

Decision No. 49321**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Stockton City Lines, Inc., for)
authority to increase fares.)

Application No. 34552

Jones, Lane, Weaver and Daly, by Daniel Lane,
for applicant.
William Biddick, Jr. and Bruce McKnight, for
City of Stockton, protestant.
Frank B. Austin and T. A. Hopkins, for the
Commission's staff.

O P I N I O N

Stockton City Lines, Inc., is a passenger stage corporation engaged in the transportation of passengers within and in the vicinity of Stockton. By this application, as amended, it seeks authority to establish increased fares on less than statutory notice.

A public hearing of the application was held at Stockton on October 19, 1953, before Commissioner Potter and Examiner Jacopi.

The present fares are based upon two fare zones. The respective intrazone adult fares are 10 cents and 15 cents cash. For interzone movements, the fare is 15 cents cash. Tokens are offered at the rate of four for 35 cents and one token is accepted in lieu of 10 cents cash. Applicant now proposes to increase the 10-cent and 15-cent fares to 12 cents and 17 cents, respectively, together with an upward adjustment of the token rate to three tokens for 35 cents. Under the proposal, one token would be accepted in lieu of 12 cents cash. No change would be made in the existing school fares.

The record shows that the present fares have been in effect since October 1951. Applicant alleges that the revenues derived from

the fares now are inadequate as a result of substantial increases experienced in the operating expenses together with a downward trend in the traffic volume. The record shows that since the present fares were established the increases in expenses included various upward adjustments in the wages of employees aggregating 20 cents per hour, advances of 2 cents per gallon in the price and 2.5 cents per gallon in the State tax on diesel fuel, and an advance in the annual vehicle weight and registration fees equal to about \$42 per bus. Assertedly, the additional revenue that would be provided by the sought fares is needed to sustain the operations.

Detailed studies of the financial results of applicant's operations were presented at the hearing by the company's vice president and by a transportation engineer of the Commission's staff. The studies contained balance sheets, operating statements, studies of traffic flows and trends and depreciation and rate base statements. The vice president reported that the company earned net revenue amounting to \$27,682 after provision for income taxes in the 12-month period ended August 31, 1953, the latest period for which complete records were available. The corresponding operating ratio was 95.5 per cent. It was pointed out, however, that the substantial advances experienced in wages and other operating expenses were in effect for only a portion of the 12-month period in question.

Forecasts of the results of operation anticipated if the present fares were continued throughout the year 1954 and what the results would be if the increased fares sought herein were in effect during that time were presented by the vice president and by the staff engineer. In these calculations, full effect was given to

all known advances in expenses. The calculations of the witnesses are summarized in the tabulation which follows:

Estimates of the Financial Results of Operations
Anticipated in the Year 1954 Under the Present
and Proposed Passenger Fares

	<u>Applicant</u>		<u>Commission Engineer</u>	
	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
<u>Operating Revenues</u>				
Passenger	\$491,900	\$576,000	\$493,118	\$579,756
Special Bus	5,000	5,000	4,500	4,500
Advertising	5,000	5,000	5,500	5,500
Other Operating Revenue	175	175	800	800
Total Operating Revenues	\$502,075	\$586,175	\$503,918	\$590,556
<u>Operating Expenses</u>				
Equipment Maintenance and Garage Expense	89,320	89,320	87,780	87,780
Transportation	251,165	251,165	249,430	249,430
Traffic and Advertising	1,400	1,400	1,410	1,410
Insurance and Safety	29,110	29,110	29,100	29,100
Administrative and General	37,410	37,410	36,470	36,470
Depreciation	43,970	43,970	43,992	43,992
Operating Taxes and Licenses	41,766	42,967	40,360	41,599
Total Operating Expenses	\$494,141	\$495,342	\$488,542	\$489,781
Net Before Income Taxes	7,934	90,833	15,376	100,775
Income Taxes	2,320	41,515	4,366	44,997
Net After Income Taxes	\$ 5,614	\$ 49,318	\$ 11,010	\$ 55,778
Rate Base	189,186	189,186	187,926	187,926
Rate of Return	2.97%	26.06%	5.86%	29.7%
Operating Ratio After Taxes	98.88%	91.6%	97.8%	90.6%
Bus Miles	1,158,660	1,158,660	1,156,000	1,156,000

The regional manager of applicant's parent company urged that the reasonableness of applicant's earnings should be measured by the operating ratio rather than the rate of return method. He stated "It is the considered opinion of this management that an operating ratio of 90 (after income taxes) is reasonable and proper for a

company such as Stockton City Lines." The Commission finds after careful consideration of the evidence that deviation is not warranted on this record from the Commission's repeatedly expressed policy that it expects applicants in rate proceedings fully to develop all available information and that in reaching its conclusions all available data, including the operating ratio, are considered without limitation or restriction to any single formula.

