

ORIGINAL

Decision No. 50304

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application)
of San Diego Transit System for)
authority to increase rates.)

Application No. 35231

Appearances

- Fred E. Lindley and Leon W. Scales, for applicant.
- Alan M. Firestone, Aaron W. Reese, and Clarence Winder for the City of San Diego, protestant.
- Meredith Campbell for the City Council of the City of Chula Vista, protestant.
- Robert Curran for the City of National City, protestant.
- B. F. Miner for the Board of Education, San Diego City School District, protestant.
- J. C. Zauri for the North Island Association, Naval Air Station, protestant.
- William J. Lyons for the Board of Education, San Diego Unified School District, protestant.
- Mrs. Orrille E. Hay for the Sunset Secondary Council of 9th District, C.C.P.T., protestant.
- Mrs. Robert L. Slaughter, in propria persona, protestant.
- Harold McCarthy and Grant Syphers of the staff of the Public Utilities Commission of the State of California.

O P I N I O N

By application filed on March 8, 1954, San Diego Transit System seeks authority to increase its basic adult fare from 15 cents or one token to 17 cents or one token, to increase the token rate from seven for \$1.00 to three for 50 cents, and to make other increases in student, pass, and commutation fares as hereinafter specified.

Public hearings were held before Commissioner Craemer and Examiner Bryant in San Diego on May 19, 20, 21, 24, and 25, 1954. On the latter date the application was submitted. It is

ready for decision.

San Diego Transit System is engaged in the transportation 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. Its present fares were authorized effective August 10, 1953, following public hearings held in June, 1953. The company now alleges these fares do not yield a sufficient income to provide a fair return on its investment, nor to permit maintenance of a satisfactory operation for the public it serves. According to the application the company has experienced increased wages and taxes and a substantial decrease in revenues resulting from reduced volume of passengers carried. The principal cost increases since June, 1953, as stated in the application, are as follows:

	<u>Increase on an Annual Basis</u>
Wages of Drivers and Receiver Clerks	\$135,530
Wages of Garage and Service Personnel	37,158
Wages of Garage Foremen & General Office	28,320
Social Security Tax	14,560
Taxes on gasoline and diesel fuel	26,140 *
Motor Vehicle Tax	<u>7,350 *</u>
Total Increased Costs Not Reflected in Estimates of the 1953 Rate Case	\$249,058

* In addition to the tax increases which were included in the estimates for the 1953 rate proceeding.

San Diego Transit System asserts that it consistently has improved efficiency and held operating costs to the lowest practicable basis. It states that it is doing all it can to decrease expenses by adjusting schedules to accomplish proper but not excessive service on its routes, and that its costs cannot be reduced further by any appreciable amount without impairing the

standards that are necessary for adequate public service. Applicant declares that in its situation of insufficient earnings a choice has to be made between a complete loss of net earnings at present fares on the one hand, or an increase in fares with some loss of volume of passengers on the other hand. The company states that an increase in fares is necessary in order that it may continue adequate service with well-maintained equipment.

Applicant's fare structure is based on a zone system with seven zones radiating from the business center of the city of San Diego. The present fares and those herein proposed are shown in some detail in the margin below.

Detailed estimates of operating results under the present and proposed fares were submitted by the applicant and by members of the Commission staff. Applicant's witnesses included a consulting engineer experienced in public transit matters, the president of San Diego Transit System, its general manager, its vice president and comptroller, and its claim agent. The exhibits submitted by the company witnesses and by transportation engineers of the Commission staff included operating statements,

	Present Fare	Proposed Fare
Within any one or two zones	15¢ or 1 token (7 for \$1.00)	17¢ or 1 token (3 for 50¢)
Additional zones	\$.05	\$.05
Weekly passes thru zones 1 & 2 ..	2.75	3.25
School passes or school tickets .	1.80	2.10
" " " " " ..	2.40	2.80
" " " " " ..	3.00	3.50
" " " " " ..	3.50	4.10

It will be noted that the proposed adult fares in the sixth and seventh zones would be increased to 37 cents and 42 cents, respectively. These fares would be subject to a 10 percent federal excise tax. Applicant proposes to issue 10-ride commutation books for \$3.50 and \$4.00 in the sixth and seventh zones, respectively, on which no federal excise tax would apply. The school passes are for calendar months. The school tickets are for 40 rides. The present and proposed fares are shown in full detail in appendices to the application of record.

analyses and studies of traffic trends, rate base statements, studies of services and operations, and the forecasts of estimated results of operation for the future year.

