

**ORIGINAL**

Decision No. 45993

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

|   |   |                       |
|---|---|-----------------------|
| In the Matter of the Application of     | ) |                       |
| Charles B. Holbrook, doing business     | ) |                       |
| under the name of Holbrook Transit Co., | ) | Application No. 32290 |
| for an increase in rates.               | ) |                       |

Appearances

Phil Jacobson, for applicant.

Reverend Brother Louis Kraszity, in propria persona,  
interested party.

Glenn E. Newton, for Engineering Division, Public  
Utilities Commission, interested party.

O P I N I O N

Applicant, an individual doing business as Holbrook Transit Co., is engaged in the transportation of persons, as a common carrier by motor bus, between points in that portion of Los Angeles County bounded generally by Bellflower, Downey, South Gate, Huntington Park, and East Los Angeles. By his application, as amended, in this proceeding he seeks authority to establish increased fares on less than statutory notice.

Public hearing of the matter was held before Examiner Abernathy at Downey on May 28, 1951.

Applicant's present fare structure is based upon five fare zones. Adult cash fares range from 10 cents to 25 cents per one-way ride, depending upon the zone or zones involved. The 10-cent fare applies for transportation between points within the same zone or between points within any two adjoining zones. For transportation

beyond the first two zones an additional charge of 5 cents applies for each zone into which or through which the transportation is performed. Lower fares are provided for those who buy commutation tickets and for school children. Applicant seeks to increase each of his interzone cash fares by 5 cents, to eliminate present commutation fares, and to increase the school fares. The present and proposed ticket fares are set forth in the margin below.

Applicant alleges that the fares which are herein sought are necessary to the continued operation of his service for the public. According to testimony of his operating manager, passenger revenues have declined rapidly during the past four years because of television, which has resulted in a reduction in travel for recreational purposes, and because of a greater use of private automobiles by the public. On the other hand, expenses have increased substantially. The manager testified that during the past year the costs of repair parts and supplies have increased approximately 20 per cent. Assertedly, the effect of these increases is augmented by the fact that more work must be done to maintain the vehicles as they become older. Labor costs have also been increased as a result of negotiation of a new labor contract as of the beginning of 1951. The witness said that in order

| <u>Present ticket fares</u>  |                                   |                              |
|------------------------------|-----------------------------------|------------------------------|
| <u>Where cash fare is</u>    | <u>12-ride commutation ticket</u> | <u>40-ride school ticket</u> |
| \$ .10                       | \$ 1.00                           | \$ 2.00                      |
| .15                          | 1.55                              | 3.20                         |
| .20                          | 2.00                              | 4.00                         |
| .25                          | 2.55                              | -                            |
| <u>Proposed ticket fares</u> |                                   |                              |
| <u>Where cash fare is</u>    | <u>12-ride commutation ticket</u> | <u>10-ride school ticket</u> |
| \$ .10                       | -                                 | \$ .75                       |
| .15                          | -                                 | 1.00                         |
| .20                          | -                                 | 1.50                         |
| .25                          | -                                 | 2.00                         |
| .30                          | -                                 | -                            |

to keep operating costs at a minimum, schedules had been reduced wherever feasible, but that operations are being conducted at a loss, nevertheless.<sup>2</sup> He asserted that if applicant's operations are to be maintained there is no alternative to the establishment of increased fares.

Applicant's witness and a transportation engineer of the Commission's staff each submitted data relating to applicant's past operating experience and estimates of future results under present and proposed fares. The engineer reported a decline in passenger volume from a total in excess of two million passengers in 1947 to an amount less than one and one-half million in 1950, a decrease of almost 30 per cent. He expected that applicant would continue to experience a declining trend in traffic and estimated a total volume of 1,416,000 passengers for the coming year. Applicant's witness submitted evidence to show that passenger volume for the first four months of 1951 was less than that for the corresponding period of 1950. In his estimates of future operating results, however, he assumed that passenger volume for the 12 months ending June, 1952, would be the same as that for 1950, or a total of 1,421,573 passengers. Both witnesses said that additional reductions in traffic would follow from establishment of increased fares, the engineer estimating declines ranging from 5 to 15 per cent, depending upon the territory involved, and applicant's witness estimating an average

