

ORIGINAL

Decision No. 48867

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

SAN DIEGO TRANSIT SYSTEM )

Application No. 34016

for authority to increase rates. )

Fred E. Lindley and Leon W. Scales, for applicant.  
Aaron W. Reese, Deputy City Attorney for the City  
of San Diego, Joseph C. Zauri, for North Island  
Association and Dr. Ralph C. Dailard and Eugene  
Carlson, for San Diego City Schools, interested  
parties.

A. M. Stevens, for the County Central Committee of  
San Diego County of the Independent Progressive  
Party, protestants.

Hal F. Wiggins and T. A. Hopkins, for the  
Commission's staff.

O P I N I O N

The San Diego Transit System is engaged in the transpor-  
tation of passengers by motor bus within and between the Cities of  
San Diego, Coronado, National City, Chula Vista, La Mesa and El Cajon  
and adjacent areas.

By this application it seeks authority to increase the  
present cash fare applicable within or between any one or two zones  
from 13 cents to 15 cents, to increase the token fares from 2 tokens  
for 25 cents to 7 tokens for \$1.00 and to increase the fares for  
weekly passes from \$2.25 to \$2.75. No change is proposed in the  
additional zone fare of 5 cents. In addition, authority is sought  
to increase the school pass fares which sell for \$1.50, \$2.00 and

\$2.50 to \$2.00, \$2.50 and \$3.00, respectively, and to raise school commutation fares which now sell for \$2.00 and \$2.50 to \$3.00.<sup>1</sup>

1

The present and proposed fares are more specifically set forth below:

	<u>Present Fares</u>	<u>Proposed Fares</u>
<u>CASH FARES</u>		
Within any one or any two zones	13¢ or one token	15¢ or one token
Additional zones (Maximum fare 35¢)	5¢	5¢
<u>TOKEN FARES</u>		
Each token good for 1 ride within any 2 adjacent zones	2 for 25¢	7 for \$1.00
<u>WEEKLY PASSES</u>		
Through Zones 1 and 2	\$2.25	\$2.75
<u>SCHOOL PASSES</u>		
Zones 1 and 2 4:00 p.m. Limit	\$1.50	\$2.00
Zones 1 and 2 6:00 p.m. Limit	2.00	2.50
Suburban 4:00 p.m. Limit	1.50	2.00
Suburban 6:00 p.m. Limit	2.00	2.50
State College Training School	2.00	2.50
Zone 1 to 3	2.50	3.00
<u>SCHOOL TICKETS (40 rides each)</u>		
Form N33 - Between points in Zone 4 on Routes C & T - Greenwood & Morena Blvd.	\$2.00	\$3.00
Form 50 - Between points in Zone 4 on Routes C, E & 7, and points in Zones 1 & 2	2.50	3.00
Form 52 - Between Lisbon Street and Jamacha Road on Routes F & G, and points in Zones 1 & 2	3.00	3.00
Form 54 - Between points in Zones 4, 5 & 6 on Routes C, E, F, U & 7	3.00	3.00
Form 56 - Between points in Zones 6 & 7 on Route E	3.50	3.50

Public hearings of the application were held in San Diego on June 3, 4 and 5, 1953, before Commissioner Potter and Examiner Lake.

Applicant's fares were last adjusted by Decision No. 45279 of January 16, 1951, in Application No. 31542. They were reviewed by the Commission in Decision No. 47411 of June 30, 1952, in Case No. 5332. In the latter proceeding the Commission found that the present fares of the applicant were not shown to be unjust, unreasonable, discriminatory, preferential or otherwise unlawful. In this proceeding applicant contends that under prevailing operating conditions its present fares are neither reasonable nor compensatory and that they do not yield sufficient revenues either to provide a fair return on the investment or to provide a satisfactory operation for the public it serves. Applicant also contends that it has consistently improved efficiency and held operating costs to a minimum and that there continues to be a downward trend in its traffic. It claims that since the last raise in fares wage increases totaling \$575,000 per year have been awarded to employees, that health and welfare benefits for employees have further increased labor costs \$72,000 per year and that other costs of operations have also been adjusted upwards. It is alleged that the downward trend in traffic has been influenced by a sizable decrease in the military population in the San Diego area.

