

ORIGINAL

Decision No. 46184

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Stockton City Lines, Inc. requesting authority to increase certain of its rates of fare.	) ) ) ) )	Application No. 32291
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Appearances

Jones, Lane & Weaver, by Daniel  
S. Lane and Gilbert L. Jones,  
for applicant,  
Bill Dozier, for City of Stockton,  
protestant,  
J. G. Hunter, for the Commission's  
staff.

O P I N I O N

Stockton City Lines, Inc. is a passenger stage corporation engaged in the transportation of passengers within and in the vicinity of Stockton. By this application, as amended, it seeks authority to establish increased fares.

Public hearing of the application was held at Stockton on August 27, 1951, before Commissioner Potter and Examiner Jacopi.

The present fares are based upon two fare zones. The respective intrazone adult fares are 10 cents and 13 cents cash; for interzone movements the fare is 13 cents cash. Tokens are offered at the rate of four for 30 cents and one token is accepted in lieu of 10 cents cash. The present school fare is \$1.00 for 20 rides. Under applicant's proposal, no change would be made in

the 10-cent cash fare, the 13-cent fares would be increased to 15 cents and the sale of tokens would be discontinued. <sup>1</sup> In addition, the school fare would be advanced to \$1.20 for 20 rides.

Applicant's fares were last adjusted by Decision No. 45344 of February 6, 1951, in Application No. 30577, when the present token rate of fare was authorized. No advances in the cash and school fares were sought at that time. It is alleged that the fares again are inadequate as a result of increases experienced in the cost of operation coupled with a continued downward trend in traffic volume. The record shows that under new labor agreements executed on August 21, 1951, the wages of drivers and shop and garage employees were increased by eight cents per hour retroactive to April 1, 1951. This rate of increase applied until February 20, 1952. Thereafter, an additional advance of six cents per hour is provided for until the expiration of the agreements on February 21, 1953.

The company's income statements for the past nine calendar years, based upon the company records without adjustment, and the average thereof are summarized in the table that follows.

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<sup>1</sup> In the original application, it was proposed to continue the sale of tokens and to increase the rate therefor from four for 30 cents to four for 35 cents. By amendment of the application, the proposal was changed to provide that no tokens would be offered.

TABLE 1  
COMPANY INCOME STATEMENTS

I t e m	1942	1943	1944	1945	1946
Operating Revenues	\$257,010	\$387,826	\$504,479	\$587,348	\$614,737
Operating Expenses:					
Operating and Maintenance Expenses	152,349	231,675	331,145	418,857	475,273
Depreciation	19,405	23,495	24,220	32,328	41,801
Amort. Chargeable to Operation	—	—	879	879	879
Operating Taxes & Licenses	10,319	12,576	22,815	40,628	43,043
Operating Rents	1,718	337	2,650	982	3,403
Total Operating Expenses	\$183,791	\$268,083	\$381,079	\$493,674	\$564,399
Net Operating Revenue	73,219	119,743	122,770	93,674	50,338
Other Income (Net)	(19,228)	(25,705)	(4,733)	951	733
Net Income Before Federal Income Taxes	53,991	94,038	118,037	94,625	51,071
Federal Income Taxes	(1)	(1)	82,100	57,200	19,374
Net Income	53,991	94,038	35,937	37,425	31,697
Operating Ratio (Line 7 divided by Line 1)#	71.51%	69.12%	75.66%	84.05%	91.81%

  

I t e m	1947	1948	1949	1950	Average 1942-1950:
Operating Revenues	\$576,249	\$686,637	\$643,329	\$564,335	\$535,772
Operating Expenses:					
Operating and Maintenance Expenses	453,794	497,708	473,968	425,126	384,433
Depreciation	46,994	38,288	46,403	46,245	35,464
Amort. Chargeable to Operation	885	—	—	—	391
Operating Taxes & Licenses	46,403	58,334	51,486	52,533	37,571
Operating Rents	459	828	2,707	2,067	1,684
Total Operating Expenses	\$548,535	\$595,158	\$574,564	\$525,971	\$459,543
Net Operating Revenue	27,714	91,479	68,765	38,364	76,229
Other Income (Net)	(1,589)	(3,558)	(1,705)	20,901	(3,770)
Net Income Before Federal Income Taxes	26,125	87,921	67,060	59,265	72,459
Federal Income Taxes	6,298	31,220	18,600	19,875	26,074
Net Income	19,827	56,701	48,460	39,390	46,385
Operating Ratio (Line 7 divided by Line 1)#	95.19%	36.68%	89.31%	93.20%	85.77%

(1) Included in consolidated return of parent company.

