

ORIGINAL

Decision No. 46944

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SACRAMENTO CITY LINES request-) Application No. 32776
ing authority to increase certain)
of its rates of fare.)

In the Matter of the Application)
of SACRAMENTO CITY LINES request-) Application No. 32919
ing authority to extend its)
Colonial Heights Route No. 5.)

Appearances

H. B. Seymour, for applicant.
Everett M. Glenn and D. Jackson Faustman, for
City of Sacramento, interested party.
Timothy W. O'Brien and Mrs. Florine Thompson,
for California State Employees' Association,
interested party.
John Power and T. A. Hopkins, for the
Commission's staff.

O P I N I O N

Sacramento City Lines is engaged in the business of transporting passengers in and near the City of Sacramento. By Application No. 32776, as amended, it seeks authority to increase its token fares and to establish an additional fare zone. By Application No. 32919 applicant requests permission to extend its Colonial Heights Route (Route No. 5) from the intersection of 21st Avenue and 55th Street to 21st Avenue and 62nd Street.

These matters were heard on a common record at Sacramento on January 30 and 31, 1952, before Commissioner Mitchell and Examiner Lake. They will be disposed of in one decision.

Applicant's fares are based upon three fare zones. The present adult fares are 10 cents or 1 token for transportation within any of the zones; 20 cents or 2 tokens for transportation between Zones Nos. 1 and 2; and 15 cents or 1 token and 5 cents for transportation between Zones Nos. 1 and 3; and 25 cents or 2 tokens and 5 cents for transportation between Zones 2 and 3.¹ Tokens are sold at the rate of 5 for 40 cents. In addition, applicant maintains a fare of 5 cents for school children.

Authority is sought to increase the token fare applicable to interzone and intrazone traffic from 5 for 40 cents to 4 for 35 cents, and to require that school children's fares be purchased in lots of 20 for \$1.00.² Authority is also sought to establish a new fare zone extending from 21st Avenue and Stockton Boulevard to 64th Street and Fruitridge Road, this area now being a part of Zone No. 1.

Applicant, alleged that the need for the fare increases was occasioned by increased costs of operation resulting from higher wages and increased costs of materials and supplies.

The creation of the additional fare zone was said to be necessary to avoid increasing the cash fare on a system-wide basis and to warrant certain planned added service on the route

¹ It is to be noted that the zones are not adjacent to each other but are situated on different segments of applicant's lines.

² No change is proposed in the basic adult fare of 10 cents.

on which the zone would be added. In addition, it would permit the company to extend its operations as new areas developed. In support of the proposal to sell school children's fares in multiple lots of 20 for \$1.00, applicant contended that the fare in issue was a reduced fare and as such should be sold only in quantities as is the customary practice in the transit industry.

Exhibits were submitted consisting of balance sheets, operating statements, studies of traffic flows and trends, depreciated rate base statements, an inventory and appraisal of the physical properties of the carrier, studies of accident performance, and forecasts of the estimated results of operations under present, proposed and alternate fare structures.

The record shows that for the 11-month period ending November 30, 1951, applicant's operations produced a net profit of approximately \$60,000 and an operating ratio of approximately 95 percent, after provision for income taxes. The results of operations for the 12 months of 1951 were not included in the exhibits. However, according to applicant's auditor, the profit for the year after making a retroactive adjustment for public liability and property damage insurance would be approximately \$54,500.

The estimated results of operations for a 12-month test period ending January 31, 1953, submitted by applicant and a senior engineer of the Commission's staff are summarized in the following table:

TABLE NO. 1

Estimated Results of Operations under Present and Proposed
Fares for 12-Month Period Ending January 31, 1953

