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ORIGINAL

Decision No. 48147

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of GLENDALE CITY LINES, INC. requesting authority to increase certain of its rates of fare.	)	Application No. 32325

Appearances

C. H. Hasbrouck, for applicant.

Edgar D. Yeomans, for Pacific Electric Railway Company, interested party.

Henry McClernan and John H. Lauten, for the City of Glendale, interested party.

T. M. Chubb and A. M. Kaufman, for the Board of Public Utilities and Transportation, City of Los Angeles, interested party.

James C. Burchard and Catherine Turner, in propia persona, interested parties.

Arthur F. Ager, A. R. Day, T. J. Canty and W. F. Hibbard, for Transportation Department, Public Utilities Commission of the State of California.

O P I N I O N

Glendale City Lines, Inc. is engaged in the operation of an urban passenger bus service within the City of Glendale, and between Glendale, Burbank, and adjacent areas. By this application, as amended, it seeks authority to establish increased fares. Applicant alleges that higher fares have been made necessary by a continuing downward trend in passenger traffic and by substantial increases in employee wage rates and in other costs of operations.

Public hearing was held before Commissioner Mitchell and Examiner Bryant at Glendale on August 13, 1951. The matter is ready for decision.

Applicant's fares are based upon three fare zones. It seeks authority to increase the single-zone cash fare from 10 cents to 15 cents, and the single-zone token fare from 8-3/4 cents (4 tokens for 35 cents) to 12½ cents (2 tokens for 25 cents). The multiple-zone fares are and would continue to be based upon the addition of 5 cents to the single zone fare for each additional zone. Applicant would also increase its school commutation fares. The present and proposed fares are shown in more detail in the margin below.[1]

The company's income statements for the past five calendar years, and for the first six months of 1951, based upon

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	Present	Proposed (Original Application)	Proposed (Amended Application)
Adult Cash Fares			
Within one zone	10¢	10¢	15¢
Additional zones(each)	5¢	5¢	5¢
Adult Token Fares			
Within one zone	4 for 35¢(8-3/4¢)	-	2 for 25¢(12½¢)
Additional zones(each)	5¢	-	5¢
Children's Fares(5 to 12 years of age)			
One or more zones	10¢	10¢	10¢
School Tickets(40 rides)			
Within one zone	\$2.40(6¢)	\$2.60(6½¢)	\$2.60(6½¢)
Between two zones	\$3.20(8¢)	\$3.40(8½¢)	\$3.40(8½¢)

the company records without adjustment, are summarized in the following table:

Table 1
Company Income Statements

Item	1946	1947	1948	1949	1950	1st 6 mos. 1951
Operating Revenues	$411,918	$365,982	$387,604	$360,976	$329,243	$158,528
Operating Expenses						
Operating & Maintenance Expenses	302,403	319,586	315,460	287,534	265,647	129,212
Depreciation	32,493	47,330	22,939	25,651	30,177	15,658
Amort. Chargeable to Operation	2,273	2,297	-	-	-	-
Operating Taxes & Licenses	30,203	30,958	30,745	28,892	29,690	14,696
Operating Rents	(8,396)	(6,011)	(1,325)	(972)	(368)	(724)
Total Operating Expenses	$358,976	$394,160	$367,819	$341,105	$325,146	$158,842
Net Operating Revenue	52,942	(28,178)	19,785	19,871	4,097	(314)
Other Income (Net)	14,728	10,608	16,131	21,299	36,977	5,432
Net Income Before Federal Income Taxes	67,670	(17,570)	35,916	41,170	41,074	5,118
Federal Income Taxes	30,117	(4,000)	10,000	11,725	11,805	1,300
Net Income	37,553	(13,570)	25,916	29,445	29,269	3,818
Operating Ratio (Line 7 divided by Line 1)#	87.15%	107.70%	94.90%	94.50%	98.76%	100.2%

#Calculated by Public Utilities Commission staff.
(Red Figure)