# Calculated by Public Utilities Commission Staff.

( ) - Indicates Loss

Evidence relative to the financial results of operation was offered by applicant's general auditor and by a transportation engineer from the Commission's staff. They submitted exhibits consisting of operating statements, studies of traffic flows and trends, analyses of revenues and operating expenses and depreciation and rate base statements. The auditor reported that after provision for income taxes the operations for the first six months of 1951 showed a profit of \$3,360. The corresponding operating ratio was 98.8 percent. These calculations included the beneficial effect of the fare increase that became effective February 26, 1951, supra.

Both witnesses introduced estimates of the results of future operations for the 12-month period ending August 31, 1952. The auditor calculated that a substantial loss would be experienced if the operations were conducted under the present fares and that a moderate return would be earned under the proposed fares. The engineer's estimates indicate that operations under either basis of fare would return a profit. In these calculations, the auditor estimated that the wage increase hereinabove referred to amounted to \$25,000 per year and he gave effect thereto in the various expense accounts involved. The engineer concluded that the wage increase would amount to \$20,860 for the test year and he showed it separately in his estimates. The figures as submitted by the witnesses are summarized in Table 2.

TABLE 2  
ESTIMATES FOR 12 MONTHS ENDING AUGUST 31, 1952

Item	Company Auditor		Commission Engineer		
	Present Fares	(Amended App.)	Present Fares	(Original App.)	(Amended App.)
<b>Operating Revenue:</b>					
Passenger	\$501,115	\$575,088	\$554,540	\$595,920	\$624,555
Special Bus	3,000	3,000	10,635	10,635	10,365
Advertising	6,500	6,500	7,405	7,405	7,405
Token Adjustment	—	—	2,500	2,500	250
Other Operating Revenue	(1)	(1)	125	125	125
<b>Total Operating Revenues</b>	<b>\$510,615</b>	<b>\$584,588</b>	<b>\$575,205</b>	<b>\$616,585</b>	<b>\$642,970</b>
<b>Operating Expenses:</b>					
Operating and Maintenance Expenses	\$469,897	\$478,097	\$438,995	\$437,085	\$435,855
Depreciation	47,778	47,778	47,803	47,803	47,803
Operating Taxes and Licenses	37,750	39,056	45,120	46,050	46,705
Wage Increase (2)	—	—	20,860	20,860	20,860
P.L. & P.D. Insurance (3)	—	—	5,500	5,500	5,500
Revision of Franchise Tax-Stockton *	—	—	*6,505	*6,985	*7,315
<b>Total Operating Expenses</b>	<b>\$555,425</b>	<b>\$564,931</b>	<b>\$551,773</b>	<b>\$550,313</b>	<b>\$549,408</b>
Other Income (1)	200	200	—	—	—
Other Expenses (4)	1,996	1,996	—	—	—
<b>Net Before Income Taxes</b>	<b>(46,606)</b>	<b>17,861</b>	<b>23,432</b>	<b>66,272</b>	<b>93,562</b>
Income Taxes	—	4,105	6,165	26,335	46,690
<b>Net After Income Taxes</b>	<b>(46,606)</b>	<b>13,756</b>	<b>17,267</b>	<b>39,917</b>	<b>46,872</b>
Rate Base	322,015	322,015	307,585	307,585	307,585
Rate of Return	—	4.27%	5.61%	12.98%	15.24%
<b>Operating Ratio:</b>					
Before Income Taxes (5)	109.12%	96.95%	95.93%	89.25%	85.45%
After Income Taxes (5)	—	97.65%	97.00%	93.53%	92.71%

(1) Treated by company auditor as "other income" and by Commission engineer as "operating revenue."

(2) Company auditor included wage increases in expense accounts affected.

(3) Engineer's figures cover an increase in cost of public liability and property damage insurance. The auditor entered the increased cost in the insurance account.

(4) Covers a supplementary charge for public liability and property damage insurance. The auditor made the adjustment in the insurance account.

(5) Operating ratios as submitted by the auditor have been recalculated for comparative purposes by including "other income" in revenues and "other expenses" in operating expenses.

\* Engineer's figures are credits based on reduction by City of Stockton of its franchise tax from two percent of gross revenue earned within the city to one-half of one percent thereof.

( ) - Indicates Loss.

The Commission engineer also introduced alternate fare proposals together with estimates of the revenues and operating expenses thereunder for the 12 months ending August 31, 1952. The operating results under these fare bases are summarized in Table 3.