	Under Present Fares		Under Proposed Fares		
	Applicant	Commission Engineer	Applicant	Commission Proposed (4)	Engineer Alternate
Operating Revenues	\$1,290,620	\$1,294,946	\$1,367,597	\$1,355,277	\$1,316,577
Operating Expenses					
Equipment Maintenance and Garage Transportation Expenses	\$ 256,925	\$ 237,900	\$ 256,925	\$ 237,900	\$ 237,900
Traffic Expenses	632,400	625,395	632,400	625,395	625,395
Insurance and Safety Expenses	2,400	4,115	2,400	4,115	4,115
Administrative and General Expenses	78,220	74,765	82,425	74,765	74,765
Depreciation Expenses	65,930	64,610	65,930	64,610	64,610
Operating Taxes and Licenses	126,180	122,820	126,180	122,820	122,820
Operating Rent, Credit	111,946 (600)	109,295 ---	116,386 (600)	110,455 ---	109,705 ---
Total Operating Expenses	\$1,273,401	\$1,238,900	\$1,282,046	\$1,240,060	\$1,239,310
Net Income from Operations	\$ 17,219	\$ 56,046	\$ 85,551	\$ 115,217	\$ 77,267
Other Income	350	---	350	---	---
Net Income Before Taxes	\$ 17,569	\$ 56,046	\$ 85,901	\$ 115,217	\$ 77,267
Income Taxes	(1) 4,912	(2) 24,090	(1) 39,972	(2) 62,750	(2) 37,040
Net Income After Taxes	\$ 12,657	\$ 31,956	\$ 45,929	\$ 52,467	\$ 40,227
Rate Base	(3)	\$ 673,064	(3)	\$ 673,064	\$ 673,064
Rate of Return	(3)	4.75%	(3)	7.80%	5.98%
Operating Ratio After Taxes	99.02%	97.53%	96.64%	96.13%	96.94%

- (1) Includes Federal Income Taxes only.
(2) Includes Federal Income and California Franchise Taxes.
(3) Not submitted.
(4) Alternate Fare proposal contemplates tokens to be sold 6 for 50 cents.

It will be noted that applicant did not submit a rate base predicated upon the depreciated value of the equipment necessary and useful to the operations. However, it did submit, through a consulting engineer and an appraiser of real property, a study of "the present fair value of the property" as of January 2, 1952. This study was an inventory and appraisal of the operating plant. The value of the properties was appraised at \$1,882,969. The appraisal was based upon the present market value of the land and improvements. For the operating equipment the appraisal was based upon current replacement costs adjusted to reflect the "percent condition" which represents mileage, life, age and condition of the equipment. In addition, provision was made for prepaid insurance, working capital and what was termed to be "going concern value."³ The consulting engineer testified that in his opinion the appraised value could be considered as a base upon which the Commission could determine a fair return for rate-making purposes.

The Commission's engineer developed a rate base of \$673,064⁴ bottomed upon the average depreciated investment as of January 31, 1953. In addition, he submitted an average rate base for "any period" based upon the investment of January 31, 1952. It was developed to show the average rate base which would prevail over a number of years. It amounted to \$790,802.

Applicant's showing with respect to the fair market value of the properties has not been substantiated on this record as a proper rate base for rate-making purposes. In Pasadena City Lines, Inc., (51 Cal.P.U.C. 248) the Commission held that applicant should develop as much information as practicable in order that it may determine properly what revenues are necessary. The engineer's estimate of \$673,064⁴, based upon recorded book values adjusted to reflect the average conditions at the end of the test year, will be used.

³ "Going concern value" was said to represent "the amount which would reasonably be expended to bring into being an operating public utility capable of furnishing local transportation service in the public interest in Sacramento ***." This item amounted to \$231,690 or 12.3 percent of the total.

It is to be noted from the foregoing table that, although substantial variations appear in the witnesses' forecasts in some of the anticipated expenses, the over-all results of the estimates are so close that a detailed analysis is unnecessary. However, the circumstances under which some of the expenses are claimed, particularly the anticipated costs for drivers' wages and for public liability and property damage insurance, are such as to require comment. According to the record, applicant's turnover of drivers during 1951 exceeded 116 percent. Applicant contended that the large turnover was attributable to a labor shortage in the area. According to the senior engineer, this labor turnover and the costs of training new drivers increased applicant's expenses for the test period approximately \$20,000 over that experienced in 1950.

Public liability and property damage insurance is purchased by the carrier from Transit Casualty Company, a nonprofit affiliated corporation. The premiums are based upon a percentage of the gross revenues subject to retroactive adjustment for accident experience. For this operation the percentage of revenues paid admittedly is higher and the accident experience the worst of any of the carriers for 1951 of the Pacific City Lines Group.

The conclusions to be reached herein with respect to fares require consideration of serious service problems. We turn now to a discussion of these matters.

An associate engineer of the Commission's staff testified that because of numerous complaints regarding applicant's service it had been necessary to make five separate traffic studies of the carrier's major routes within a one and one-half year period. On each occasion, he testified, the staff had found numerous instances of inadequate service both in regard to excessive loading and on-time performance. When the matters were called to the carrier's

⁴ Applicant employed 150 drivers during 1951; it separated and employed 175.

attention, the management took corrective action on the specific complaint. However, similar conditions would be found to exist on the next traffic check. To correct the deficiencies discovered in a survey conducted on January 3 and 4, 1952, this witness recommended the following action be taken by the carrier:

1. That the carrier continuously provide service within the passenger load standard of a seat per passenger average during midday and night service and that standees not to exceed 50 percent of the seats provided by half-hour intervals during morning and evening peak periods.