The principal evidence concerning the financial results of applicant's operations under present and proposed fares was introduced by the company's general auditor and by a senior transportation engineer of the Commission's staff. Both witnesses submitted estimates of the results of future operations for the 12-month period ending with August 31, 1952. The auditor forecast that the company would suffer a substantial loss if required to operate at present fares, and would receive a moderate return under the sought fares. The engineer concluded that the company would receive some profit under either present or proposed fares. The estimates as submitted by the two witnesses are summarized for comparative purposes in Table 2, which follows:

TABLE 2
ESTIMATES FOR YEAR ENDING AUGUST 31, 1952

Item	Company Auditor: Present Fares	Company Auditor: Proposed Fares (Amended App.)	Commission Engineer: Present Fares	Commission Engineer: Proposed Fares (Original App.)	Commission Engineer: Proposed Fares (Amended App.)
Operating Revenue:					
Passenger	$279,500	$333,130	$290,430	$299,710	$345,705
Special Bus	3,600	3,600	3,635	3,635	3,635
Advertising	4,000	4,000	4,500	4,500	4,500
P.E. Rwy. Agreement(1)	-	-	15,520	15,520	15,520
Other Operating Revenues	1,250	1,250	2,290	1,890	2,290
Total Operating Revenues	$288,350	$341,980	$316,375	$325,255	$371,650
Operating Expenses:					
Equipment, Maintenance and Garage	$ 69,125	$ 69,125	$ 66,260	$ 66,260	$ 66,260
Transportation	155,725	155,725	158,080	158,080	158,080
Traffic, Solicitation and Advertising	2,000	2,000	2,090	2,090	2,090
Insurance and Safety	15,850	18,405	14,335	14,335	14,335
Administrative and General	23,785	26,470	20,920	20,920	20,920
Depreciation	35,216	35,216	16,640	16,640	16,640
Operating Taxes and Licenses	26,810	27,713	25,910	25,910	25,910
Total Operating Expenses	$328,511	$334,654	$304,235	$304,235	$304,235
Other Income (1)	$ 15,520	$ 15,520	-	-	-
Other Expenses (2)	$ 1,500	$ 1,500	-	-	-
Net Before Income Tax	($ 26,141)	$ 21,345	$ 12,140	$21,020	$ 67,415
Income Tax	-	$ 5,336	$ 3,400	$ 5,885	$ 34,610
Net After Income Tax	($ 26,141)	$ 16,009	$ 8,740	$ 15,135	$ 32,805
Rate Base	(3)	(3)	$ 96,595	$ 96,595	$ 96,595
Rate of Return:					
Before Income Tax	(3)	(3)	12.6%	21.8%	69.8%
After Income Tax	(3)	(3)	9.1%	15.7%	34.0%
Operating Ratio:					
Before Income Tax (4)	108.1%	93.6%	96.2%	93.5%	81.9%
After Income Tax (4)	108.1%	95.1%	97.2%	95.4%	91.2%

Explanation of Table 2:

(1) $15,520 accruing from Pacific Electric Railway Company was treated by company auditor as "other income" and by Commission engineer as "operating revenue."

(2) "Other expense" of $1500 covers a supplementary charge for public liability and property damage insurance.

(3) Applicant did not submit rate base data.

(4) Operating ratios as submitted by the company auditor have been recalculated for purposes of comparison by including the $15,520 (see (1) above) with operating revenues. The operating ratios as submitted by the company auditor were respectively 113.9% and 97.9% before income taxes and 113.9% and 95.5% after income taxes.

(______) - Indicates loss.

Three other witnesses, all of whom testified concerning schedules and service matters, were the superintendent of transportation of applicant's management company, an associate engineer of the Commission's staff, and an individual rider of the buses. In addition a representative of Pacific Electric Railway Company testified that his company will seek from the Commission authority to increase joint fares in the Glendale area consistent with those which may be established by Glendale City Lines, Inc.[2]

The principal evidence on service matters related to operating economies which could be made by curtailing schedules. The associate engineer submitted an exhibit describing the company's operations and developing, among other things, information concerning passenger load factors at maximum load points by hourly periods. It was his conclusion that substantial savings could be effected by curtailment of schedules, particularly in the evenings and on Saturdays and Sundays. The superintendent of transportation agreed with the conclusions from the standpoint of engineering, but declared that serious questions of public policy are involved in any consideration of drastic service reductions such as those indicated by the engineer. He said that the company's management had long considered the possibility of eliminating nonproductive schedules, but had concluded not to propose such severe measures except as a last resort. He asserted that if drastic reductions in service are to be considered as an alternative to fare increases, the company should not bear the entire responsibility for the service curtailments but the responsibility should be shared by the Commission and the local authorities.