With respect to the adjustment in school fares, applicant contends that they have not been increased since June 1, 1947, and that although the amount of increase, percentagewise, is greater than that sought for the adult fares such an increase is necessary to create a reasonable relationship with the adult fare structure.

A-34016 AH \*

Evidence was offered by applicant, by members of the Commission's staff, by the superintendent of schools for the City of San Diego, by a representative of the County Central Committee of San Diego County of the Independent Progressive Party and by patrons of applicant's lines. The deputy city attorney for the City of San Diego, a representative of the North Island Association and counsel for the Commission's staff participated in the proceeding and assisted in the development of the record.

Exhibits were submitted consisting of operating statements, studies of traffic trends and of service and operations, rate base statements and forecasts of estimated results of operations for a test year under present, proposed and alternate fares.

The figures set forth in the following tables were taken from these exhibits.

Table No. 1

Results of Operations Under Present Fares  
for Year Ending April 30, 1953, as Recorded  
on the Company's Books.

Operating Revenues	\$6,596,040
Operating Expenses	6,035,140
Operating Income	\$ 560,900
Income Taxes	268,629(1)
Net Operating Income	\$ 292,271
Operating Ratio	
Before Income Taxes	91.50%
After Income Taxes	95.57%
Rate Base	\$3,968,100(2)
Rate of Return	7.37%

(1) Calculated at 1952 calendar year rates.

(2) Depreciated book investment at September 30, 1952.

Table No. 2 shows the estimated results of operations under present and proposed fares.

Table No. 2

Estimated Results of Operations Under  
Present and Proposed Fares for the  
12-Month Period Ending May 31, 1954.

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Applicant</u>	<u>Commission Engineer</u>
Operating Revenues	\$5,869,500	\$6,281,300	\$6,479,156	\$7,018,500
Operating Expenses				
Equipment Maintenance and Garage Expense	1,094,700	1,064,900	1,071,600	1,051,200
Transportation Expense	3,001,100	2,987,955	2,926,000	2,947,870
Traffic Solicitation and Advertising Expense	103,875	105,100	103,875	105,100
Insurance and Safety Expense	266,140	264,810	268,410	267,600
Administration and General Expense	548,850	456,900	567,150	456,900
Operating Rents	16,350	16,350	16,350	16,350
Operating Taxes	503,204	478,379	518,077(1)	489,239
Amortization Expense	129,590	112,525	129,590	112,525
Depreciation	605,700	509,060	605,700	509,060
Interest on Unamortized Retirement	-	36,900	-	36,900
Total Operating Expense	\$6,269,509	\$6,032,879	\$6,206,752	\$5,992,744
Operating Income Before Income Taxes	(400,009)	248,421	272,404	1,025,756
Income Taxes	-	101,489(1)	203,537(2)	528,045(1)
Net Operating Income	(400,009)	146,932	68,867	497,711
Operating Ratio Before Income Taxes	106.8%	96.05%	95.79%*	85.38%
After Income Taxes	106.8%	97.66%	98.9%	92.91%
Rate Base	\$5,613,065	\$3,877,000	\$5,613,065	\$3,877,000
Rate of Return	-	3.79%	1.23%*	12.84%

(1) Includes State franchise taxes.

(2) Does not include State franchise taxes.

\* Calculated figure.

( ) Indicates loss.

Variations in the forecasts of the estimated results appear in the passenger revenue estimates, in certain operating expenses and in the rate base. They will be discussed in the order named.

