

ORIGINALDecision No. 48245

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of FOSTER TRANSPORTATION, INC.)
 for authority to increase rates; and to be) Application No. 33304
 granted immediate relief pending full)
 hearing.)

Appearances

Theodore W. Russell, for applicant.

Earl D. Murphy, for the City of Alhambra.

T. A. Hopkins, Public Utilities Commission of
the State of CaliforniaO P I N I O N

Applicant is engaged in the business of operating a common carrier passenger stage service within and between the cities of Alhambra, Monterey Park, San Gabriel and adjacent communities. In this proceeding it seeks authority to establish increased fares on less than statutory notice. It alleges that its operating costs have increased substantially since its fares were last adjusted and that the sought fares are necessary to the maintenance of its services.

Public hearing of the application, after due notice to interested parties, was held before Examiner Abernathy at Alhambra on December 18, 1952. Evidence was submitted by the general manager and by a clerk of applicant company, by a representative of the Alhambra Chamber of Commerce, and by a transportation engineer of the Commission's staff.

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 Notices of the hearing were posted in applicant's buses, were published in a newspaper of general circulation in the area served, and were sent to persons and organizations believed to be interested.

Applicant's present fares, and the fares which it seeks to establish, are as follows:

<u>For transportation within the same fare zone</u>	<u>Present fares</u>	<u>Proposed fares</u>
Adult - cash ticket	12 cents	15 cents 14.28 cents
Student- ticket	7.14 cents (42-ride ticket, \$3)	(21-ride ticket, \$3) 9.09 cents (33-ride ticket, \$3)
 <u>For transportation between fare zones</u>		
Adult - cash ticket	18 cents	20 cents 18.75 cents
Student- ticket	10.71 cents (28-ride ticket, \$3)	(16-ride ticket, \$3) 12 cents (25-ride ticket, \$3)

According to testimony and exhibits which were submitted by the company's representatives, applicant's financial position has deteriorated progressively during the past several years. Operating results since 1947 were reported as follows:

	<u>Net income</u>	
	<u>Before interest and income taxes</u>	<u>After interest and income taxes</u>
1948	\$ 2,324	\$(640)
1949	2,228	(352)
1950	849	(1,265)
1951	(4,660)*	(5,282)*
1952 (through October)	(4,982)	(5,529)

() Indicates loss

* Before provision for approximately \$3,000 in wage increases applicable to 1951 operations and paid retroactively in 1952.

As reflected by the company's balance sheet data the extent of the reported decline in its financial position is shown by the following figures:

	<u>Capital Investment</u>	
	<u>As of January 31, 1947</u>	<u>As of October 31, 1952</u>
Capital stock	\$8,000	\$ 8,000
Surplus	<u>1,874</u>	<u>(15,044)</u>
Total investment	\$9,874	\$(<u>7,044</u>)

() Indicates deficit

Applicant's manager said that in 1952 his company had to absorb substantial increases in operating costs resulting from the granting of wage increases; that it had to resort to borrowing to pay retroactive wage awards of the Wage Stabilization Board; that its credit resources have been exhausted in order to continue operations under present cost levels; and that its entire business has been reduced to a precarious financial condition. ² Revenue and expense estimates which applicant's representatives submitted show that a further loss of \$8,400 is expected if present fares are continued in effect throughout the coming year, whereas earnings of \$4,112 are

² Applicant's balance sheet as of October 31, 1952, shows current liabilities of \$21,187 and current assets \$7,010. Assertedly, approximately \$7,000 of the current liabilities are more than two months past due.

anticipated if the sought fares are established. Details of the estimates are shown in the table below:

Estimated Operating Results of ensuing 12 months
Present and Proposed Fares

<u>Revenues</u>	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Scheduled bus revenues	\$119,669	\$132,226
Charter	28,420	28,420
Advertising and miscellaneous	<u>2,091</u>	<u>2,091</u>
	\$150,180	\$162,737
<u>Expenses</u>	<u>158,625</u>	<u>158,625</u>
Net Operating Revenues	\$(<u>8,445</u>)	\$ 4,112
Income taxes	-	\$ 2,763
Operating Ratio	105.6%	98.3%

() Indicates loss

Assertedly, were it not for charter services which applicant provides in addition to its common carrier services involved herein, its operating results, both those experienced in the past and those anticipated for the future, would be less favorable than shown above. Figures were submitted by applicant's witnesses to show that its losses stem from the common carrier services and that the charter services are resulting in earnings, before income taxes, as indicated by an operating ratio of 93 percent.

The Commission engineer introduced and explained the results of a study which he had made of applicant's operations to arrive at estimated earnings for the coming year (a) if present fares are maintained, (b) if the sought fares are established and (c) if the sought fares, modified in various respects, are put into effect. The engineer's revenue estimates were developed from an analysis of the company's traffic and included allowances for trend in

passenger volume and for the deflection in traffic that is expected to result from establishment of higher fares. Except with respect to vehicle maintenance and repairs, administrative expense, operating rents and depreciation, his expense estimates were based upon applicant's expense experience. His allowances for the expenses named are somewhat lower than the amounts recorded by applicant. With reference to administrative expense and to vehicle maintenance and repairs the engineer explained that the figures which he used reflect experience of corresponding carriers generally. The adjustment which he made in operating rents was based upon his appraisal of a reasonable rental for the property used by the company for its terminal. His depreciation expense estimate was calculated upon a greater service-life period for the properties involved than that used by applicant in its development of that expense item. The earnings which the engineer estimated would result from applicant's common carrier services under present fares and under the sought fares are as follows:

Estimated Earnings from Present and Proposed Fares
for Year Ending November 30, 1953

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Revenues*	\$430	\$1,170
Operating ratio*	99.64%	91.66%

* After allowance for income taxes

Under the alternative fare proposals which the engineer advanced for consideration and which represent modifications of the fares sought by applicant, he estimated earnings would range from \$3,020 to \$6,370³ with corresponding operating ratios of 97.52 and 94.97 percent.