Table 3

## Estimated Operating Results Under Alternate Fares

	Fares 10 Cents Cash with Tokens <u>3 for 25 Cents</u>	Fares 10 Cents Cash with Tokens <u>5 for 40 Cents</u>
Revenues	\$ 593,195	\$ 590,260
Operating Expenses	<u>551,248</u>	<u>551,333</u>
Net Before Income Taxes	\$ 41,947	\$ 38,927
Income Taxes	<u>14,410</u>	<u>12,925</u>
Net After Income Taxes	\$ 27,537	\$ 26,002
Rate Base	\$ 307,585	\$ 307,585
Rate of Return	6.95%	8.45%
Operating Ratio:		
Before Income Taxes	93.91%	94.39%
After Income Taxes	95.86%	96.10%

The superintendent of transportation of applicant's management company testified relative to schedules and service matters.

The city attorney of the City of Stockton participated in examination of the witnesses and otherwise assisted in the development of the record. He questioned the propriety of the estimates of the anticipated traffic volume, various expense items and the rate base submitted by applicant's auditor.

In determining applicant's revenue needs, the Commission must rely primarily upon the estimates of the operating results offered by the company auditor and by the Commission engineer as summarized in Table 2. The revenue estimates reflect a substantial difference. The total operating expenses do not differ materially but the methods used in calculating a number of expense items must be reviewed in the light of exceptions taken thereto.

Virtually all of the difference in the estimates of passenger revenue is attributable to divergent views of the witnesses relative to the number of passengers to be carried in the test year under the cash and token bases of fares. The company auditor calculated that these passengers would amount to 5,590,680. The Commission engineer used an estimate of 6,200,000 passengers. The auditor's figure was developed from the average number of passengers handled on weekdays, Saturdays, Sundays and holidays in the first six months of 1951, with the projected annual amount being reduced by 10 percent, or 621,206 passengers. According to the auditor, the 10 percent adjustment was a judgment figure to allow for the future downward trend in riding and for the permanent loss of traffic anticipated as a result of the 51-day interruption of service that occurred in July and August, 1951, when negotiation of the wage increase hereinabove referred to was in progress. The engineer's estimate was based upon consideration and analysis of traffic trends since 1947, with particular weight being given to the 12-month period ended June 30, 1951. His estimate for the future reflected a downward trend of 141,758 passengers below the level for the aforesaid 12-month period. The engineer said that it was difficult to predict the further amount of traffic that would

be lost as a result of the interruption of service and he made no allowance therefor in his estimate. He conceded, however, that a loss of traffic could be expected. Counsel for applicant argued that the methods used by the engineer were theoretical and produced an unrealistic traffic level. On the other hand, the city attorney for the City of Stockton contended that applicant's estimates of the drop in traffic were excessive.

Determination of the traffic volume for the test year rests primarily upon judgment involving a forecast of the future based on past experience coupled with appraisal of indications for the future. It appears that the mathematical method used by the auditor tends to exaggerate the amount of traffic decline. In arriving at his estimated drop of 10 percent, he took into consideration the fact that the total traffic for the first six months of the year 1951 amounted to 6.14 percent less than that for the corresponding period of 1950. However, the cash and token passengers, accounting for about 92.0 percent of the traffic, showed an actual drop of only 4.65 percent. Upon consideration of the two estimates as well as other evidence of record, it is concluded that the engineer's forecast of the passenger volume for the 12 months ending with August, 1952, as modified to reflect the further decline expected to result from the interruption of service, is reasonable and will be used for the purposes of the revenue estimates herein. The company auditor in dealing with the further decline considered that the traffic loss would approximate four percent. This is the only estimate of record relating to the probable effect of the interruption of service. It appears to be reasonable and will be adopted.



The estimates of revenue from special bus service also differ. The company auditor's estimate amounted to \$3,000 and that of the engineer to \$10,365. The latter's estimate includes the revenues from special service provided for employees of a construction concern five days per week for a period of four months early in 1951. This movement was shown by applicant to be unusual and nonrecurring. An appropriate modification of the engineer's revenue estimates and a related adjustment of the operating expenses will be made.

In regard to the estimates of the total operating expenses, the calculations of the witnesses reflect a relatively small difference. The chief variations are in expense items covering management, public liability and property damage insurance and the recent wage adjustment. The auditor figured the management expense on a percentage of the gross revenue in accordance with the basis of payment for such services rendered by an affiliated company. He figured this expense as \$25,530 under present fares and \$29,230 under proposed fares. The city attorney of the City of Stockton pointed out that calculation of these charges on a percentage basis was rejected by the Commission in the last proceeding involving applicant's fares (Decision No. 45344 of February 6, 1951, in Application No. 30577). Applicant did not undertake to advance reasons why the percentage basis should now be adopted. The engineer allowed \$20,145 under either the present or proposed fares. His estimate was based on a study of such services involving a similar and affiliated bus line and will be used for the purposes of this proceeding.