### Revenues

The differences in the forecasts of operating revenues as will be noted from the foregoing table are substantial. The company figures for probable annual revenues are \$6,479,156 while the engineer estimated \$7,018,500, the difference between the two estimates being approximately \$500,000. Both the company and the Commission's staff necessarily relied on informed judgment as to the future patronage of applicant's service. While they both used forecasts of the number of passengers, the engineer predicted greater use of applicant's service than the company's witness. The average weekly adult passengers estimated by the witnesses are as follows:

Applicant	762,000
Commission Engineer	810,000

The company determined its estimate of future patrons by charting the weekly flow of traffic for a one-year period ending in May 1953. The engineer employed the results of operation experienced by the carrier over a period approximating two years. During the one-year period used by the company the trend in traffic was generally downward. During the period used by the engineer the trend in traffic was upward during the first year and downward thereafter. While ordinarily the longer period studied would produce a more reliable forecast the record indicates that developments have occurred during the past year which require that greater weight be given the more recent period. However, applicant's contention that the rate of decline in traffic will continue as it anticipates is not supported by the record in this proceeding.

A-34016 AH \*

Applicant's estimate of 762,000 average weekly passengers for the test year represents a straight-line extrapolation of the trend in traffic prevailing from May 1952 to May 1953. It was not shown, however, that the present depressant factors affecting its traffic will continue to exert the same degree of influence for the ensuing year. On the other hand it is more reasonable to suppose that the present depressant factors will taper off in the future as other influences arise. A realistic approach to the problem suggests that the trend of decline be ameliorated by using a parabolic curve instead of a straight line.

For the purposes of determining the estimated results of operations for the test year, we will use 782,500 adult passengers per week as the average patronage of applicant's lines that might reasonably be expected under present fares. This amount represents approximately one half the percentage of the rate of decline that was determined by applicant for the preceding year. The distribution of the number of passengers among the various fares and the adjustments thereof to give effect to the diminution, which would likely occur from resistance to the proposed fares, will be in accordance with the formulae used by the engineer.

With the adjustments hereinabove indicated, the estimated revenues which may reasonably be expected under present and proposed fares as calculated by the Commission for the test year would be as follows:

Under present fares	\$6,075,793
Under proposed fares	6,781,091



Operating Expenses

The estimates of operating expenses submitted by both witnesses were founded upon book costs. These costs were adjusted to include the higher costs of labor and adjustments in the costs of materials and supplies. Adjustments also were made to reflect reduction in costs resulting from decreased mileage due to the anticipated loss of patronage.

For the most part, the witnesses' estimates of the totals of the various expense groups are relatively close and tend to offset each other. Minor differences appear which largely are occasioned by the judgment of the witnesses. The principal variations which require reconciliation appear in the estimates for administration and general expense, for operating taxes and for depreciation and amortization. The estimates submitted for these expenses are as follows:

Table No. 3

	<u>Under Present Fares</u>		<u>Under Proposed Fares</u>	
	<u>Applicant</u>	<u>Commission Engineer</u>	<u>Applicant</u>	<u>Commission Engineer</u>
Administrative and General Expense	\$548,850	\$456,900	\$567,150	\$456,900
Operating Taxes	503,204	478,379	518,077	489,239
Depreciation	605,700	509,060	605,700	509,060
Amortization	129,590	112,525	129,590	112,525

The principal variations in the administrative and general expense stem from the difference in the witnesses' estimates of approximately \$91,000 and \$109,000 under present and proposed fares, respectively, for management expense. The company's estimate was said to represent 5 per cent on the first \$50,000 per month gross revenue and 3 per cent on all revenues exceeding \$50,000. This amount is paid to the parent company for executive salaries, for



certain law expenses and for a portion of the rent of the executive offices.<sup>2</sup> This basis is not acceptable.

The Commission engineer testified that his estimate was made on the basis of the amount used in prior proceedings adjusted upwards to compensate for increased salaries paid to certain office employees. He further stated that his estimate was sufficient to provide good management for the company. The engineer's estimate will be used.

