

Decision No. 47606

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Willis M. Kleinenbroich, an)
individual, doing business as)
The Modesto Motor Bus Service,)
to increase rates and fares for)
the transportation of passengers)
between points in the vicinity)
of Modesto, Stanislaus County,)
California.)

Application No. 33264

Appearances

- Willis M. Kleinenbroich, in propria
persona.
- Allan Grimes, for City of Modesto,
interested party.
- O. B. Liersch, for Engineering
Division, Transportation
Department, Public Utilities
Commission of the State of
California.

O P I N I O N

Willis M. Kleinenbroich, an individual doing business as The Modesto Motor Bus Service, operates as a passenger stage corporation. He is engaged in the transportation of passengers within and in the vicinity of Modesto. By this application, authority is sought to establish an increased passenger fare.

Public hearing of the application was held at Modesto before Commissioner Mitchell and Examiner Jacopi. Evidence relative to applicant's earning position was offered by the applicant and by a transportation engineer of the Commission's staff. A public witness testified concerning service matters. Representatives of the Commission's staff and of the City of Modesto participated in the proceeding and assisted in the development of the record.

Applicant's service is provided over four routes within a single fare zone. The present one-way fare is 10 cents cash. A school commutation fare of 75 cents for 10 rides also is maintained. These fares were established under Decision No. 45794 of June 5, 1951, in Application No. 32237, which authorized applicant to raise the fares then in effect to the present levels. Applicant asserted that the fares proposed at that time were as high as he thought the traffic would bear. It was estimated that even with these fares in effect the operations in the test year would be conducted at a loss of \$6,550. The estimated operating ratio was 115.58 percent. The record in the instant proceeding shows that although economies were made a loss of \$4,365¹ was experienced on the operations in the year 1951. The operating ratio was 110.9 percent. Assertedly, applicant now seeks to place the operations on a compensatory basis by increasing the present 10-cent fare to 15 cents. No change is sought in the school commutation fare. The higher fare is expected to produce additional revenue of about \$12,400 per year.

Applicant testified that the need for the higher fare sought was occasioned by a drop in the traffic volume coupled with steady advances in the cost of operation. The evidence shows that about 50 percent of the school traffic handled was lost upon the opening of a new high school in Modesto in September 1951 and the commencement of school bus service generally along applicant's routes.²

¹ The present fares, which were authorized by Decision No. 45794, supra, were not in effect during the entire year 1951. The loss figure shown above has been adjusted by eliminating interest charges from the operating expenses.

² The new high school is situated on Coffee Road near the eastern boundary of Modesto. The record shows that east side freshman and sophomore students formerly attending the Lincoln High School at Downey Avenue and Eye Street now attend the new high school and no longer use applicant's service.

According to the applicant, there was no indication of an increase in patronage in the near future. On the contrary, he said, a further loss of school traffic would be experienced when the new high school accepts third year students in September 1952 and fourth year students in the latter part of the year 1953. In regard to the operating expenses, he stated that substantial increases had occurred since the last fare adjustment, including a 10-percent advance in the wages of bus drivers effective July 1, 1952.

Studies of the results of operation anticipated in the test year ending June 30, 1953, under the present and proposed fares were presented by the applicant and by a transportation engineer of the Commission's staff. The witnesses gave effect in these estimates to the downward trend in the traffic volume as determined by them and to the advances that have occurred in the operating expenses, including the wage increase. In developing the traffic volume for the test year, however, no deduction was made for the further loss of school traffic which, assertedly, would occur in September 1952. The applicant calculated that he would suffer a loss of \$9,637 if the present fares were continued in the test year. The staff engineer estimated that the loss would amount to \$7,898. Under the proposed fares, the witnesses' figures show that net revenue would be earned amounting to \$1,380 and \$4,207, respectively, before provision for income taxes. The operating results for the test year shown in the tabulation that follows were taken from the exhibits submitted by the applicant and the staff engineer.

