

**ORIGINAL**

Decision No. 46492

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
FRESNO CITY LINES, INC., for authority ) Application No. 32184  
to revise rates by eliminating the sale )  
and use of full-fare tokens. )

Appearances

Gilbert Jertberg, for applicant.  
Earl M. Jones and C. M. Ozias, for City  
of Fresno, protestants.  
Lloyd Bowes, for employees of Fresno  
City Lines, Inc.  
T. A. Hopkins, for Commission's staff.

OPINION

Applicant is engaged in the transportation of passengers in and near the City of Fresno. It seeks authority to establish increased fares.

Public hearings were held at Fresno on May 10 and 11, 1951, and on November 7 and 8, 1951, before Commissioner Potter and Examiner Lake.<sup>1</sup>

Applicant's present basic adult fare within any one zone is 10 cents cash or 5 tokens for 35 cents. For each additional zone, the fare is 5 cents cash. Reduced fares are provided for children between the ages of 6 and 12 and for students between the ages of 6 and 18. Applicant seeks authority to increase the basic 10-cent cash fare to 11 cents and to cancel the token fares.<sup>2</sup> No change is proposed in the interzone cash fares, in the fares for children nor in

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<sup>1</sup> This matter was originally submitted on the evidence received at the May hearings. Because such evidence was deemed to be inconclusive submission was set aside and the matter reopened for further hearing. In the interim applicant filed an amended application.

<sup>2</sup> In the original application applicant sought only to cancel the token fare of 5 tokens for 35 cents.

the student fares. Applicant seeks authority, however, to restrict the application of student fares so as to prohibit their use after 4:30 p.m., unless the student presents a certificate from the school authorities indicating that he was detained at the school by school activities.

Applicant alleged that because of increased cost of operations, coupled with a downward trend of traffic, the present fare structure does not yield sufficient revenues to provide a fair return on its investment and that unless the change in fares herein sought is authorized the company would be unable to continue to maintain and provide an adequate and modern transportation system in the City of Fresno.

Evidence was offered by applicant, by members of the Commission's staff, by the Commissioner of Finance for the City of Fresno and by a patron of applicant's lines. Exhibits were submitted consisting of balance sheets, operating statements, studies of traffic and revenue flows and trends, certificates of property appraisals, rate base statements, forecasts of estimates results for operations for a test year under present, proposed and alternate<sup>3</sup> fare structures, and a study of applicant's services and operations.

The figures set forth in Tables No. 1 and 2 were taken from these exhibits.

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Evidence with respect to certain service matters was submitted by applicant's manager, the Finance Commissioner, a patron of applicant's lines and by an Associate Transportation Engineer of the Commission's staff. Briefly summarized, the service evidence submitted related to complaints filed with the City Finance Commissioner concerning certain skip-stop arrangements; to an extension of service to a newly developed area; and to recommendations with respect to certain route changes to be made in the future. The service rendered by passenger carriers is the subject of periodic investigations by the Commission's staff. The matters herein complained of will be investigated.

TABLE NO. 1

## Results of Operations Under Present and Proposed Fares

APPLICANT

	Actual Revenues and Expenses for 12-Month Period Ending Sept. 30, 1951	Estimated Revenues and Expenses For 12-Month Period Ending Nov. 30, 1952	
		Under Present Fares	Under Proposed Fares
<b>Operating Revenues</b>			
Passenger Revenue	\$531,607	\$487,163	\$580,449
Other Revenue	<u>27,072</u>	<u>27,690</u>	<u>27,690</u>
Total	\$558,679	\$514,853	\$608,139
<b>Operating Expenses</b>			
Equipment Maintenance and Garage	\$ 93,845	\$129,135	\$129,135
Transportation	279,036	294,450	294,450
Traffic	4,738	7,965	7,965
Insurance and Safety	29,791	27,435	27,435
Expenses of General Officers	1,272	1,270	1,270
Law Expenses	797	800	800
Employees' Welfare	4,053	7,080	7,080
Management, Supervision and Accounting	27,881	25,740	30,400
Other General Expenses	3,097	3,300	3,300
Regulatory Expense	<u>1,007</u>	<u>1,000</u>	<u>1,000</u>
Total	\$445,517	\$498,175	\$502,835
Depreciation	\$ 33,919	\$ 44,696	\$ 44,696
Amortization	234	234	234
Operating Taxes	49,093	51,286	53,364
Total Operating Expenses	\$528,763	\$594,391	\$601,129
Net Income Before Income Taxes	29,916	(79,538)	7,010
Income Taxes	5,931	25	2,660
Net Operating Income	23,985	(79,563)	4,350
Present Marketable Value	700,000	700,000	700,000
Rate of Return After Income Taxes on Present Marketable Value	3.43%	(11.34%)	0.62%
Operating Ratio: After Income Taxes	95.71%	115.45%	99.28%