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Revenues and expenses for 1950 were reported as follows:

|                          |                |
|--------------------------|----------------|
| Total Operating Revenues | \$149,151      |
| Total Operating Expenses | <u>153,912</u> |
| Operating Loss           | \$ 4,761       |

decline of 6 per cent. Revenues for the coming year were estimated by the witnesses as follows:

Table No. 1

Estimated Revenues, Year Ending with June, 1952

|                     | <u>At Present Fares</u> | <u>At Proposed Fares</u> |
|---------------------|-------------------------|--------------------------|
| Applicant witness   | \$149,289               | \$190,887                |
| Commission engineer | \$157,240               | \$195,650                |

Expense estimates of the witnesses were based upon the 1950 level of expenses, adjusted to reflect allowances for normal supervision, for rental of four vehicles acquired under lease, for increased maintenance costs due to advancing age of equipment, and for required additional office help. Applicant's witness estimated that expenses for the 12 months ending with June, 1952, would exceed those for the year 1950 by \$34,767. The expense increase anticipated by the Commission engineer is approximately \$32,000.

According to the figures of the manager witness, applicant's operations for the year ending with June, 1952, will result in a loss of \$39,500 if present fares are maintained and a profit of \$2,208 if the sought fares are established. The Commission's figures show a loss of \$28,525 under present fares and a profit of \$8,760 under the sought fares. Details of the estimated revenues and expenses under the proposed fares are set forth in Table No. 2, which follows:

Table No. 2Estimated Operating Results - Proposed Fares  
Year Ending with June, 1952

|                                      | <u>Applicant</u> | <u>Commission<br/>Engineer</u> |
|--------------------------------------|------------------|--------------------------------|
| Operating Revenue                    | \$190,887        | \$195,650                      |
| Operating Expenses                   |                  |                                |
| Maintenance                          | 33,673*          | 33,930                         |
| Transportation                       | 89,292           | 91,240                         |
| Sales and Tariff                     | 350              | 250                            |
| Insurance                            | 9,423            | 7,500                          |
| Administrative and General           | 14,634           | 14,000                         |
| Depreciation                         | 8,500            | 5,780                          |
| Taxes and Licenses                   | 17,267           | 18,650                         |
| Operating Rents                      | <u>15,540</u>    | <u>15,540</u>                  |
| Total Expenses                       | \$188,679        | \$186,890                      |
| Net Operating Revenues               | \$ 2,208         | \$ 8,760                       |
| Income Taxes (See Note)              | <u>518</u>       | <u>2,450</u>                   |
| Net Income after taxes               | \$ 1,690         | \$ 6,310                       |
| Operating Ratio, before income taxes | 93.8%            | 95.5%                          |
| Operating Ratio, after income taxes  | 99.1%            | 96.7%                          |

\* Includes adjustment of \$21 to correct error.

Note: Income taxes computed at corporation tax rates. Since the operations are conducted by applicant as an individual, the tax rates which would apply would be affected by the personal exemptions and allowances available to applicant.

Granting of the application was opposed by a representative of various of applicant's patrons in the Bell Gardens area. He asserted that fares in that area should not be increased for the reason that the people there cannot afford to pay higher fares. No other interested parties participated in the proceeding.

It is to be noted from Table No. 2 above, that although applicant's manager anticipated a greater volume of traffic under the sought fares than did the engineer, his estimate of revenues is approximately \$4,800 less than that of the Commission witness.

The difference between the two revenue estimates stems from differences in estimates of the consist of the traffic involved. The engineer found from his analysis of the traffic a greater movement of passengers between zones than was estimated by the manager. Since the sought increases principally affect the interzone fares, more persons under the engineer's estimate would be affected by the fare increase than would those under the estimate of applicant's witness.