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

TABLE 1
Results of Operation under Present Fares for
Year Ending March 31, 1954
As Recorded on the Company's Books

Revenue	\$6,268,016
Operating Expenses (1)	4,894,755
Amortization	134,257
Depreciation	554,402
Operating Taxes	<u>513,618</u>
Total Operating Expenses (2)	\$6,097,032
Net Before Income Taxes	170,984
Income Taxes	56,120
Net Operating Income	\$ 114,864
Operating Ratio	98.2% * ✓
Rate Base (3)	\$3,407,560
Rate of Return	3.37%

- (1)-Excluding amortization, depreciation and taxes.
 (2)-Exclusive of Income Taxes
 (3)-Net investment plus materials and supplies at mid-point of the year, as determined by Commission staff.

* Corrected figure. ✓

TABLE 2

ESTIMATED RESULTS OF OPERATION
FOR RATE YEAR ENDING MAY 31, 1955

	<u>UNDER PRESENT FARES</u>		<u>UNDER PROPOSED FARES</u>	
	<u>Applicant</u>	<u>Commission Staff</u>	<u>Applicant</u>	<u>Commission Staff</u>
Revenue	\$5,608,000	\$5,664,714	\$6,080,500	\$6,131,625
Oper. Expenses (1)	4,751,050	4,505,710	4,696,620	4,472,590
Amortization	112,180	112,524	112,180	112,524
Int. on Rail Retirement (2)	-	30,228	-	30,228
Depreciation	582,830	498,976	582,830	498,976
Op. Taxes	<u>520,520</u>	<u>510,030</u>	<u>527,740</u>	<u>517,520</u>
Tot. Op. Exp. (3)	\$5,966,580	\$5,657,468	\$5,919,370	\$5,631,838
Net Revenue (3)	\$ <u>(358,580)</u>	\$ 7,246	\$ 161,130	\$ 499,787
Income Taxes (4)	\$ -	\$ 25	\$ 136,620	\$ 240,530
Net Op. Income (5)	\$ <u>(358,580)</u>	\$ 7,221	\$ 24,510	\$ 259,257
Op. Ratio (5)	106.3%	99.9%	99.6%	95.8%
Rate Base	\$3,380,100	\$3,387,630	\$3,380,100	\$3,387,630
Rate of Return (5)	-	0.2%	0.7%	7.65%

Explanation of Notes:

- (1) Exclusive of items which follow.
- (2) Interest at 6% on \$503,804.72, unamortized loss on retirement and dismantling cost of rail facilities.
- (3) Before provision for income taxes.
- (4) On basis of 52% federal tax. The Commission staff study for proposed fares was computed also on basis of a 47% tax, with results as follows: Income Taxes, \$218,628; Net Income, \$281,159; Operating Ratio, 95.4%; Rate of Return, 8.3%.
- (5) After provision for income taxes.

() - Loss

It will be observed that the annual revenues under present fares are lower in Table 2 than in Table 1 by amounts in excess of \$600,000. The explanation lies in the fact that Table 1 is a past record whereas Table 2 covers a future period for which a substantial decline in patronage is forecast. The traffic forecasts will be discussed hereinafter.

The Commission staff submitted also an estimate of operating results for the future rate year under two alternate fare structures, as summarized in Table 3.

TABLE 3

Staff Forecast, Alternate Fares

	<u>Alternate 1</u>	<u>Alternate 2*</u>
Revenue	\$6,121,626	\$6,032,658
Total Op. Expenses	<u>5,631,598</u>	<u>5,638,508</u>
Net before Taxes	\$ 490,028	\$ 394,150
Income Taxes (1)	235,268	183,570
(2)	213,834	166,740
Net Op. Income (1)	254,760	210,580
(2)	276,194	227,410
Operating Ratio (1)	95.8%	96.5%
(2)	95.5%	96.2%
Rate Base	\$3,387,630	\$3,387,630
Rate of Return (1)	7.5%	6.2%
(2)	8.2%	6.7%

Explanations:

Alternate 1 is same as proposed by applicant but with no increase in Zones 6 and 7. Alternate 2 is same as proposed by applicant except that token rate would be 5 for 75¢.

- (1) - Assumes Federal Income Tax at 52%.
 (2) - Assumes Federal Income Tax at 47%.

* Corrected.