2. That bus trips as shown in the table below be added to the service which was provided on January 3 and 4, 1952, so as to provide the recommended load standards:

Table No. 2

<u>Route</u>	<u>Time</u>	<u>Added Trips</u>
3 J Street	5:00 p.m. - 5:30 p.m.	1
4 T Street	9:00 a.m. - 3:30 p.m.	6
4 T Street	5:00 p.m. - 5:30 p.m.	1
5 Stockton Blvd.	9:30 a.m. - 10:00 a.m.	1
5 Stockton Blvd.	2:00 p.m. - 2:30 p.m.	1
5 Stockton Blvd.	3:00 p.m. - 4:00 p.m.	2
7 Franklin Blvd.	9:00 a.m. - 9:30 a.m.	1
7 Franklin Blvd.	3:00 p.m. - 4:00 p.m.	1

3. That a full-time, experienced schedule employee be hired to be responsible for proper adjustment of schedules, running time of busses, passenger load factors and for conducting traffic checks.

4. That on-time performance of busses be improved.

5. That all schedules now terminating at 21st Avenue and 55th Street be extended on an alternating basis with service to Fruitridge Road and 64th Street and with 21st Avenue and 62nd Street.

In addition to the above recommendations, the engineer suggested:

That the company file an application for permission to enlarge the loop at the fair grounds terminal of Route No. 8, via 41st Street, Sherman Way, Stockton Boulevard, and 2nd Avenue, in order to provide a bus stop and layover point opposite the entrance to Sacramento Hospital across Stockton Boulevard at Sherman Way. The City of Sacramento should provide for a pedestrian crosswalk at this location on Stockton Boulevard.

That additional 45-seat busses should be acquired in the future in replacement of smaller equipment, in order to meet peak period and school trip requirements, as well as base headway needs on heavy traffic routes, with a minimum of extra trippers in service.

That the seven 45-passenger busses just acquired should be placed on the longer route schedules of Route No. 5, to partially compensate for the heavier loads on these trips as compared to the schedules which are cut back at Broadway and Stockton Boulevard.

That additional basic schedules during midday be extended to the Hollywood Park area south of the Sacramento Junior College as far as Fruitridge Road.

The above recommendations, which contemplate added schedules and equipment replacements, would affect the mileage being operated by the carrier and would increase its operating costs. Consideration to the added mileage was given by the senior engineer in forecasting the results of operations for the test period.

Through rebuttal testimony witnesses for applicant alleged that it was the management's practice to provide adequate load standards; that studies were presently under way to improve on-time performance; that some of the service recommendations of the staff engineer had been adopted and others would be if and when the fare increase ^{were} ~~was~~ granted; and that, with respect to others, studies and surveys would be made to determine their feasibility. The witnesses contended that many of the service complaints, as well as much of the accident frequency, were attributable to the large turnover in drivers. There is room for substantial improvement in service and in the company's accident performance.

We turn now to applicant's request for authority to extend its Colonial Heights line. The extension would be from 21st Avenue and 55th Street to 21st Avenue and 62nd Street, approximately .7⁵ of a mile. The new line is sought to serve a newly developed area. It was pointed out that the territory in issue has had a rapid growth in the last two years and that there are now approximately 500 homes immediately adjacent to the proposed extension.

Notices of the hearing in these matters were posted in applicant's vehicles and were published in newspapers of general circulation in the area involved. In addition, notices were sent by the Commission's secretary to persons believed to be interested. The attorney for the California State Employees' Association and the representatives for the City of Sacramento participated in the cross-examination of witnesses and otherwise assisted in the development of the record. It was their position that the fares of the carrier should be just and reasonable and that the service rendered should be

⁵ This area lies within the boundaries of the fare zone herein sought to be established.

adequate and efficient. The City traffic engineer recommended that applicant's entire operations be reviewed to determine the adequacy of the service and routings of busses to determine the need for either a single fare arrangement or equitable fare zones, and to study the problem of accident reduction.

Several patrons of applicant's line testified concerning service matters and protested the granting of the fare increases.