The difference in the estimates for operating taxes is attributable, in part, to the applicant including in this account provision for California franchise taxes whereas the engineer did not.<sup>3</sup> The other principal difference in the estimates of this expense is occasioned by applicant having used higher fuel taxes, weight fees and registration fees than those used by the engineer. The latter witness used the prevailing rates, whereas the company anticipated that fuel taxes, weight and registration fees would be increased by the California Legislature under Assembly Bills Nos. 1237 and 2037. Enactment of these bills would have increased the fuel taxes 1 cent per gallon, the weight fee 22 per cent and the registration fees \$1.00 per vehicle. Assembly Bill No. 2037 was not passed, instead Assembly Bill No. 1237, as amended, was enacted. It provides increases effective July 1, 1953, as follows:

Gasoline Taxes	1.5 cents
Diesel Fuel Taxes	2.5 cents
Registration Fees	\$2.00 per vehicle
Weight Fees	33%

2

The parent company is the City Transit System with headquarters in San Diego. This company also takes care of the management services of the San Diego Coronado Ferry Company.

3

The engineer's estimate for these taxes is included in his provision for income taxes.

A-34016 AH \*

The Commission takes official notice of the enactment of the increased taxes and believes the additional expense resulting therefrom should be included in the operating results of the carrier. The estimate of the engineer will, therefore, be adjusted so as to reflect the increases in operating taxes referred to above for the portion of the test year in which they will be applicable.

Depreciation for the operating equipment was calculated by the applicant on an 8-year basis and by the engineer on the basis of 10 years. The estimate of the engineer conforms with the generally accepted life expectancy used in the transportation industry for operating equipment such as that utilized by applicant. His estimate will, therefore, be used. In addition, applicant claimed \$6,750 for depreciation on certain rail facilities held for disposal. This was not allowed by the engineer nor was the validity of this item substantiated by the applicant. It will not be considered for the purposes in issue here. Applicant also claimed \$129,590 for amortization of certain abandoned railway facilities. The engineer included in the expense for this item \$112,525. The amounts allowed by the engineer totaled approximately \$17,000 less than the amount claimed by applicant but is in accordance with prior treatment of these items. The engineer's figures will be used.

#### Rate Base

Applicant submitted a rate base of \$5,613,065 predicated upon current market value, appraisal or reproduction costs, less depreciation of all property and equipment owned as of December 31, 1952, plus anticipated capital additions, materials and supplies and working capital. In addition, the rate base included provision for abandoned track, overhead and feeder lines plus the cost of dismantling and paving, less amortization for the rate year.

A-34016 AH \*

Applicant's showing with respect to the rate base has not been substantiated. The engineer's estimate of \$3,877,000, based upon the recorded book values adjusted to reflect the average condition at the mid-point of the rate year plus provision for materials and supplies and for known capital improvements, will be used. With the adjustments in the estimates hereinbefore discussed, the results of operations, as calculated by the Commission, for the 12-month period would be as follows:

Table No. 4

Estimated Results of Operations for 12-Month Period  
Ending May 31, 1954 Under Present and Proposed Fares  
Under Staff Proposal Adjusted as Hereinbefore Indicated.

	<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Revenue	\$6,075,793	\$6,781,091
Operating Expense	6,053,310	6,053,310
Operating Income	22,843	727,781
Income Taxes	(1)	388,628
Net Operating Income	22,843	339,153
Operating Ratio		
Before Income Taxes	99.63%	89.27%
After Income Taxes	99.63%	95.00%
Rate Base	3,877,000	3,877,000
Rate of Return	0.59%	8.75%

(1) Interest on borrowed capital exceeds income; consequently, income taxes would not be paid.

Counsel for the City moved that the proceeding be dismissed for lack of a proper showing by the applicant.