None of the other parties submitted forecasts of operating results to be anticipated from the operation of San Diego Transit System under the existing fares or any other fare structure. The City of San Diego, appearing as a protestant, participated actively in the proceeding and opposed the granting of any increase in fares. It introduced evidence through its utility rate consultant and one of its auditors.²

The consultant commented generally upon the estimates and other data submitted by the applicant and by the Commission staff. Among other things he challenged the revenue forecasts and criticized the company's charges to expense for depreciation of vehicles and for management. He also made suggestions regarding routes, fare zones, and other service matters which will be referred to hereinafter. This witness expressed the opinion that a fare increase for San Diego Transit System is not justified at the present time.

The auditor, a certified public accountant, introduced and explained an exhibit which he had prepared consisting of a review of the financial reports of San Diego Transit System for the period January 1, 1950 through March 31, 1954. The applicant moved that all of the testimony of this witness be stricken on the grounds (1) that it consists of opinions expressed on a subject concerning which the witness was not qualified as an expert,

² There was introduced into the record a resolution of the Council of the City of San Diego authorizing the City Attorney and the rate consultant to appear at the hearing and to protest the granting of this application.

(2) that it relates entirely to matters that are not in issue, (3) that it relates to previous years that are not relevant, (4) that it deals entirely with accounting procedures advocated by the witness but different from those prescribed by the Commission, and (5) that it is hearsay because the witness made no examination³ of the books of San Diego Transit System.

Other witnesses were an assistant to the superintendent of San Diego city schools, a representative of the Parents and Teachers Association, and a patron of San Diego Transit System testifying in her own behalf. These three witnesses submitted evidence concerning the ability of the riders to pay increased fares, and offered opinions concerning the effect which higher fares would have upon patronage of the buses. The school representative testified that for each of the past several years the enrollment has increased about 8 percent a year. He introduced an exhibit showing the enrollment and average daily attendance in the San Diego city schools for the months of February 1953, January 1954 and February 1954.

The cities of Chula Vista and National City entered appearances as protestants but did not offer evidence. The Commission staff was represented by counsel in the public interest and for the purpose of facilitating the introduction of the staff evidence.

Closing argument was made only by the City of San Diego. In addition to urging that the application be denied, it urged as

³ The motion will be denied hereinafter. The comments and opinions of the auditor will be considered herein to the extent that they are germane to the disposition of this proceeding.

a motion that the Commission (1) review very thoroughly the item of expense for management services and also investigate the affiliated City Transit Systems with a view to determining whether it is a public utility subject to Commission jurisdiction, (2) review its prior decisions regarding the amortization of losses on retired rail facilities "to determine whether or not the present bus riders of San Diego Transit System should still be asked to bear the burden of those old losses", and (3) review the depreciation policies not only of the applicant but of the Commission staff to determine whether or not the actual experience of this company does not require a different depreciation theory as applied to the buses.

As the foregoing summary indicates, many controversial points and issues were raised during the course of the hearings in this proceeding. They will be considered further under the general headings which follow.

Operating Revenues

The applicant estimated that 32,121,000 adult revenue passengers would be carried during the future rate year under present fares, and that under proposed fares the number of passengers would be reduced to 30,587,000. The comparable Commission staff estimates were 32,110,000 and 30,560,000, respectively. Although the two estimates are virtually the same, they were developed independently and under different methods. The company consultant used a composite weekly annualized projection, giving weight to past trend, current indications, deviating influences, and reaction of San Diego population to increases in fare as

evidenced by analysis of the past behavior patterns. According to his exhibit the traffic of San Diego Transit System during the spring of 1954 was more than 14 percent below that of the corresponding months of 1953. For the future year he forecast a comparable decline of nearly 13 percent. The Commission engineer analyzed and plotted the passenger figures for the past several years, but based his projection essentially upon the period from the last week in September 1953 to the last week in April 1954. He explained that this period was selected because it was the latest one for which there was no distortion from fare adjustment or other change. From his analysis of the passenger statistics he developed an annual downtrend of approximately 11.5 percent. The consultant for the City of San Diego declared that the forecasts of a declining trend in passenger volume were not realistic. It was his conclusion, based upon the passenger statistics for the period from January through April 1954, that the passenger trend was level.

Despite the similarity in their estimates of traffic volume, the company witness and Commission witness differed materially in their forecasts of total operating revenue as shown in the following tabulation:

	<u>Present Fares</u>	<u>Proposed Fares</u>
Applicant	\$5,608,000	\$6,080,500
Commission Staff	<u>5,664,714</u>	<u>6,131,625</u>
Difference	\$ 56,714	\$ 51,125

Several items contribute to the difference in the revenue figures. The principal factor is that the percentage of token use was estimated differently by the two witnesses. The applicant estimated that about \$1,490,000 would be received from token sales at present fares, while the corresponding staff figure was \$1,580,000. At the proposed fares the applicant estimated a

relative token use of 75 percent, while the corresponding staff estimate was 45 percent.

