

**ORIGINAL**Decision No. 50337

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 Stockton City Lines, Inc., request- )  
 ing authority to increase certain )  
 rates of fare. )

Application No. 35243

Jones, Lane, Weaver & Daly, by Gilbert L.  
 Jones, for applicant.  
 George Hook, for applicant.  
 William Biddick, Jr., for City of Stockton,  
 interested party.  
 L. H. Gulick and J. L. Pearson, 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, filed March 13, 1954, it seeks authority to establish increased fares on less than statutory notice.

A public hearing of the application was held at Stockton on May 27, 1954, before Commissioner Mitchell and Examiner Jacopi. Evidence was offered by applicant's treasurer, by its superintendent of transportation and by transportation engineers of the Commission's staff. The city attorney of the City of Stockton and counsel for the Commission's staff participated in the development of the record through examination of the witnesses.

The present fares, which are based upon two fare zones, were authorized by Decision No. 49321 of November 10, 1953, in Application No. 34552. The respective intrazone adult fares are 11 cents and 16 cents cash. For interzone movements, the fare is 16 cents cash. Tokens are offered at the rate of five for 50 cents with one token being accepted in lieu of 11 cents cash. The school fare

is \$1.20 for 20 rides. Applicant alleges that the revenues from the present fares have become inadequate by reason of a drop in the number of passengers using the service coupled with advances in wages and other operating expenses. To develop additional revenue, the company proposes to increase the 11-cent and 16-cent intrazone fares to 15 cents and 20 cents, respectively. The interzone fare would be raised to 20 cents. Tokens would be offered in connection with the proposed cash fares at the rate of two for 25 cents. One token would be accepted in lieu of 15 cents cash. No change would be made in the existing school fares.

Separate detailed studies of the financial results of applicant's operations were presented at the hearing by the company's treasurer and by a transportation engineer of the Commission's staff. The studies in question were developed independently. They included balance sheets, operating statements, analyses of traffic flows and trends and depreciation and rate base statements. The treasurer's study showed that the company earned net revenue of \$15,203, after provision for income taxes, under the present fares in the 12-month period ended March 31, 1954, the latest period for which complete records were available.<sup>1</sup> The corresponding operating ratio was 97.1 per cent.

Forecasts of applicant's estimated earning position if the present fares were continued in effect throughout the future 12-month period ending June 30, 1955, and what the results would be if the proposed fares were in effect during that time were introduced by the treasurer and the staff engineer. In these calculations, effect was

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<sup>1</sup> The study in question showed also that operations for the year 1953 under the present fares earned net revenue of \$19,102 after provision for income taxes. The operating ratio after taxes was 95.6 per cent.

given to the downward trend in traffic and to changes experienced in cost levels. The estimates of the witnesses are summarized in the tabulation which follows:

Estimated Results of Operations Under Present and Proposed Fares for 12-Month Period Ending June 30, 1955

	<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	\$466,725	\$530,500	\$467,460	\$529,950
Special Bus	4,200	4,200	4,800	4,800
Advertising	5,400	5,400	5,600	5,600
Other Operating Revenue	150	150	1,310	2,030
<b>Total Operating Revenues</b>	<b>\$476,475</b>	<b>\$540,250</b>	<b>\$479,170</b>	<b>\$542,380</b>
<u>Operating Expenses</u>				
Equipment Maintenance and Garage Expense	\$ 78,660	\$ 78,660	\$ 77,110	\$ 77,110
Transportation	255,250	255,250	255,410	255,410
Traffic and Advertising	1,500	1,500	1,540	1,540
Insurance and Safety	20,735	20,735	18,190	18,190
Administrative and General	37,295	37,295	37,110	37,110
Depreciation	44,070	44,070	44,100	44,100
Operating Taxes and Licenses	40,715	41,590	40,200	41,075
<b>Total Operating Expenses</b>	<b>\$478,225</b>	<b>\$479,100</b>	<b>\$473,600</b>	<b>\$474,535</b>
Net Before Income Taxes	\$(1,750)	\$ 61,150	\$ 5,510	\$ 67,845
Income Taxes	-	\$ 27,310(a)	\$ 1,709(a)	\$ 30,920(a)
Net After Income Taxes	-	\$ 33,840	\$ 3,801	\$ 36,925
Rate Base	\$167,310	\$167,310	\$165,774	\$165,774
Rate of Return	-	20.2%	2.3%	22.3%
Operating Ratio After Taxes	100.4%*	93.7%	99.2%	93.2%
Bus Miles	1,161,950	1,161,950	1,166,000	1,166,000

( ) - Indicates loss.