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[2] Certain joint fares are maintained by applicant and Pacific Electric. Only the local fares of Glendale City Lines, Inc. are involved in the present proceeding.

A representative of the City of Glendale participated in examination of the several witnesses and assisted otherwise in developing the record. He explained that the Glendale City Council had studied the present application, had expressed the hope that the Commission might find fares lower than those sought in the amended application to be sufficient, and had concluded to take no position concerning the possibility of service curtailments. The Board of Public Utilities and Transportation of the City of Los Angeles was represented at the hearing as an interested party.

This Commission recognizes that urban transit lines may have within their operating systems some schedules which are operated without profit, or even at some loss, but which, nevertheless, must be continued in order that residents of the community may not be deprived wholly of essential transportation. It is a responsibility of the operators of public transit lines to effect economies by making reasonable and necessary schedule changes. In doing so, however, they must avoid curtailments which would be tantamount in effect to the unnecessary removal of essential public services to which the properties are in fact dedicated. Residents of Glendale and adjacent communities are entitled to, and must have, adequate public transportation. Unquestionably, reasonable fare increases are preferable in the public interest to the discontinuance of services required by public necessity. The severe curtailment of service in the Glendale area cannot be seriously considered at this time as an acceptable alternative to the adjustment of fares.

It is primarily upon the estimates of record hereinbefore summarized in Table 2 that the Commission must rely for its determination of applicant's revenue needs. There are a number of differences in the estimates, but four items are of particular consequence.

One of these is the matter of operating revenues; the other three are expense items for vehicle depreciation, management fees, and insurance premiums.

The estimates of passenger revenues are dependent largely upon the forecast of passenger volume. Glendale City Lines, Inc., in common with most other urban transportation systems, has experienced a downward trend in riders for the past several years. The witnesses were in agreement that the decline will continue during the coming year, but differed in their opinions concerning its probable extent. The company witness concluded that, at present fares, 3,175,803 passengers would be carried during the coming year; the staff engineer used an estimate of 3,307,525 passengers. The company estimate was based upon the number of passengers by classes of fare carried during the calendar year 1950, from which was taken the percentage of decline by classes of fare experienced during the first six months of 1951, as compared with the first six months of 1950. This was then further reduced by one-half of the percent of decline experienced during the six months of 1951, as compared with 1950, to allow for the future downward trend in riding. The staff estimate was a judgment figure based upon consideration and analysis of the trends since 1947, with particular weight being given to the more recent months. Concerning the proposed fares, the witnesses assumed approximately the same percentage of token usage, and used an identical formula for estimating the further diminution of traffic which would result from increased fares.

The determination of passenger volume during the rate year is primarily a matter of judgment in which the future is forecast upon the basis of past experience and upon appraisal of indications for the future. It appears that the mathematical method used by the company witness may have a tendency to exaggerate the amount of decline. Upon consideration of the two estimates, and of the other evidence of record, it is concluded that the engineer's forecast of passenger volume for the 12 months ending with August, 1952, is reasonable and may properly be used as the basis of our revenue estimates herein.

Another substantial difference in the revenue estimates appears in an item of $15,520 which was treated by applicant's auditor as "other income" and by the staff engineer as "operating revenue". This amount accrues from Pacific Electric Railway Company under an agreement which provides in part that Pacific Electric will transport all local passengers on Brand Boulevard, within the City of Glendale, and will pay Glendale City Lines, Inc., 22½ percent of the gross revenue derived therefrom. The difference in treatment by the two witnesses is not of basic importance in the present proceeding, inasmuch as applicant's auditor agreed that the item should be considered in determining the company's revenue needs. The item in question was reviewed in a 1947 proceeding, at which time the Commission said: "A review of the record with respect to this item clearly justifies the conclusion that the revenue received by applicant under this arrangement is operating income and should be so treated." (Decision No. 40890 of November 4, 1947, in Application No. 28583, 47 Cal. P.U.C. 529.)