Vehicle Mileage

Many of the items of operating expense are affected directly or indirectly by the number of miles that the vehicles are to be operated during the year. In this proceeding the applicant, the Commission staff and the City of San Diego are in basic agreement concerning the vehicle mileage which will be required. The record shows that the traffic has declined and that some reduction in schedules can be made without departing from established service standards. According to the evidence, schedules first proposed by the Commission engineer were discussed fully with representatives of San Diego Transit System and with the consulting engineer retained by the City of San Diego. The parties are in agreement that the reductions in vehicle mileages will result in operating economies which are in the interest of both the applicant and the general public. The expense estimates of record were predicated upon the economies to be thus effected.⁴

Injuries and Damages

There is a considerable variation in the estimates of expenses to be incurred on account of injuries and damages. The

⁴ For comparative purposes the Commission engineers submitted an estimate of operating results which would obtain if all of the schedules in effect in April, 1954 were to be operated without change during the future rate year. On this service basis his estimate shows that the proposed increased fares would result in an operating ratio of 98.7 percent and a rate of return of only 2.4 percent.

record is clear that San Diego Transit System has had an exceptionally favorable safety record.⁵ The evidence shows also, however, that applicant is confronted currently with claims larger in amount and involving injuries of greater severity than in recent past years. Applicant's expense for injuries and damages approximated \$92,000 for the year ending March 31, 1954. The company estimates that the expense for the rate year will be \$198,400. The Commission engineer used an expense forecast of \$98,300. Both estimates were based upon analysis of past experience and pending claims. The substantial difference results principally from a difference in treatment. The company included the entire amount expected to be paid out in claims during the year. The engineer used the estimated amount for claims which would arise and be settled during the year plus only one-third of the estimated cost of the past claims now pending. He explained that he would amortize the past claims over a three-year period in order to bring the cost of injuries and damages to a current basis rather than a cash basis.

Management Expense

San Diego Transit System recorded management expense of \$200,040 for the year ending March 31, 1954. For the rate year the company estimates are \$180,240 under present fares and \$194,415 under the proposed fares. The Commission staff used a

⁵ The record shows that San Diego Transit System has a lower expense per dollar of revenue for injuries and damages than the average of the other major transit companies operating in this state; and that the company recently received national recognition for safety among transit companies serving cities of population comparable to San Diego.

figure of \$102,000 under either fare basis. The witnesses for the City of San Diego criticized the basis used by the company for determining management expense and indicated a preference for the method used by the Commission staff. Counsel for the City of San Diego declared that the Commission should decline to allow any management expense at all because the company did not disclose fully the management services received or the cost thereof. He moved that the Commission refuse to allow any consideration of management expense in this case due to the lack of evidence to substantiate the charge.

The circumstances giving rise to the differing contentions of the parties may be stated briefly. The capital stock of the San Diego Transit System is owned by the City Transit Systems. The latter company provides the executive direction, management and supervision of San Diego Transit System under a management agreement. By the terms of a contract between the two companies the applicant pays to the City Transit Systems for such services 5 percent on the first \$50,000 a month of gross revenue and 3 percent on all gross revenue in excess of \$50,000 a month. In lieu of the management expense thus claimed by the company the Commission in past proceedings has used an amount determined from analysis of the actual known management costs pertaining to the

same properties prior to the existence of the present management contract, with upward adjustments as necessary to compensate for increased salaries paid to certain office employees. The Commission staff used the same basis in its forecasts in the present proceeding, making adjustments necessary to reflect current circumstances.

Rail Amortization

Both the applicant and the Commission staff included in operating expenses an amount of approximately \$112,000 for amortization of rail facilities.⁶ In brief, this figure represents the gradual extinguishment of an amount equivalent to the net cost of track removal, repairing of streets, dismantling street railway facilities and car house, and the recovery of the undepreciated investment in rail facilities retired from service incident to the substitution of motor coach for rail operation. The amortization has been provided for in prior decisions of the Commission as cited hereinafter. The City of San Diego urged in the instant proceeding that the Commission should reverse its earlier conclusions and disallow any expense for amortization of abandoned rail facilities or interest on the unamortized balance, apparently on the principal ground that the abandoned facilities provide no present benefit to the bus riders.

⁶ Applicant, \$112,179; Commission staff, \$112,524.