The representative of the Independent Progressive Party and three patrons of applicant's lines protested the granting of the increases and complained of the service rendered by applicant. A Commission engineer testified that, as a result of an investigation

he had made, he was of the opinion that the carrier was providing a satisfactory standard of service.

The associate superintendent of schools protested the proposed increase in school fares. His protest was based upon the fact that the sought increase in these fares was greater than that sought for other fares and that an increase of the volume here sought may affect the attendance and the opportunity of some of the children to go to school. As heretofore indicated, applicant proposes to increase the school pass fares which presently sell for \$1.50, \$2.00 and \$2.50 to \$2.00, \$2.50 and \$3.00, respectively. The per cent of increase in these fares would be approximately 33.3, 25 and 20 per cent, respectively. School tickets which now sell for \$2.00 and \$2.50 would be raised to \$3.00. Percentagewise, the increase in these fares would be 50 and 20 per cent, respectively. The per cent of increase sought in the cash fare is 15.4 and in the weekly pass 22.2 per cent.

#### Conclusions

It is clearly apparent from the evidence of record that the revenues resulting from the present fares are insufficient. This is largely occasioned by the downward trend in applicant's traffic and by the increases in the costs of labor which result from wage rates arrived at through collective bargaining processes. The present fares would produce a net operating income of \$22,843. The operating ratio would be 99.63 per cent and the rate of return 0.59 per cent. These operating results would not leave applicant a sufficient margin between revenues and expenses to provide adequate service and a reasonable return on the investment. Applicant's proposed fares, except those applicable to school tickets and school passes, appear

to be reasonable and will be authorized. The fares sought to be established for school children appear in most instances to be greater than are reasonable or necessary. An increase of 20 per cent in these fares is as much as the record will support. An increase of this amount will be authorized.

Under the estimates submitted by the Commission staff witness, adjusted as hereinbefore discussed, applicant's proposed fares, to the extent herein authorized, would produce the following operating results:

Table No. 5

After Provision for Income Taxes

Net Operating Income	\$315,026	} ✓
Operating Ratio	95.35%	
Rate of Return	8.13%	

Whether measured by the rate of return or the operating ratio method, fares which would produce these results, in light of the conditions of record, are fully justified. The City's motion for dismissal is hereby denied in view of the conclusions hereinabove set forth showing applicant's revenue needs.

Upon careful consideration of all the facts and circumstances of record, the Commission concludes and finds as a fact that the increased fares sought in this proceeding are justified to the extent hereinbefore indicated and provided by the order herein and the rate of return resulting therefrom is reasonable. ✓

O R D E R

Public hearings having been held in the above-entitled application, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that San Diego Transit System be and it is hereby authorized to establish, on not less than five days'

notice to the Commission and to the public, the following changes in fare structure:

CASH FARES

Within any one or any two zones 15¢ or one token

TOKEN FARES

Each token good for 1 ride within 2 adjacent zones 7 for \$1.00

WEEKLY PASSES

Through Zones 1 and 2 \$2.75

SCHOOL PASSES

Zones 1 and 2	4:00 p.m. Limit	\$1.80
Zones 1 and 2	6:00 p.m. Limit	2.40
Suburban	4:00 p.m. Limit	1.80
Suburban	6:00 p.m. Limit	2.40
State College Training School		2.40
Zone 1 to 3		3.00

SCHOOL TICKETS (40 rides each)

Form N33 - Between points in Zone 4 on Routes C & T Greenwood & Morena Blvd. \$2.40

Form 50 - Between points in Zone 4 on Routes C, E & 7, and points in Zones 1 & 2 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 days before the effective date of the fare changes, and shall remain posted until not less than thirty days after said effective date.

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

IT IS HEREBY FURTHER ORDERED that in all other respects the above-entitled application be and it is hereby denied.

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

Dated at San Francisco, California, this 21st day of July, 1953.

A. F. Anderson  
 President

Justin J. Adams

Harold D. Lusk

Benjamin P. Tolson

\_\_\_\_\_  
 Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.