An index for measuring the soundness of the conflicting revenue figures is provided in applicant's average revenues per passenger. Per-passenger revenues as derived from applicant's data for the first four months of 1949, 1950 and 1951 are as follows:

Table No. 3

Average Revenues per Passenger

| <u>January<br/>through<br/>April</u> | <u>Average<br/>Revenues per<br/>Passenger</u> |
|--------------------------------------|---|
| 1949                                 | 10.26 cents                                   |
| 1950                                 | 10.28 cents                                   |
| 1951                                 | 10.38 cents                                   |

The figures of applicant's witness reflect average revenues per passenger amounting to 10.38 cents, whereas those of the engineer represent an average revenue of 10.99 cents per passenger. It is clear from the foregoing table that applicant has experienced an upward trend in his revenues per passenger. The Commission engineer's revenue estimate appears to conform more closely to recent operating experience and to reflect the indicated trend. His estimate of revenues under the sought fares will be adopted for the purposes of this proceeding.

With respect to the expense estimates, it appears that adjustments should be made in the allowances for depreciation. Applicant's witness, in arriving at his estimate for the coming year, included an allowance of \$8,500 for depreciation expense. The Commission engineer included an allowance of \$5,780.<sup>3</sup> According to applicant's balance sheet as of December 31, 1950, the net value of vehicles and other equipment after depreciation was \$5,444.<sup>4</sup> As related to the book record, the charge to depreciation expense of either \$8,500 or \$5,780, as proposed herein, would result in charges in the aggregate in excess of the original cost of the properties and would disregard any salvage value of the properties. The depreciable value of the properties is a limiting factor upon the amount of depreciation that may be charged to operating expense. As the Commission has pointed out on various occasions, depreciation should not be allowed as an operating expense after the investment in properties against which depreciation accruals are accumulated has been fully depreciated.<sup>5</sup> The engineer's depreciation adjustment

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<sup>3</sup> The engineer said that he had found applicant's depreciation charges based on a shorter term than the probable service lives of the properties and that in arriving at his estimates he had recomputed depreciation charges to the basis of service lives which he believed would be realized.

<sup>4</sup> The valuations of the vehicles, equipment and other operating properties were reported as follows:

|                               |              |
|-------------------------------|--------------|
| Vehicles and other equipment  | \$93,224     |
| Less reserve for depreciation | 87,780       |
|                               | <u>5,444</u> |
| Materials and supplies        | 3,069        |
| Franchise                     | <u>1,250</u> |
| Total                         | \$ 9,763     |

<sup>5</sup> Mare Island Ferry, 44 C.R.C. 802, 807; Southern California Freight Lines, 45 C.R.C. 233, 239; Vallejo Electric Light and Power Company, 45 C.R.C. 254; California Street Cable Railway Company, 45 C.R.C. 384, 391; and San Diego Electric Railway Company, 47 Cal. P.U.C. 721, 724.

suggests that certain of applicant's depreciation accruals are a result of improper bookkeeping entries and are not indicative of the extent that applicant's investment has been returned through charges to depreciation expense. Whether the operating properties should be revalued and the depreciation schedules revised may not be determined without substantial evidence relating to the results of the operations over the lives of the properties involved. Such evidence was not supplied. On the basis of the record herein it appears that after allowance for salvage the maximum amount of depreciation expense that should be charged against the operations during the coming year would not exceed \$4,000.

Revision of the revenue and expense data in Table No. 2 so as to reflect the revenue and depreciation expense adjustments indicated above would result in figures as follows:

Table No. 4

Estimated Operating Results (adjusted); Proposed Fares,  
Year Ending with June 30, 1952

|  | <u>(A)</u>     | <u>(B)</u>     |
|--|----------------|----------------|
| Operating Revenue                      | \$195,650      | \$195,650      |
| Operating Expenses                     | <u>184,179</u> | <u>185,110</u> |
| Net Operating Revenue                  | \$ 11,471      | \$ 10,540      |
| Income Taxes (See Note)                | <u>3.212</u>   | <u>2.950</u>   |
| Net Income after taxes                 | \$ 8,259       | \$ 7,590       |
| Operating Ratio before<br>Income Taxes | 94.1%          | 94.6%          |
| Operating Ratio after<br>Income Taxes  | 95.8%          | 96.1%          |

(A) Applicant's data, modified.