Depreciation

Depreciation for the rate year was estimated by the company at \$582,830 and by the Commission staff at \$498,976. A principal reason for the substantial difference is that the applicant used an eight-year service life for the vehicles (with a \$500 salvage allowance) while the staff used a ten-year service life (with a \$50 salvage allowance). Applicant's consultant testified that in his opinion the eight-year life provides a proper recognition of the risk involved in this type of business and a realistic approach to the company's financial problems. He said also that this is the service life used by the company in computing its income tax returns. The Commission engineer explained that his ten-year basis is that used generally by the Commission staff in connection with rate proceedings of other transit companies, and had been used by the Commission in deciding the 1953 rate application of San Diego Transit System (Decision No. 48867, 52 Cal. P.U.C. 691).

The witnesses for the City of San Diego urged that a still longer service life should be used for depreciation purposes. Its auditor submitted calculations based upon a ten-year life for the gasoline buses and a fourteen-year life for the diesel buses, with salvage values of \$1,125 for the gasoline vehicles and \$2,589 for the diesel vehicles. The witnesses for the City of San Diego declared further that any profits from the sale of retired buses should not be credited to nonoperating income as recorded by the company, but should be treated as a depreciation adjustment. The record shows that San Diego

Transit System has operated many of its vehicles for more than ten years, and also that upon retirement some of the vehicles have been sold at a profit.

Rate Base

The estimated average rate base for the rate year was \$3,380,100 as submitted by the applicant and \$3,387,630 as submitted by the Commission staff. The difference between these two figures is negligible for rate purposes, but their similarity is largely a matter of coincidence. Applicant's figure includes \$407,558 for nonoperative rail facilities. This item was excluded by the staff. On the other hand, the staff item for depreciated investment in revenue equipment is \$412,691 greater than the comparable figure of the applicant.

The applicant submitted also, for alternative consideration, a rate base of \$4,971,300. This base includes as "additives" approximately \$280,000 for working cash and \$1,310,000 for value in excess of the net book value of land, revenue equipment, and shop and garage structures. The added items are those which have been claimed and rejected by the Commission in prior rate proceedings of this company. Applicant showed these items separately in order to limit the area of controversy. It considered that the proposed rates would return inadequate revenues as measured by either rate base.

The City of San Diego did not submit an estimated rate base.

Service Matters

A staff engineer introduced an exhibit consisting of a

report on his investigation of service and operations of San Diego Transit System. He testified that the service has been more than adequate to meet traffic requirements, and that the buses are well maintained mechanically and in appearance. His exhibit sets forth the schedule reductions referred to hereinbefore in connection with the consideration of vehicle mileage. These schedule changes have no reference to a proposed discontinuance of certain West Point Loma and Mission Beach shuttle lines as sought by the applicant in another proceeding (Application No. 35295). That application is under submission and has not yet been decided by the Commission.⁷

The consultant for the City of San Diego made various comments and suggestions regarding the service of the San Diego Transit System. He submitted an exhibit showing variations in length of ride for a given fare under the existing zone pattern, and urged "that a great deal of study should be given to the pattern of the San Diego Transit System fares by the Commission." This witness suggested also that consideration should be given to the establishment of cross-town lines to provide direct service between La Mesa and El Cajon on the one hand and aviation plants and military training centers along Pacific Coast Highway in

⁷ For the purpose of the revenue and expense forecasts in the instant application a Commission engineer testified that if the shuttle abandonments are authorized the combined saving to San Diego Transit System will approximate \$10,700 for the rate year. Since this amount is no more than three-tenths of one percent of the rate base it is evident that whatever disposition is made of the shuttle application the effect upon the net revenues of the San Diego Transit System will not be measurable directly insofar as the fares are concerned.

San Diego on the other hand. He pointed out that such a service would obviate movement through and transfer in the downtown area of San Diego. He did not elaborate upon his proposal to the extent of specifying routes or estimating costs. A Commission engineer, referring to the same subject, said that the most commonly suggested route for a cross-town line is along Washington Street between Fifth Avenue and Pacific Coast Highway. This witness said that such a line would be primarily a shift-change shuttle operation. He testified that in his opinion it was "extremely doubtful" that it would produce sufficient revenue to meet the costs of operation.