It is to be noted from the foregoing summary of the evidence of record that the operating results estimated by the witnesses for the test period ending January 31, 1953, would not be excessive or unreasonable. The applicant estimated an operating ratio of 96.64 percent after provision for income taxes. The Commission's engineer forecast an operating ratio of 96.13 percent and a rate of return of 7.80 percent. The evidence, however, tends to indicate that operations have been for some time, and are presently, clothed in a shroud of inefficiencies and poor service. The labor turnover in drivers and local management officials together with the accident experience and service record point to this conclusion.

We believe that the people of Sacramento are not receiving the adequate and efficient transportation service to which they are entitled. We are, therefore, of the opinion that the operations of applicant should be subjected to a complete review to determine the

⁶ As hereinbefore noted, neither an appropriate rate base nor a rate of return was submitted by applicant. We view a rate base established upon the depreciated value of the operating plant, as an essential index of a carrier's earning requirements. In future proceedings of this nature we will expect applicant to furnish such information.

⁷ The record shows that during 1951 applicant had three different superintendents of transportation.

adequacy of its service and routings and the reasonableness of its fare structure. Accordingly, we shall institute a broad investigation into the operations of applicant as recommended by the City of Sacramento.

In the interim, however, applicant will be expected continuously to provide, unless otherwise authorized by the Commission, the minimum load standard and service schedules recommended by the Commission's engineer and as provided herein and to intensify its safety training program.

Ordinarily a proposed increase submitted upon a record with such grievous collateral issues as the foregoing would be summarily denied. Here, however, it is clear that under the most favorable estimate of operations under the present fares the operating ratio, after taxes, would be 97.53 percent and the rate of return 4.75 percent. These operating results, we believe, would not leave applicant a sufficient margin between revenues and expenses to guard against unforeseen contingencies which may arise pending completion of the Commission's investigation. In the circumstances, we feel constrained to authorize some increase in applicant's fare structure, notwithstanding the fact that the record is clearly insufficient to justify the full increases herein sought.

An increase in the token fare structure from 5 for 40 cents to 4 for 35 cents and not allowing the proposed zone would, according to the estimates of the Commission's engineer, provide net revenues of approximately \$50,900, an operating ratio of 96.23 percent and a rate of return of 7.6 percent after provision for income taxes. The record is sufficient, as we see it, to justify such an increase, but no more. This fare structure will be authorized. The request

to establish an additional fare zone will be denied. Applicant's proposal to sell school children's fares in multiples of 20 for \$1.00 is reasonable and will be authorized.

There remains to be disposed of applicant's request to extend its Colonial Heights line. This request appears to be reasonable and will be granted, except to the extent of providing an extra fare zone in connection therewith.

To insure, for the patrons of applicant's lines, an adequate service pending development of the Commission's investigation, the fare increases herein authorized will be conditioned upon applicant effectuating the service improvement found necessary prior to or concurrently with the establishment of the increased fares.

Upon consideration of all of the facts and circumstances of record, the Commission concludes and finds as a fact that the sought fare increases are justified to the extent hereinabove indicated and provided by the order herein; and that public convenience and necessity require that the sought route extension be granted to the extent indicated herein and provided by the order which follows.

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 Sacramento City Lines be and it is hereby authorized to establish a fare of 4 tokens for 35 cents in lieu of its present fare of 5 tokens for 40 cents and to sell school children's fares in lots of 20 for \$1.00 in lieu of the present single cash fare of 5 cents, subject to the following conditions:

That concurrently with the establishment of the fares herein authorized and continuously thereafter, unless otherwise authorized by the Commission, applicant shall provide:

(a) Minimum passenger load standards of a seat per passenger average during midday and night service and that standees will not exceed 50 percent of the seats provided by half-hour intervals during morning and evening peak periods.

(b) In addition to the service rendered on January 3 and 4, 1952 there shall be added the additional schedules shown in Table No. 2 of the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Sacramento City Lines be and it is hereby authorized to extend its present Colonial Heights Route No. 5 from the intersection of 21st Avenue and 55th Street along 21st Avenue to its intersection with 62nd Street and concurrently with the inauguration of this service to incorporate the extension in Zone No. 1 for fare purposes.

IT IS HEREBY FURTHER ORDERED that in all other respects Applications Nos. 32776, as amended, and 32919, be and they are hereby denied.

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 and route changes 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 1st day of April, 1952.

A. T. Anderson
President
Justus D. Coe
Harold A. Hula
Robert E. Whitcomb

Commissioners