in parts and labor and an increase in the estimated cost of fuel. The engineer stated that he had based his estimate of expenses on past operations of applicants adjusted to reflect those increases which were known and which would most likely prevail during the test year. Except as hereinafter provided, the engineer's estimate of expenses will be adopted for the purposes of this decision.

Both of the witnesses allowed \$12,000 for the salaries of the general officers. The general officers are the applicants, Mr. and Mrs. Smith. In addition to conducting the transit operation they operate a garage within the City of Santa Cruz. The accountant stated that applicants devoted approximately 90 percent of their time to the bus operation and that the balance of their time was devoted to the garage business. In view of the size and type of operation involved, we believe the amount claimed is excessive and that this charge should not exceed \$8,000 for rate-making purposes.

Applicants' rate base remains to be discussed. The applicants' witness estimated the current rate base as \$48,612. The Commission engineer arrived at a corresponding figure for the midpoint of the test year of \$33,800. The chief differences in the estimates stem from the inclusion by applicants of \$9,783 for parts and supplies and \$7,000 for working capital. The Commission engineer did not include provision for the former for the reason that parts and supplies are purchased by the garage and are transferred to applicants' account as needed. For working capital he allowed only \$5,000² which he indicated was sufficient for this type of operation. The Commission engineer's estimate of the rate base will be used. It should be noted that applicants' rate base approximates only one third of its recorded investment undepreciated and that the investment covers only revenue equipment and working cash capital. No provision is made in the rate base for buildings or other equipment as these items are rented from the garage.

On the basis of the engineer's estimate for revenues and expenses adjusted to reflect \$8,000 for the salaries of general officers, the results of operation under present, proposed and alternate fare structures for the test year are indicated as follows:

² Both of the witnesses testified that working capital was necessary due to the seasonal characteristics of this operation which provides less revenue in the winter months than in the summertime.

Results of Operation (1)

	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Case I</u>	<u>Case II</u>	<u>Case III</u>
Operating Revenues	\$102,100	\$135,220	\$121,600	\$126,230	\$130,340
Operating Expenses	121,410	121,840	121,710	121,490	121,770
Net Income Before Income Taxes	(19,310)	13,380	(110)	4,740	8,570
Rate Base	33,800	33,800	33,800	33,800	33,800
Rate of Return	—	38.70%	—	14.2%	25.36%
Operating Ratio	118.91%	90.10%	100.09%	96.24%	93.42%

() - Indicates Loss

(1) Fares in Cents	<u>Present</u>	<u>Proposed</u>	<u>Case I</u>	<u>Case II</u>	<u>Case III</u>
Intrazone					
Cash	10	15	12	15	12
Tokens	3 for 25	3 for 35	5 for 50	3 for 35	3 for 25
Interzone					
Cash	20	30	24	30	24
Tokens	2-(3 for 25)	2-(3 for 35)	2-(5 for 50)	2-(3 for 35)	2-(3 for 35)
Fare Zones					
Live Oak-					
Capitola Line		City Limits	City Limits	No Change	City Limits
Seabright Line		City Limits	City Limits	No Change	City Limits

No one opposed the granting of the increased fares. However, two patrons of applicants' line testified in opposition to the proposed fare zone changes. One of them stated that on the Seabright line the proposed fare zone boundary change would require passengers now paying 20 cents a round trip to pay 60 cents a round trip. He stated that this area is populated by retired and pensioned people who could not afford to pay the proposed double fare for such a short ride. The other witness testified that applicants should look to other means for increased revenues rather than to require the riders in this area to pay such a substantial increase as is herein proposed.

There is no doubt on this record that unless applicants are able to develop additional revenue their ability to continue to render adequate and efficient service to the public will be seriously jeopardized. It is clear that continued operations under the present fares can only result in further losses. It is apparent, however, that under the estimate submitted by the Commission engineer, adjusted as hereinbefore discussed, the fares proposed by applicant would be greater than are necessary or reasonable. This is likewise true of the alternate fare structure suggested by the Commission engineer of 12 cents cash, 3 tokens for 35 cents, and the proposed fare zone boundaries (Case III). The alternate fare suggested by the engineer which contemplates the proposed fares of 15 cents cash, 3 tokens for 35 cents, but without change in the fare zone boundaries (Case II) does not appear to be unreasonable under the circumstances developed herein. Under these circumstances applicants will be authorized to establish the fares shown in the amended application, except in connection with the proposed change in zone boundaries.

Upon careful consideration of the facts and circumstances of record the Commission is of the opinion and finds as a fact that the increased fares sought in this proceeding are justified to the extent hereinbefore indicated and provided by the order herein.

O R D E R

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

IT IS HEREBY ORDERED that Chester R. Smith and Ora B. Smith, doing business as Santa Cruz Transit Company, be and they are hereby authorized to establish increased and revised fares as specifically stated in the amended application filed in this proceeding, except in connection with the changes sought to be established in the boundaries of the present fare zones.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 32377, as amended, 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 26th day of June, 1951.

C. J. [Signature]
Justice F. Cassen
Harold P. Hill
[Signature]
[Signature]
) Commissioners