Conclusions

From all of the evidence before it the Commission must make its determination whether or not, or to what extent, the proposed increased fares are justified within the meaning of Section 454 of the Public Utilities Code. It will be seen that the only detailed estimates and forecasts of operating revenues and expenses are those submitted by the officers and consultant of San Diego Transit System and by the transportation engineers of the Commission staff. While the auditor for the City of San Diego introduced a statement of revised operating revenues for past years and for the first quarter of 1954, his revisions are based upon apportionments and adjustments contrary to the accounting records of the company and to the past decisions of this Commission. They have little probative value for the purpose of determining the revenue requirements of San Diego Transit System. Since the City of San Diego offered no forecast

of future operating results, the basis of its conclusion that an increase in the fares is unnecessary and that the application should be denied is not clear.

The auditor's investigation and report were completed in about three weeks and were accomplished without reference to the accounting records of the company.⁸ He was concerned chiefly with the determination of past earnings and with inconsistencies in accounting practices. The consultant for the City of San Diego made no special study for the purpose of this proceeding beyond an examination of the company's annual and monthly reports. His testimony was substantially an expression of his philosophy of rate making and his general observations in connection with the San Diego Transit System. He criticized the management of the company for seeking rate relief "until such a time as they had made some effort to relieve the situation through their own efforts." In disagreeing with the forecasts of the applicant and of the Commission staff he did not submit estimates of his own.

The estimates as submitted by the applicant and by the staff were prepared and explained in substantial detail, and were accompanied by supporting data to make clear the bases underlying the estimates. It is to these studies primarily that the Commission must look for the facts necessary to its conclusions in this proceeding.

With reference to the operating revenues of San Diego

⁸ He explained that his investigation was based upon financial reports, supporting statements, and miscellaneous data furnished by the company.

Transit System, it is concluded that the traffic currently is following a reasonably predictable downtrend as determined by the company and by the Commission staff rather than a level trend as stated by the consultant for the City of San Diego. The time period used by the consultant is too short to be reliable. With reference to the token usage, it must be recognized that while estimates can be made within reasonable limits, exact prediction is impossible. The decision whether to pay a cash fare or to purchase tokens is made on an individual basis by each rider, and in final analysis the token usage will be determined by human nature and the reaction of many individuals. It is concluded that the token forecasts of the staff are based upon sound and considered analysis of the probabilities. Upon the facts of record the Commission finds that the revenue estimates as submitted by the Commission staff, as summarized in Table 2 under present fares and proposed fares, are reasonable. They will be relied upon for purposes of this decision.

There are many factors to be considered in forecasting expenditures for injuries and damages. Among them are the degrees of responsibility assumed by the company under its insurance policies, the number of passengers to be carried, and the number of vehicle miles to be operated. The company's estimate in this proceeding appears to be reasonable in many respects. For rate purposes, however, the exceptional claims accruing in past years and expected to be paid or settled during the rate year should not be charged in this instance as an operating expense wholly against the riders for that year. Upon careful consideration of the evidence it is concluded that the estimate of \$98,300 as submitted by the Commission staff will be reasonable for purposes of the present application. Experience will determine to what

extent and in what manner the amortization suggested by the staff engineer should be considered in the future.

Management expenses claimed by San Diego Transit System have not been accepted by the Commission in past rate proceedings. The essential objection is that payments based upon percentages of gross revenue bear no necessary relationship to either the cost or the value of the management services. On the other hand, it would be inequitable if not confiscatory for the Commission arbitrarily to disallow all management expenses as suggested by the City of San Diego. Its motion to that effect will be denied. Regardless of the terms of the management contract, there can be no question that the reasonable costs of managing the operations of San Diego Transit System are real and substantial. Such costs must be recognized as proper operating expenses to be provided for in the fares. It is concluded that the Commission staff estimates make reasonable and proper provision for management expense.

At various times in the past, with the approval and endorsement of the City of San Diego and under authority granted by this Commission, the applicant abandoned street car lines and substituted motor bus service in order to provide a more convenient and economical service for the public. The company had not been fully reimbursed through the depreciation accounts for its investment in the rail facilities. Throughout the entire life of most of the property the depreciation expense had been approved and funded under the supervision of this Commission. Reimbursement for the remaining undepreciated cost of the abandoned rail facilities was a condition upon which the bus substitution

depended. The total undepreciated amounts at the time would have resulted in an excessive impact in the operating expenses for any one year. The Commission concluded that both the public and the company would be served better by amortizing these nonrecurring costs over a period of years and allowing interest on the unrecovered balances. The Commission authorized the applicant to amortize the undepreciated balances over a period of ten years, together with the net cost of dismantling, incidental paving, and the cost of disposition of the rail facilities. In support of its position on this point the City of San Diego offered no facts which have not been considered fully by the Commission heretofore.⁹ The amortization item will be recognized as a proper operating expense for the purpose of this proceeding.