³ In each case applicant's earnings from its common carrier services would be augmented by those from its charter services which are not involved herein. According to the engineer's estimates, the charter services during the year ending November 30, 1953, will produce earnings of \$3,350 with a resultant operating ratio of 90.2 percent. His figures show that the combined common carrier and charter services, if the sought fares are established, will result in total earnings of \$14,520 after taxes and an operating ratio of 91.36 percent.

A representative of the Alhambra Chamber of Commerce appeared on behalf of that organization and supported applicant's proposals. He stressed that applicant's services are necessary to the economic well-being of Alhambra and he submitted a letter from the Alhambra Chamber of Commerce recommending that the sought fare increases be authorized. No one appeared at the hearing in opposition to granting of the application.

The record herein is convincing that applicant's revenues from its present fares are not sufficient to return operating costs and to provide reasonable earnings. It is clear that fare increases are necessary if the company's services are to be adequately maintained.

Regarding applicant's prospective operating results under the sought fares, it may be observed that the company's witnesses and the Commission engineer differ materially in their respective estimates. With respect to the common carrier services involved herein, the main differences lie in the expense accounts for vehicle maintenance and repairs, depreciation and administration. As indicated hereinabove the engineer adjusted his estimates of these expenses to conform to the usual expense experience of similar carriers. The estimates of applicant's witnesses set forth expected results of the company's operations as presently conducted; those of the engineer show anticipated results that would be achieved under average conditions. In effect, the engineer's data provide a basis for measuring the propriety of applicant's expenses and the efficiency of its operations since in the absence of special circumstances it may be assumed reasonably that there should be a close correlation among corresponding expenses of urban passenger stage carriers operating under much the same circumstances in the same general area.

On this record it must be concluded that applicant has not established the reasonableness of its estimates for vehicle maintenance and repairs, depreciation and administration. Notwithstanding the implications of the engineer's adjustments in those expenses, applicant did not present evidence to show that its estimates with respect to these items are reasonable and proper for its specific operations. ⁴ In certain respects it appears from applicant's own data that its estimates are excessive. The record is clear that in accounting for purchases of materials and supplies for vehicle maintenance and repairs applicant has overstated its operating expenses. ⁵ With reference to depreciation expense the evidence shows that applicant bases its charges on shorter service lives than those which it realizes from the use of its properties. Its charges to depreciation expense are thereby overstated accordingly.

Because of the infirmities of applicant's showing, it appears that the data which was presented by the engineer provide the better basis for authorizing adjustments in applicant's fares. Thus it would seem that under the sought fares applicant's common carrier services during the coming year would result in earnings of about \$11,000 and an operating ratio of 91.6 percent.

⁴ Applicant undertook to show the reasonableness of various of its expense estimates, including that for administrative expense by submitting data to show that its payments to its officers (who are also its stockholders and directors) are at rates that correspond to pay scales of other of its employees. Such wage comparisons do not establish the propriety of the total charges to administrative expense since they do not show that abnormal charges are justified or required by special operating circumstances.

⁵ Through its charges to operating expense for materials and supplies during the past six years, applicant has built up an inventory valued at approximately \$5,000 in excess of the amount shown in its current balance sheet for those items.

The amount of the earnings estimated by the engineer is somewhat greater than that which would be considered under usual circumstances as reasonable for the operations involved. In this proceeding, however, it appears that deviation from customary standards is justified by the precarious state of applicant's finances. It appears that such benefit to the public as would result from modification of the company's fare proposals to bring about a reduction in the anticipated earnings is outweighed by the need to assure the continuity of an essential public service. In view of the instability of applicant's financial position, and the attendant hazards to its operations, it is concluded that the probable earnings from the proposed fares would be reasonable. The sought fare increases will be authorized. This authorization will be made effective ten days after the date of the order herein because of applicant's critical financial situation.

Upon careful consideration of all of the facts and circumstances of record the Commission is of the opinion and finds as a fact that increases in applicant's fares, as proposed in this proceeding, have been shown to be justified. To this extent the application will be granted. Applicant requested an interim adjustment of its fares pending hearing of the matters involved. In view of the order herein, the request for an interim fare adjustment will be denied.

O R D E R

Public hearing having been held of the above-entitled application, the evidence received therein having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Foster Transportation, Inc. be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, increased fares as follows:

<u>FARES</u>	<u>INTRAZONE</u>	<u>INTERZONE</u>
Single-ride adult cash fare	15 cents	20 cents
Adult multiple-ride ticket	21-ride, \$3.00	16-ride, \$3.00
Student multiple-ride ticket	33-ride, \$3.00	25-ride, \$3.00

IT IS HEREBY FURTHER ORDERED that in addition to the required filing of tariffs applicant shall give notice to the public by posting in its passenger vehicles an explanation of the fare changes. Such notices shall be posted not less than five (5) days before the effective date of the fare changes, and shall remain posted until not less than ten (10) days after said effective date.

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 except as provided hereinabove, the application in this proceeding be and it is hereby denied.

This order shall become effective ten (10) days after the date hereof.

Dated at Los Angeles, California, this 2nd day of February, 1953.

R. F. [Signature]
President

Justus F. [Signature]
Harvest Hills

[Signature]
[Signature]
Commissioners