A user of applicant's service testified in opposition to the granting of the sought fare increases. According to the witness, past advances in applicant's fares caused the loss of some traffic which, in turn, resulted in reductions in the frequency of service. Under these conditions, he said, night schedules were operated generally at intervals of 30 minutes to 40 minutes. During the weekday morning and evening peak periods, the witness asserted, busses on the East Main Street route, which he used, often were overcrowded. He explained that on the inbound trip in the morning seats were available when he boarded the bus but that it became crowded as it neared the downtown area, making it difficult to leave the bus at some of the stops en route. Assertedly, on the homeward trip between 5:00 p.m. and 6:00 p.m., he was unable to board some of the busses at his stop because they were already filled to capacity.

In regard to the night service, applicant was authorized by the Commission on September 1, 1953, to reduce the service frequency on weekday nights, Saturdays and Sundays to intervals ranging from 20 minutes to 60 minutes, depending upon the routes. The authority was granted upon evidence which showed that the reduced service frequency would be adequate to handle the volume of traffic moving during the periods in question. The filled busses referred to on the East Main Street route is a common problem encountered by local

transit companies during the weekday peak periods when workers travel to and from their places of employment. However, the Commission's staff will be instructed to review these operations to determine whether adequate bus schedules are being provided for the amount of traffic moving on the route in question.

The city attorney of the City of Stockton, who appeared in opposition to the sought fare increases, and counsel for the Commission's staff participated in examination of the witnesses and otherwise assisted in the development of the record in this proceeding.

The financial results of operation hereinabove set forth show that the revenues under the present fares are insufficient to provide a reasonable margin between the revenues and the operating expenses. It is clear, however, that the fares as sought by the company would return earnings that are not justified on this record. The evidence also includes, however, a number of alternate fare structures submitted for the Commission's consideration by its staff engineer. Under one of them, the present 10-cent and 15-cent cash fares would be increased to 11 cents and 16 cents, respectively, and tokens would be offered at the rate of 5 for 50 cents in lieu of the present rate of 4 for 35 cents. As summarized from the engineer's exhibit, the estimated results of operation anticipated if the alternate fare structure in question were in effect during 1954 would be as follows:

Revenues	\$537,564
Operating Expenses	489,022
Net Before Income Taxes	\$ 48,542
Income Taxes	18,714
Net After Income Taxes	\$ 29,828
Rate Base	\$187,926
*Rate of Return	15.9%
Operating Ratio After Taxes	94.45%

* Calculated on the rate base shown above, most of which is comprised of depreciable equipment and structures which have been depreciated down to only 33.2 per cent of the original book cost.

The engineer's calculations summarized above, which are hereby adopted for the purpose of this proceeding, show that the rate base constructed from applicant's book records does not represent the true operating condition of the properties because they are largely depreciated on the books. The evidence shows also that operations under the alternate fare structure are expected to produce an operating ratio of 94.45 per cent after provision for income taxes. Operating ratio is a measure of the relationship of the operating expenses to the operating revenues. In other words, to maintain the present services under the alternate fares Stockton City Lines needs 94.45 cents out of each dollar of revenue to pay the operating expenses. This leaves 5.55 cents out of the revenue dollar for meeting the company's fixed charges, including interest on equipment obligations, and to provide for profit and other corporate purposes. Consideration of the foregoing and all other pertinent facts of record leads to the conclusion that the estimated annual net earnings of \$29,828 after provision for income taxes and the alternate fares on which this operating result is based are reasonable. Increased fares on this basis will be authorized.

In granting this increase, the Commission is not unmindful that rate relief is but one of the public interest factors involved. The problem of increasing the passenger fares is one which it views with concern, for involved in such cases is the type of service to be afforded the public in those areas in the community in which the stability of assessed values is dependent upon adequate service and in which such stability is of financial importance to community government itself. For the company to seek refuge in higher fares alone or in the curtailment of service alone, or even in a combination of the two, is not a sufficient demonstration of public interest. There must be frequent review of operating policies and

such review should be made under the illumination of public relations programs which enlist community-wide interest and study. The proximity of recent appearances before the Commission of the applicant in this case serves to illustrate the Commission's contention that the transportation problem in the community served by applicant cannot be solved by service curtailment alone, or rate relief alone. Community concern which reflects itself through joint cooperation between management and community leaders is required.

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and finds that the establishment of increased fares in accordance with the alternate fare structure referred to above and provided for in the order which follows is justified and that in all other respects applicant's proposals have not been justified.

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 Stockton City Lines, Inc., be and it is hereby authorized to establish, on not less than five days' notice to the Commission and to the public, changes in its passenger fares as follows: (1) increase the present Zone 1 intrazone cash fare of 10 cents to 11 cents and the present Zone 2 intrazone and also the interzone cash fare of 15 cents to 16 cents; (2) increase the token rate of fare from the existing basis of 4 tokens for 35 cents to 5 tokens for 50 cents, with provision for acceptance of one token in lieu of the 11-cent cash fares and (3) the foregoing increased fares shall be subject to the governing rules and regulations as set forth in Exhibit "C" of the application, as amended, filed in this proceeding.

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

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 34552, as amended, be and it is hereby denied.

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 posted not less than five days prior to the effective date of such fares and shall remain posted for a period of not less than thirty days.

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

Dated at San Francisco, California, this 10th day of November, 1953.

R. E. Anderson
 President

Justus J. Calmes

Kenneth Potter

John L. Mitchell

Gene Higgins
 Commissioners