Upon consideration of all of the evidence it is concluded that a service life of ten years for the buses is a reasonable basis upon which to determine depreciation expenses in the present application. With reference to the disposition of retired buses, the Commission agrees with the City of San Diego that any profit from the sale of such buses should be credited to the depreciation adjustment account and not to nonoperating income. The uniform system of accounts prescribed by this Commission requires such treatment, as specified in Instruction No. 21 thereof. San Diego Transit System is directed to observe and conform to the prescribed accounting procedure.

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See Decision No. 42203 (48 Cal. P.U.C. 309), Decision No. 42649 (48 Cal. P.U.C. 616), and Decision No. 45279 (50 Cal. P.U.C. 410).

Applicant's past disposition of retired buses does not affect the estimates for the rate year. The revenues are unaffected because the bus-sale profits are nonrecurring and it does not appear that any net credit from such sales is anticipated during the rate year. The rate base hereinafter adopted was developed without regard to the depreciation accounting recorded on the company books in so far as the buses are concerned.

The rate base estimate of \$3,387,630 as submitted by the Commission staff was developed by methods consistent with the prior decisions of this Commission. The inclusion of amounts for non-operative rail property, as claimed by the applicant in its rate base estimate, is contrary to the express holding of the Commission in its Decision No. 45279 dated January 16, 1951, as reported at 50 Cal. P.U.C. 410,417. The alternative rate base offered by the company, with its "additives" for working cash and for values in excess of the net book value for land, equipment and structures, is not acceptable. The disputed "additives" have been considered in prior decisions and no purpose would be served by further discussion herein.¹⁰ The rate base of \$3,387,630 as submitted by the Commission staff is reasonable and will be adopted.

Based upon all of the evidence and the conclusions hereinbefore appearing, the Commission finds that the estimated revenues, expenses and rate base as developed by the Commission staff and summarized in the foregoing Table 2 under present and proposed fares are reasonable. These estimates constitute a sound basis upon which to predicate the order in this proceeding, and are hereby adopted by the Commission for such purpose.

As hereinbefore indicated in Table 2, the applicant in its forecasts used a federal income tax of 52 percent (30 percent

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See Decision No. 47411, dated June 30, 1952, in Case No. 5332 (unreported), and decisions cited therein.

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normal tax and 22 percent surtax) while the Commission staff submitted calculations on two bases, i.e., 52 percent and 47 percent. The Commission takes official notice of the facts that the federal income tax rate became 47 percent on April 1, 1954, and that the President has recommended that Congress enact legislation restoring the 52 percent rate. Congressional action on such recommendation has not been determined and made final. The present rate of 47 percent will be adopted for the purpose of this proceeding.

Consideration has been given also to the proposed fare plan by which the applicant would achieve the estimated operating results. In particular the evidence in opposition to the adjustment of the school fares has been carefully considered. There are reasons in the public interest why school fares should be maintained at the lowest reasonable levels consistent with the maintenance of the necessary services. It is concluded that those sought to be established by the applicant in this proceeding are at the low levels required by the public interest.

The foregoing discussion, with its conclusions and findings, essentially resolves all of the disputed matters for the purpose of determining the issues in this proceeding. Responsive to the motions made by the City of San Diego, the Commission staff will review and further study the records, accounts, and practices of San Diego Transit System and City Transit Systems with relation to management services and charges, amortization and depreciation accounting of San Diego Transit System, and other related matters. At the same time the matter of the establishment of cross-town lines and a general study of applicant's zone system which was suggested by the City of San Diego should be given consideration by applicant in cooperation with said City.

These further investigations necessarily will require some months to complete. In the meantime the present application will be

decided upon an interim basis on the record as adduced, without prejudice to and not contingent upon the results of any subsequent study, investigation or proceeding.

San Diego Transit System is well financed. As of May 31, 1954, it reported its net investment in assets at \$4,739,018, which had been financed by equipment obligations of \$1,293,856 and equity capital of \$3,445,162. The following tabulation developed from the annual reports filed with the Commission, indicates the earning position of the equity capital.

Common Capital Stock, 30,000 Shares Outstanding,
Par Value Per Share \$100.