( ) - Indicates Loss

TABLE NO. 2

## Results of Operations Under Present and Proposed Fares

COMMISSION ENGINEER

	Actual Revenues and Expenses for 12-Month Period Ending Aug. 31, 1951	Estimated Revenues and Expenses For 12-Month Period Ending Nov. 30, 1952	
		Under	Under
		Present Fares	Proposed Fares
<b>Operating Revenues</b>			
Passenger Revenue	\$534,963	\$494,617	\$589,237
Other Revenue	<u>26,385</u>	<u>27,690</u>	<u>27,690</u>
Total	\$561,348	\$522,307	\$616,927
<b>Operating Expenses</b>			
Equipment Maintenance and Garage	\$ 92,623	\$113,890	\$112,160
Transportation	279,608	293,720	289,390
Traffic	4,966	7,325	7,325
Insurance and Safety	29,597	27,570	27,140
Expenses of General Officers	1,177	1,000	1,000
Law Expenses	722	800	800
Employees' Welfare	4,162	7,000	7,000
Management, Supervision and Accounting	28,015	20,000	20,000
Other General Expense	3,232	3,200	3,200
Regulatory Expense	<u>852</u>	<u>850</u>	<u>850</u>
Total	\$444,975	\$475,355	\$462,865
Depreciation	\$ 34,460	\$ 34,078	\$ 34,078
Amortization	234	234	234
Operating Taxes	47,684	51,405	52,982
Total Operating Expenses	\$527,353	\$561,072	\$556,159
Net Income Before Income Taxes	33,995	(38,765)	60,818
Income Taxes	(1)11,198	25	25,032
Net Operating Income	22,797	(38,790)	35,786
Rate Base	214,400	270,750	270,750
Rate of Return	10.63%	—	13.22%
<b>Operating Ratio:</b>			
After Income Taxes	95.94%	107.43%	94.20%

( ) - Indicates Loss

(1) Calculated by the staff witness

Variations in the forecasts of estimated results under present and proposed fares which require analysis appear in the passenger revenue estimates, in certain anticipated operating expenses and in the estimate of the value of the investment devoted to public service upon which the rate of return should be calculated. They will be discussed in the order named.

#### Revenue Estimates

According to the witnesses, revenue estimates for the test year under present and proposed fares were based upon current revenues adjusted to give effect to the decline in adult passengers and to an increase in children and school passengers which have been experienced by the carrier. In addition, effect was given to the diminution of traffic which would likely result from resistance to the higher proposed fares. The variations in the two estimates are less than 1½ percent. Reconciliation of these estimates is, therefore, unnecessary.

We turn now to the operating expenses.

The estimates of both witnesses for equipment maintenance and garage expense, transportation expense and insurance and safety expense were based upon actual cost experienced by the carrier in the preceding year adjusted to give effect to increased wage rates and increased cost of material and supplies. Some of the variations in the estimates are attributable to the estimated number of miles which the carrier's equipment would be operated during the test year. Applicant contended that the expenses for the test year, under both the present and proposed fares, which are predicated upon mileage, should be based upon 1,503,900 miles, this being the current mileage being operated. Witnesses for applicant asserted that present operations are being conducted with a minimum of service and that it would be neither practical nor feasible to curtail schedules without

a serious loss of service to the patrons and resulting further losses in revenue to the carrier.