Estimated Revenues and Operating Expenses
for the Future 12-Month Period Ending
June 30, 1953, Under Present and Proposed Fares

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Applicant</u>	<u>Commission Engineer</u>
Revenues	\$38,585	\$37,730	\$49,874	\$50,130
Operating Expenses:				
Maintenance	10,907	10,925	10,907	10,925
Transportation	23,680	23,670	23,680	23,670
Traffic	25	25	25	25
Insurance & Safety	1,870	1,870	1,870	1,870
Administrative & General	3,940	4,240	3,940	4,240
Depreciation	3,298	733	3,298	733
Taxes & Licenses	3,998	3,830	4,270	4,125
Operating Rents	<u>504</u>	<u>335</u>	<u>504</u>	<u>335</u>
Total Operating Expenses	\$48,222	\$45,628	\$48,494	\$45,923
Net Operating Revenues Before Income Taxes	(1) \$(<u>9,637</u>)	\$(<u>7,898</u>)	\$ 1,380	\$ 4,207
Operating Ratio Before Income Taxes	(1) 124.9%	120.9%	97.2%	91.6%

() - Indicates loss.

(1) The income tax figures were not supplied. The operations are conducted by applicant as an individual. The income taxes which would apply would be affected by the personal exemptions and other allowances available to applicant as an individual.

The differences in the foregoing estimated operating results are relatively small. The estimates of the revenue differ by \$855 under the present fares and by \$256 under the proposed fares. The variations are attributable to differences in the judgment of the witnesses relative to the downward trend of traffic and to the number of passengers expected to cease using applicant's service if the higher fare sought were established. The staff engineer's figures are based upon what appears to be a more detailed analysis of riding trends.

The principal variation in the operating expenses is in the amounts allowed by the witnesses for depreciation. The applicant included \$3,298 in the expenses for this purpose. The staff engineer used a figure of \$733. According to applicant's books, the vehicle equipment now is depreciated down to only 9 percent of the original book cost. The engineer allowed depreciation only on vehicles not fully depreciated on the books. The applicant did not use the book basis. Instead, his figures were developed by assuming that the vehicles now were at the mid-point of the service lives as shown in the books. On this basis, depreciation would be taken on vehicles that have been depreciated in full. In similar situations, the Commission repeatedly has said that further depreciation would not be allowed on operating properties that had been fully depreciated by the utility. That rule will be followed in this proceeding.

Minor differences appear in other operating expenses which are affected directly by the number of bus miles operated. The applicant estimated that 171,000 bus miles would be involved in providing the service in the test year. The staff engineer based his expense calculations upon the operation of 170,000 bus miles. This figure was derived from the mileage involved in the schedules currently operated. The applicant did not substantiate his estimate.

Another difference is attributable to the fact that the applicant made no provision for various legal expenses. The engineer allowed \$300 for these services, which appears to be reasonable.

A representative of the City of Modesto objected to the basis used by the staff engineer in developing the cost of tires and tubes for the test year. The record shows that applicant purchases these articles outright and that the expenditures vary considerably from year to year depending upon whether new tires are purchased or the old ones are recapped. To average these varying conditions on an annual basis, the engineer based his estimate on 1.25 cents per bus mile which, he said, was the average cost for the industry. He took into consideration also that a cost of 1.27 cents per mile prevailed for a generally similar operation elsewhere. The city's representative contended that the average of applicant's own actual expenditures for past periods represented the best measure of the forecast for the test year. The applicant's estimated tire cost is equal to 1.2 cents per mile. No objection was raised to the basis used by him. The difference between the two estimates is small. For the purpose of this proceeding, however, tire costs based on 1.2 cents per bus mile for 170,000 bus miles as hereinabove adopted will be used.

The city's representative developed also that the amount of franchise tax to be paid by applicant under the provisions of his city franchise now was under negotiation. The record indicates that the discussions could result in applicant being required to pay something more than the book figures used in the calculations of the witnesses. If this occurred, the applicant said, the additional amount involved would not materially reduce the net operating revenue anticipated in the test year under the proposed fares.

In view of the infirmities involved in the applicant's calculations, the staff engineer's estimates will be used for the purpose of this proceeding modified as stated above with respect to the cost of tires and tubes. On this basis, the estimated financial results of operation anticipated in the 12-month test period ending June 30, 1953, under the present and proposed fares would be as follows:

	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenue	\$37,730	\$50,130
Operating Expenses	<u>45,543</u>	<u>45,838</u>
Net Operating Revenues Before Income Taxes	\$(<u>7,813</u>)	\$ 4,292
Operating Ratio Before Income Taxes	120.7%	91.4%

() - Indicates loss.

A group of residents who use applicant's service appeared at the hearing. A spokeswoman for the group testified that these people had no objection to the granting of the proposed fare increase if the revenue under the present fares was found to be insufficient to cover the cost of operation. She pointed out, however, that the applicant had discontinued Sunday and holiday schedules effective March 1, 1952.³ The witness asserted that the service in question was needed and that its discontinuance had resulted in some inconvenience to her and to other people comprising the group she represented.