Public liability and property damage insurance is obtained by applicant from an affiliated company. Premiums are paid on the basis of a rate per \$100 of gross revenue but provision is made for retroactive adjustment in accordance with the actual experience. On this basis, the auditor estimated the cost as \$30,667 under present fares and \$35,167 under proposed fares. The engineer used a figure of \$30,000 under either fare basis. His estimate was based upon the net average cost for the past several years. In view of the provision for retroactive adjustment, the premium base~~d~~ alone does not *B. 22m* provide a realistic basis for determining the actual insurance cost. The engineer's estimate will be adopted.

Another difference is in the estimates of the annual amount involved in the recent wage increase, supra. The auditor's estimate was \$25,000; that of the engineer \$20,860. The auditor's figure was developed on the basis of the number of straight and overtime hours actually worked by the employees involved for the past 12 months ended June 30, 1951. No adjustment was made in the auditor's figures giving effect to the material reduction in traffic volume used in his estimated operating results. The engineer's calculations, on the other hand, were based upon the changed operating conditions forecast for the test year. His estimate will be adopted.

*Q. 2* The calculations of the rate base remain to be discussed. The only important difference is \$12,500, which applicant describes as the "use value" of five fully depreciated busses and \$2,100, which is required to be deposited with the insurance company in connection with liability insurance. These amounts were not allowed in the Commission engineer's estimates. The inclusion of a like amount as "use value" of the five ~~buses~~ was not allowed in the last proceeding involving applicant's fares, supra. No substantial reason has been made to appear for making the allowance now. The deposit made with the insurance company was required because of

recent unfavorable accident experience. The record shows that the company has undertaken a program designed to improve the accident showing. Under the circumstances, the amount in question will not be allowed in the rate base. For the purposes of this proceeding, a rate base of \$307,585 will be used.

With the adjustments hereinabove discussed, the results of operation for the test year under the present fares, proposed fares and certain other fares would be as follows:

Table No. 4

Adjusted Results of Operation Under Various Bases As Shown

	Present Fares	Proposed Fares (Amended Application)	Fares under Original Application
Revenues	\$549,990	\$615,145	\$589,880
Operating Expenses	<u>546,028</u>	<u>543,621</u>	<u>544,583</u>
Net Before Income Taxes	\$ 3,962	\$ 71,524	\$ 45,297
Income Taxes	<u>713</u>	<u>29,519</u>	<u>16,054</u>
Net After Income Taxes	\$ 3,249	\$ 42,005	\$ 29,243
Rate Base	\$307,585	\$307,585	\$307,585
Rate of Return	1.06%	13.7%	9.5%
Operating Ratio:			
Before Income Taxes	99.3%	88.4%	92.3%
After Income Taxes	99.4%	93.2%	95.0%

The fares under the original application referred to in the table are those proposed by applicant in its application filed in this proceeding prior to amendment. Under this fare structure, the company would retain its basic 10-cent fare, with a 5-cent increment for interzone movements, and would offer tokens at the rate of four for 35 cents in lieu of the present basis of four for 30 cents. The school commutation fare would be increased to the same extent as proposed in the amended application, i.e., from \$1.00 for 20 rides to \$1.20 for 20 rides.

The operating results set forth in Table 4 show that the present fares are inadequate under the impact of increases in wages and other costs of operation experienced by applicant. It is clear, however, that the fares as sought by the company in its amended application would return revenues that are not justified on this record. The alternate fares would provide an estimated \$39,890 in additional revenues. As shown in Table 4, the resulting net operating income, after payment of income taxes, would provide an estimated rate of return of 9.5 percent and a corresponding operating ratio of 95.0 percent. Increased fares on this basis will be authorized.

Applicant requested that it be granted an interim fare increase pending final disposition of its proposals. However, the entire application, as amended, is being disposed of by this decision.

Upon consideration of all of the evidence of record, the Commission is of the opinion and hereby finds that the establishment of increased fares by applicant in accordance with the alternate basis referred to in Table 4 is justified and that in all other respects applicant's proposals have not been justified. Because of the evident need for additional revenue, applicant will be authorized to establish the increased fares on less than statutory notice.

#### O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Stockton City Lines, Inc., be and it is hereby authorized to establish, within sixty (60) days after the effective date of this order and on not less than five (5) days' notice to the Commission and to the public, increased fares as

follows: (1) increase the token rate of fare to four tokens for 35 cents in lieu of the present basis of four tokens for 30 cents, (2) increase the Zone 2 intrazone cash fare and the interzone cash fare between Zones 1 and 2 to 15 cents, and (3) increase the school fare to \$1.20 for 20 rides.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 32291, as amended, be and it is hereby denied.

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

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

Dated at San Francisco, California, this 14<sup>th</sup> day of September, 1951.

R. T. [Signature]  
President  
Justice F. [Signature]  
Kenneth [Signature]

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Commissioners