(B) Engineer's data, modified.

Note: Income taxes computed at corporation tax rate.



Aside from the revenue aspects of applicant's fare proposal, the question of the reasonableness of the individual fare adjustments which are sought is also involved. The increases which applicant seeks to effect in his cash fares range from 20 to 50 per cent. Cancellation of the ticket fares would result in increases from 20 to 30 per cent more than those proposed in the cash fares. Applicant's witness did not specifically undertake to show the reasonableness of canceling the ticket fares other than to indicate that relatively few passengers would be affected and to express the view that the tickets are purchased for their convenience rather than for the savings thereunder.<sup>6</sup> These reasons for canceling the ticket fares do not appear sufficient to justify the imposition of a substantially greater burden of increased charges upon those of applicant's patrons who buy tickets than upon those who pay cash. Should the basis of ticket fares be retained, increases in the ticket fares would result from establishment of higher cash fares, since the two fare bases are correlated. However, the increases would parallel closely those which are sought in the cash fares and appear more equitable than the increases which would result from cancellation of the ticket fares.

Retention of the commutation fares would result in somewhat lesser revenues than those which are anticipated under applicant's proposal. However, with the commutation fares in effect, applicant should enjoy a greater volume of traffic. It appears that the net effect of modification of applicant's fare proposal so as to retain the commutation fares would be a reduction of about \$3,500 in the gross revenues otherwise anticipated. On the basis of the

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It appears that about 15 per cent of applicant's passengers purchase the commutation tickets.

engineer's figures, as modified in Table No. 4, it appears that with the ticket fares continued the net operating revenues would approximate \$7,000 before allowance for income taxes and \$5,000 after income taxes. Corresponding operating ratios would be 96.3 per cent and 97.3 per cent, respectively. The operating results, calculated upon the basis of applicant's data, as modified, would be slightly more favorable.

It is clear from the record herein that applicant is incurring substantial losses from his operations and that an increase in fares is justified as a necessary measure to maintain the service. Applicant's fare proposal, modified to retain the commutation fares, appears reasonable. It appears the increased fares would not result in excessive revenues. Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the sought fares, modified as indicated, are justified. The increased fares, as modified, will be authorized. 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 hearing having been held in the above-entitled proceeding, the evidence received therein having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Charles B. Holbrook, doing business under the name of Holbrook Transit Co., be and he is hereby authorized to amend, on not less than five (5) days' notice to the Commission and to the public, his Local Passenger Tariff No. 5, Cal. P.U.C. No. 6, by increasing his interzone cash fares by

five (5) cents per adult one-way ride and by establishing increased school fares in the manner set forth in Exhibit E attached to the application in this proceeding, which exhibit, by this reference is made a part hereof.

IT IS HEREBY FURTHER ORDERED that the authority which is sought to cancel present commutation fares based upon the sale of 12-ride commutation tickets be and it is hereby denied. In establishing the increased cash fares hereinabove authorized, applicant shall establish the following commutation fare in addition to the fares in effect:


|                                  |   |
|----------------------------------|---|
| <u>Where one-way<br/>fare is</u> | <u>12-ride<br/>Commutation Punch Ticket<br/>will be</u> |
| \$ .30                           | \$3.15  |

IT IS HEREBY FURTHER ORDERED that, in addition to the customary filing and posting of tariffs, applicant shall give not less than five (5) days' notice to the public by distributing and posting in his buses a printed explanation of the new fares.

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 24th day of July, 1951.

  
James F. Cannon  
James P. Hills  
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 COMMISSIONERS