³ Because the service had been discontinued, no provision was made in the estimated operating results submitted by the witnesses for the operation of Sunday and holiday schedules in the test year.

The applicant stated that he was willing to restore the Sunday and holiday schedules on a trial basis under the increased fare sought herein. He asserted that the schedules in question were discontinued because the revenues had failed to cover the operating expenses over a period of years. A statement subsequently submitted by applicant at the request of the hearing officers shows that for the 6-month period preceding the discontinuance of the schedules a loss of \$409 was experienced in providing the Sunday and holiday service. The revenue for the period amounted to \$738 and the operating expenses were \$1,147.

The representative of the City of Modesto stated that the city had no objection to the granting of the sought fare increase if the Commission found from the evidence that it was justified. Notices of the hearing of the application were posted in applicant's vehicles and were published in a newspaper of general circulation in the area served. No one specifically opposed the granting of the application.

It is clear from the evidence of record that applicant would suffer a loss of \$7,813 in the test year if he were required to continue the present operations under the existing fares. The adjusted estimate of the results under the proposed fares indicates that applicant would earn net operating income amounting to \$4,292 before provision for income taxes and that the corresponding operating ratio would be 91.4 percent. It is evident from the record, however, that this estimated earning will not be realized. The evidence shows, and it was not disputed, that additional school traffic would be lost next month. The amount of the loss was not known when the public hearing of the application was held and was not given effect in the

estimated operating results. However, the loss of 50 percent of the total school traffic that occurred in 1951 upon the transfer of first and second year students to the new high school indicates that the traffic loss that will result from the transfer of the third year students next month may be expected to be relatively substantial. The record shows further that applicant has used his depreciation reserves to cover his past operating losses and that these funds were insufficient to enable him also to make needed repairs to the bus bodies. According to the evidence, these repairs must be made in the immediate future. Careful review of all of the evidence leads to the conclusion that under the circumstances shown here the sought increased fare will provide revenue no greater than necessary to sustain the operations and to assure continuance of adequate weekday service to the public. The sought fare is reasonable and will be authorized.

We turn now to a consideration of the request for resumption of the Sunday and holiday service. This service has not been provided since March 1, 1952, and the costs involved in its operation were not included in the operating results for the weekday operations hereinabove discussed. The record shows that a loss at the rate of about \$800 per year was experienced on the Sunday and holiday operations in the past. It appears from the evidence that if applicant could regain under the increased fare involved herein about 90 percent of the traffic volume handled prior to the discontinuance of the service, the loss would be reduced to approximately \$400 per year. In view of applicant's expressed willingness to do so, he may, if he so desires, restore the Sunday and holiday schedules previously operated for a test period of 60 days after the increased

fare hereinafter authorized becomes effective. If the service is restored, it should be publicized and the cooperation of civic groups and other interested parties sought by applicant with the view of developing the greatest possible patronage for these schedules. Applicant will be expected to furnish the Commission upon the conclusion of the test period with a statement of the revenue and expenses involved in the Sunday and holiday service and to advise the Commission at that time whether he intends to continue the operations thereafter.

The people of Modesto are advised that if they wish to retain the Sunday and holiday schedules in the event that they are restored they must make it feasible by their patronage.

Upon consideration of all of the facts and circumstances of record, the Commission is of the opinion and hereby finds that the increased fare proposed in the application filed in this proceeding has been justified. Applicant requested that he be authorized to establish the increased fare on less than statutory notice. In view of the evident need for additional revenue, the sought authority will be granted. The operating results hereinabove set forth are based upon the cost of operating the present weekday schedules. In view of this, applicant will be directed not to make any reduction in such service without the express approval of the Commission.

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 Willis M. Kleinenbroich, an individual doing business as The Modesto Motor Bus Service, be and he is hereby authorized to establish, on not less than five (5)

days' notice to the Commission and to the public, an increased one-way fare of 15 cents cash in lieu of the present fare of 10 cents, as proposed in the application filed in this proceeding.

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

IT IS HEREBY FURTHER ORDERED that applicant shall not reduce or curtail any of his weekday schedules or services as provided during the period June 16 to 21, 1952, inclusive, without the express approval of the Commission.

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.

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

Dated at San Francisco, California, this 19th day of August, 1952.

R. T. Anderson
President
Justin F. Coe
Harold P. Kula
John E. Mitchell

Commissioners

Kenneth Potter

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