Turning to the matter of expenses, the largest difference in the two estimates is found in connection with the depreciation of vehicles. The company operates 24 buses, all of which it is depreciating upon the basis of an 8-year life. The Commission engineer was of the opinion that a longer service life would be realized. For the purpose of his expense estimate he adjusted the depreciation charges to a 10-year service life, using as the basis for his calculations applicant's present book values of the vehicles. By their separate methods the company auditor developed a total depreciation expense of $35,216 for the rate year, and the Commission witness developed an amount of $16,640, resulting in a difference in the two depreciation estimates of $18,576.

The evidence is convincing that the 10-year depreciation life as recommended by the Commission engineer is reasonable. Most of the vehicles in question are now nearly seven years old, and the Company has no immediate plans for their early replacement.[3] The record shows that the vehicles are well maintained and entirely suitable for the service in which they are used. The management company (Pacific City Lines, Inc.) uses 10 years as the basis for depreciation of similar vehicles placed in service after January 1, 1946. For the purpose of determining applicant's future revenue needs, the engineer's depreciation method will be used.

With reference to management expense, it appears that Glendale City Lines, Inc. has no administrative staff of its own but instead pays ~~five~~ a percentage of its monthly gross revenue to Pacific City Lines, Inc., an affiliated corporation, for complete executive management, supervision, accounting, construction, engineering, financial, leasing, purchasing, safety, and such other services as are required in the conduct of applicant's business.

[3] Twenty of the vehicles were first placed in service in December, 1944, and four in July, 1945.

The company witness estimated this item as $14,415 under present fares, and $17,100 under proposed fares. The staff engineer used an amount of $11,525 under either fare basis, this being primarily a judgment figure which he believed to be reasonable.

Under the percentage basis of determining the charge for management, the management expense is related directly to the gross revenues and would of course increase proportionately to the extent that higher fares return greater revenue. No necessary relationship is apparent between the amounts thus determined and the actual value of the management services. Applicant did not undertake to show the considerations underlying the percentage basis nor the actual costs incurred by the management company in providing the various management services. Upon this record it is concluded, for the purpose of determining applicant's revenue needs, that the percentage basis should not be accepted, and that the management expense as estimated by the Commission engineer is reasonable and should be allowed.[4]

Insurance expense is another item requiring discussion. Glendale City Lines, Inc. buys public liability and property damage insurance from Transit Casualty Company, a corporate affiliate. The premiums are based upon a percentage of the gross revenues, but provision is made for retroactive adjustment in accordance with applicant's experience. The company witness determined insurance expense in accordance with the premium agreement for the future rate year,

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[4] In several other proceedings the Commission has based fares upon expense estimates which disallowed the percentage basis of determining management fees. See Sacramento City Lines, Decision No. 43552 of November 22, 1949, in Application No. 30442; Sacramento City Lines, Decision No. 45196 of December 27, 1950, in Application No. 31434; and San Jose City Lines, Inc., Decision No. 45622 of April 24, 1951, in Application No. 31011.

disregarding the possibility of subsequent adjustments. The Commission engineer based his estimate primarily upon consideration of the company's net average cost for the past several years. In view of substantial retroactive adjustments in the past, the premium agreement alone does not provide a realistic basis for determining the real insurance cost. The engineer's estimate will be adopted.

A rate base of $96,595 was developed by the Commission engineer, of which $62,553 represented the average depreciated book cost of revenue equipment and structures, $15,131 represented book value of land and land rights, and the remainder covered materials, supplies and franchises. He stated that the rate base of Glendale City Lines, Inc. is lower than would normally be expected for such an operation. It is subnormal, he said, because the vehicles have been depreciated by the company to 17 percent of their original cost.

Applicant did not undertake to develop any estimates of its rate base. The auditor stated that the company is "asking for an operating ratio". He expressed the opinion that for a company to maintain a sound financial condition it should have approximately a 93 percent operating ratio after income taxes, or about 88 percent before taxes. These ratios, he said, reflect "pretty much the opinion of the industry." He conceded that they would give to the applicant, after taxes, a rate of return in excess of 20 percent, "because Glendale City Lines, Inc. does not have much of a rate base."