An associate transportation engineer of the Commission's staff testified that a study of applicant's past operations showed that a reduction in mileage invariably followed a reduction in revenue passengers. The study shows that for a 12-month period ending March 31, 1951, as compared with a similar period ending March 31, 1950, the carrier reduced its mileage by a percentage equal to 44 percent of the percentage reduction in traffic. In other words, with a reduction in traffic of 7.1 percent during the above period the carrier reduced its bus miles operated by 3.1 percent. The engineer in determining estimated mileages for the test year used a factor of only 20 percent of the percentage reduction in traffic which was estimated to prevail due to trend and diminution during the test period. The mileages so developed are 1,489,100 under present fares and 1,465,600 under proposed fares. The engineer further stated that a reduction in the present mileage to the basis he had calculated could be effected without raising the present loading standards or impairing the service now being rendered.

The other principal variations in the estimates of the witnesses in the operating expenses referred to above stem from the inclusion by applicant of \$16,809 for deferred and accumulative maintenance and \$4,500 for the estimated cost of painting a building. The staff witness did not make provisions for deferred or accumulative maintenance, but included in his estimate for repairs to equipment a provision equal to  $\frac{1}{2}$ -cent per mile to compensate for additional maintenance of certain old equipment. With respect to the cost of painting the building he projected the estimated cost over a 5-year period.

The staff estimate of these expenses appears to be based upon a more detailed analysis of the results which would obtain than

those developed by the applicant. The engineer's estimate will be used.

For management, supervision and accounting fees applicant claimed \$25,740 and \$30,400 for the test year under present and proposed fares, respectively. This item was said to represent 5 percent on the first \$50,000 per month gross revenues and 3 percent on all revenues exceeding \$50,000. This amount is paid to the parent company and includes such services performed for the applicant as supervision, management, accounting and other general office matters.

The Commission's engineer allowed \$20,000 for this expense. He said that his figure was an estimate made on the basis of the amount that would be required if the applicant were to perform all of the services now performed by the parent company and on the basis of comparisons with amounts allowed other companies conducting like operations under similar conditions. Applicant's estimate, based on a percentage of gross revenues, has not been substantiated. For the purpose of determinations to be made here the Commission engineer's estimate will be used.

Depreciation expense was calculated by the applicant on an 8-year basis for revenue equipment and by the engineer on the basis of 10 years. The engineer's estimate appears to conform with the generally accepted life expectancy used in the transportation industry for operating equipment such as that operated by applicant. His estimate, therefore, will be used.

The difference in the witnesses' estimates for operating taxes is attributable to applicant's claim of a greater mileage to be operated during the test year. Applicant's estimate will not be allowed for the purpose of this decision. The estimate of the Commission's engineer will be adopted.

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The parent company is the Western Transit System with headquarters in San Diego. In all, this corporation takes care of six operating carriers. The percentage of gross revenues herein claimed for management, supervision and accounting fees was said to be the same as that charged each carrier.

We turn now to a discussion of the rate base.

For the value of the investment upon which the rate of return should be calculated, applicant claimed \$700,000 which was the appraised current market value on land, structures, and shop and garage equipment, and a like value on revenue equipment not fully depreciated. On revenue equipment fully depreciated it claimed a use value predicated upon the insured amount of the vehicles. In addition, applicant claimed 5 percent of the operating expenses for working cash capital.

Applicant's showing with respect to the rate base has not been substantiated. The engineer's estimate of \$270,750 based upon recorded book values adjusted to reflect conditions at the midpoint of the test year will be used. This rate base reflects approximately 50 percent of the recorded value of the operating equipment.

With the adjustments in the estimates hereinbefore discussed, the following results of operations under present fares and proposed fares for the test year are indicated:

TABLE NO. 3

	Applicant's Estimate of Revenues and Modified Expenses		Engineer's Estimate of Revenues and Expenses	
	Under Present Fares	Under Proposed Fares	Under Present Fares	Under Proposed Fares
Operating Revenues	\$514,853	\$608,139	\$522,307	\$616,977
Operating Expenses	562,312	557,165	561,072	556,159
Net Income	<u>(\$47,459)</u>	50,974	<u>(\$38,765)</u>	60,818
Income Taxes	25	19,726	25	25,032
Net Income After Income Taxes (1)	<u>(\$47,484)</u>	31,248	<u>(\$38,790)</u>	35,786
Rate Base	270,750	270,750	270,750	270,750
Rate of Return	--	11.54%	--	13.22%
Operating Ratio After Income Taxes	109.22%	94.86%	107.43%	94.20%

                     - Loss

(1) - Determined at current rates after deducting \$4,193 for interest paid.