<u>Year</u>	<u>Earnings Per Share</u>	<u>Book Value Per Share</u>	<u>Earnings on Equity Capital</u>	<u>Dividends Per Share</u>
1953	\$ 2.66	\$115.72	2.30%	\$ 6.66
1952	11.35	119.72	9.48%	10.00
1951	14.86	118.37	12.56%	3.33
1950	5.37	106.84	5.02%	3.33
1949	4.51	102.04	4.42%	5.00

It will be seen that the earnings on equity capital for the year 1953 were the lowest in recent years. Historically the operations of San Diego Transit System have been highly sensitive to changes in military and defense activities in the San Diego area. The company has experienced extreme variations in traffic in the past. Its traffic currently is following a downward trend which is serious and relatively severe, as indicated by the figures which appear hereinbefore.

From all of the evidence it is clear that the earning position of San Diego Transit System must be improved without unnecessary delay if the company is to continue rendering the essential services which it performs for the public of San Diego and other cities and communities. The needed improvement in earnings can come

only from an increase in gross operating revenues or a decrease in operating expenses or some combination of these two factors. The evidence is convincing that San Diego Transit System has been well managed and that all feasible operating economies are being effected. So far as is now evident, any substantial improvement in net revenues must depend upon an increase in fares. The Commission must permit reasonable earnings in order that public services may be preserved.

Under applicant's proposal to make tokens available at the rate of three for 50 cents the token fare would be equivalent to 16-2/3 cents. If the token fare were established instead at 16 cents, based upon sales at the rate of five tokens for 80 cents, it is estimated from all of the evidence that the operating results for the rate year would be as follows:

Revenue		\$6,077,416
Total Operating Expenses		5,631,668
Net Operating Income before Taxes		445,748
Income Taxes (1)		211,390
(2)		192,080
Net Operating Income (1)		234,358
(2)		253,668
Operating Ratio(1)		96.1%
(2)		95.8%
Rate Base		\$3,387,630
Rate of Return (1)		6.9%
(2)		7.5%

- (1) Based on 52% federal tax.
- (2) Based on 47% federal tax.

Upon careful consideration of all of the evidence of record the Commission concludes and finds as a fact that the estimated operating results under this alternate basis of fares will be reasonable, that the fares proposed by the applicant, thus modified as to the token rate, are reasonable, and that such increased fares are justified. To this extent the application will be granted.

If Congressional action should make a 52 percent income tax rate effective, and the results should indicate the need for further revenues, the applicant may, by supplemental application, seek any justifiable relief.

Further hearings will be scheduled in any event when the Commission staff, the San Diego Transit System, and the City of San Diego have completed their further studies and investigations as aforesaid.

INTERIM ORDER

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:

(1) That San Diego Transit System be and it is hereby authorized to establish, on or 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	17¢ or one token
Additional Zones	5¢
Total Fare:	
3 zones	22¢
4 zones	27¢
5 zones	32¢
6 zones	37¢
7 zones	42¢

With commutation books:

6 zones (10 tickets)	\$3.50
7 zones (10 tickets)	\$4.00

TOKEN FARES

Each token good for one ride within any 2 adjacent zones 5 for 20¢

WEEKLY PASSES

Through Zones 1 & 2 \$3.25

SCHOOL PASSES

Zones 1 and 2 4:00 P.M. Limit	\$2.10
Zones 1 and 2 6:00 P.M. Limit	\$2.80
Suburban 4:00 P.M. Limit	\$2.10
Suburban 6:00 P.M. Limit	\$2.80
State College Training School	\$2.80
Zone 1 to 3	\$3.50

SCHOOL TICKETS (40 rides each)

Form N33 - Between points in Zone 4 on Routes 4 & "T"	\$2.80
Form 50 - Between points in Zone 4 on Routes 5, "E", & 7, and points in Zones 1 and 2	\$3.50
Form 52 - Between Lisbon Street and Jamacha Road on Routes "F" & "G" and points in Zones 1 & 2	\$3.50
Form 54 - Between points in Zones 4, 5, & 6 on Routes 5, "E", "F", "U" & 7	\$3.50
Form 56 - Between points in Zones 6 & 7 on Route "E"	\$4.10

(2) That in addition to the required filing of tariffs, applicant shall give notice to the public by posting in its passenger vehicles a statement 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 ten days after said effective date.

(3) That the authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

(4) That all pending motions made during the course of the hearings in this proceeding, except to the extent that their granting is provided for in the foregoing opinion, be and they are hereby denied.

(5) That this proceeding be held open for such further hearings and the entry of such further orders as may be required.

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

Dated at San Francisco, California, this 20th day of July, 1954.

John E. Mitchell
President
Justin J. Adams
Kenneth Potter
Gene Roggens

Commissioners