Operating ratios and rate bases are both valuable indexes of earnings. Determination of what constitutes a reasonable profit is primarily a matter of judgment to be reached after consideration of all pertinent factors. Erroneous conclusions may follow from reliance upon any single formula. In rate proceedings the applicants should develop as much information as practicable relative to their earning requirements. Rate base data should not be withheld or excluded.

Based upon the conclusions hereinbefore set forth, and adopting the engineer's rate base, the estimated operating results for the year ending with August 31, 1952, under present fares, proposed fares, and certain alternate fares, would be as indicated in the following table:

Table 3
Estimated Operating Results, Modified

	Present Fares	Proposed Fares (Amended Application)	Alternate Fares
Revenues	$ 316,375	$ 371,650	$ 324,340
Expenses	304,235	304,235	304,235
Net Before Income Taxes	$ 12,140	$ 67,415	$ 20,105
Income Taxes	3,400	34,610	5,629
Net After Income Taxes	$ 8,740	$ 32,805	$ 14,476
Rate Base	$ 96,595	$ 96,595	$ 96,595
Rate of Return	9.1%	34.0%	15.0%
Operating Ratio			
Before Income Taxes	96.2%	81.9%	93.8%
After Income Taxes	97.2%	91.2%	95.5%

The alternate fares referred to in the table are those proposed by applicant in its original application, prior to amendment, but without increase in the school fares. Under this schedule the company would retain its basic 10-cent fare, with the 5-cent increment for additional zones, but would discontinue the sale and use of tokens.

The present fares would provide an estimated net revenue of $8,740 after provision for income taxes. Upon the engineer's rate base this amount would represent an annual return of about 9 percent. Such a rate of return would by no means be deficient if measured by a normal rate base, but may be considered marginal in the present case where the operating properties are largely depreciated and where the resulting operating ratios approximate 96 percent before income taxes and 97 percent after taxes. Considering the many uncertainties in the forecasts for the future rate year, the Commission is persuaded that some increase in revenues is necessary in order that the continuance of adequate public transportation services may be assured.

The evidence is clear that the fares as sought by the company in its amended application would return excessive revenues. The alternate fares would provide an estimated $7,965 in additional revenues. As shown in Table 3, the resulting profit margin to the company, after payment of income taxes, would provide an estimated rate of return of 15 percent upon the depreciated rate base. The operating ratios would be about 94 percent before income taxes and 95.5 percent after income taxes.

Upon consideration of all of the evidence of record, the Commission concludes, and finds as a fact, that the cancellation of applicant's token fare is justified. It is expected that the additional revenues resulting from this fare increase will enable Glendale City Lines, Inc. to continue existing services and schedules without material change.

O R D E R

Public hearing having been held in the above-entitled proceeding, the evidence having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Glendale City Lines, Inc. be and it is hereby authorized to cancel, on not less than ten (10) days' notice to the Commission and to the public, its present token fare of four (4) tokens for thirty-five cents.

IT IS HEREBY FURTHER ORDERED that, upon cancellation of the token fare, the sale and acceptance of tokens shall be discontinued. For a period of ten days thereafter, bus operators of Glendale City Lines, Inc., shall redeem, for cash, tokens presented to them in numbers not exceeding 24. The company shall redeem for cash all tokens presented at its office on or before December 31, 1951. Tokens presented other than in multiples of four shall be redeemed at the following values:

One token	- 8 cents
Two tokens	- 17 cents
Three tokens	- 26 cents

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 32325, as amended, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that, in addition to the customary filing and posting of tariffs, applicant shall give not less than ten (10) days' notice to the public by posting in its buses a printed explanation of the new fares, cash value of tokens, and redemption procedures.

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 28th day of August, 1951.

R. T. [illegible]
President

Justus F. Craemer

Kenneth Potter

Commissioners

Commissioner Harold P. Huls, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner . MITCHELL, being necessarily absent, did not participate in the disposition of this proceeding.