The Commission engineer submitted estimated results of operations under four alternate fare structures. They are shown in the following table:

TABLE NO. 4

ESTIMATED RETURN UNDER VARIOUS ALTERNATE FARE STRUCTURES FOR THE 12-MONTH PERIOD ENDING NOVEMBER 30, 1952, APPLICATION NO. 32184

	<u>Case I</u> <u>10¢</u>	<u>Case II</u> <u>10¢ 3/25</u>	<u>Case III</u> <u>11¢ 5/50</u>	<u>Case IV</u> <u>11¢ 6/50</u>
Passenger Revenue	\$565,463	\$548,193	\$587,901	\$546,054
Other Operating Revenue	27,690	27,690	27,690	27,690
Total Operating Expenses	559,691	560,999	559,291	557,554
Net Income Before Income Taxes	33,462	14,884	56,300	16,190
Income Taxes	10,282	3,507	22,596	3,935
Net Operating Income	23,180	11,377	33,704	12,255
Rate Base	270,750	270,750	270,750	270,750
Rate of Return	8.56%	4.20%	12.45%	4.53%
Operating Ratio After Income Taxes	96.09%	98.02%	94.52%	97.86%
Miles to be Operated	1,477,400	1,482,300	1,475,900	1,479,700

Applicant's president contended that annual net revenues in excess of \$60,000, after provision for depreciation and income taxes, were necessary to accord a reasonable return to stockholders and to provide some revenues with which it could replenish its equipment. As we understand applicant's proposal, it appears that it is seeking to require the fare payer to contribute, in addition to a return to the stockholders for their investment, an additional sum to cover new capital expenditures. Such a position is in conflict with sound principles of rate making. It will not, therefore, be followed.

No one opposed the granting of the fare increase. The city attorney for the City of Fresno participated in the development of the record but took no position in the matter.

Conclusions

It is clearly apparent from the evidence of record that applicant's present fares for the test year under either estimate would not produce sufficient revenues to defray the anticipated costs of operations.

As shown in Table No. 3, the proposed fares provide, after provision for income taxes, a rate of return of 11.54 percent and an operating ratio of 94.86 percent under one estimate and a rate of return of 13.22 percent and an operating ratio of 94.20 percent under the other.

Under the alternative fare structures, submitted by the engineer, Case Number III, which provides a basic fare of 11 cents and 5 tokens for 50 cents, would produce a rate of return of 12.45 percent and an operating ratio of 94.52 percent after income taxes which we hereby find to be just and reasonable. This fare would permit applicant to maintain a satisfactory and dependable transportation service and would provide a margin between revenues and expenses sufficient to meet its needs. It will be authorized.

Applicant's proposal relating to the restriction of school children's fares appears to be reasonable. It will be adopted.

Upon consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that increased fares, to the extent indicated above, have been justified and that in all other respects applicant's proposal has not been justified. Applicant requested that if increased fares are authorized it be permitted to establish them at the earliest possible date. In view of the evident need for increased revenue authority will be granted to establish the fares herein authorized on less than statutory notice.

O R D E R

Public hearings having been held in the above-entitled proceeding, as amended, and based upon the evidence of record and on the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Fresno City Lines, Inc., be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and the public, increased fare of 11 cents and 5 tokens for 50 cents in lieu of the present fare of 10 cents cash and 5 tokens for 35 cents.

IT IS HEREBY FURTHER ORDERED that Fresno City Lines, Inc., be and it is hereby authorized to restrict school children's fares to apply only until 4:30 p.m. on days when school is in regular session and after 4:30 p.m., provided the student presents a certificate from his school teacher or principal indicating that he was detained by school activities.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after the effective date of this order.

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 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 4th day of December, 1951.

J. J. [Signature]  
 President  
Justice J. Gaesser  
Harold A. Kelt  
Lawrence H. Patton  
John E. Maxwell  
 Commissioners