\* Loss. No income taxes involved.

(a) The federal income taxes shown are based upon tax rates aggregating 52 per cent.

The differences in the foregoing estimates are small. However, the bases employed by the staff engineer appear more reasonably to reflect the company's traffic and expense levels and will be used for the purpose of this decision. As calculated by applicant, the downward trend in traffic is greater than that reasonably indicated by the evidence. In regard to the expenses, the staff engineer's insurance estimate was based upon actual experience in the past.

A study of applicant's bus service was presented by a transportation engineer of the Commission's staff. He testified that on the whole satisfactory service was being provided to the public. The engineer pointed out, however, that the frequency of the off-peak schedules now approximated minimum levels and should not be reduced without the Commission's approval. In addition, the engineer recommended as a result of his study that (1) applicant make adjustments on certain routes to provide a seat per passenger during the off-peak hours and to assure that standees will not exceed 40 per cent of the seats provided during the peak periods, (2) the company give consideration to extending route 2 along Oro Street to Section Avenue, (3) on-time bus operation should be improved and (4) a diagram of the routes operated should be included in the pocket bus schedules.

Applicant's superintendent of transportation testified that there were about 230 low-cost homes in the area adjacent to the recommended route extension. Assertedly, his investigation disclosed that the homes were spread sparsely over a relatively large area and that the revenue from additional traffic that might be obtained through the route extension would not cover the added cost of the operation. He agreed, however, that no additional equipment or drivers would be needed to provide hourly service during off-peak hours by running a bus into the area during its layover time at the end of the East Main

Street route. The superintendent stated that efforts to improve on-time bus operations would be intensified and that a route diagram would be provided in the bus schedules distributed to the public.

Applicant's investigation of the need for the suggested extension of service on route 2 was entirely too brief to afford a sound basis for a reasonable conclusion. It will be expected to make a thorough study of the matter as recommended by the staff engineer and to advise the Commission within sixty days after the effective date of the order in this proceeding what action it proposes to take. Likewise, applicant will be expected to review the passenger loading on certain routes as recommended in the staff engineer's study and to advise the Commission within the aforesaid sixty-day period of the adjustments made. In addition, applicant will be required to obtain the Commission's approval before making any reduction in its service in the future.

The record in this proceeding shows that a notice of the hearing was duly posted in applicant's vehicles and was published in a newspaper of general circulation in the area served. In addition, the Commission's secretary sent notices of the hearing to persons and organizations believed to be interested. The City Attorney of Stockton agreed that the evidence indicated that applicant needed some revenue relief but he maintained that the increased fares authorized should be no higher than those necessary to produce approximately the operating ratio heretofore observed by the Commission in making upward adjustments in applicant's fares. No one else appeared in opposition to the granting of the proposed fare increases.

#### Conclusions

In seeking authority to increase its fares, Stockton City Lines, Inc., attributes its current unsatisfactory earning position to a steady drop in the traffic volume coupled with substantial

advances in the cost of operation. In Decision No. 49321 of November 10, 1953 (53 Cal. P.U.C. 28), which authorized the fares now in effect, the Commission admonished applicant that an attempt to solve its financial needs through higher fares or curtailment of service alone or in combination was not a sufficient demonstration of public interest. Instead, the Commission said, a public relations program enlisting community-wide interest and study and joint cooperation between management and community leaders was required. Nevertheless, applicant now is before this Commission without any plan for regaining or developing patronage for its bus routes and seemingly is content once again to attempt to solve its financial problems by seeking refuge in higher fares. Surely, applicant's responsible officials must realize that fare increases in the past caused substantial loss of patronage and that the company's attempts to compensate for the drop in earnings through service cuts and still higher fares resulted only in further loss of traffic and need for additional revenue.

The company's inertia in the circumstances is astonishing. Although applicant's balance sheet shows a deficit of \$226,143 in the surplus account as of March 31, 1954, this is not a true indication of the past earnings. Applicant commenced operations on April 1, 1939, when it took over the street railroad operations of a predecessor company. A total of 5,000 shares of its capital stock of an aggregate par value of \$500,000 was issued. In October 1941, the rail facilities were retired and applicant thereafter operated as a passenger stage corporation transporting passengers by motor bus. The write-off of the book value of the rail facilities of \$748,908 after provision for depreciation and salvage created a net deficit in the surplus account amounting to \$408,680 at the end of 1941.

This deficit has been reduced gradually through earnings to the aforesaid level of \$226,143. The company paid dividends in twelve of the fifteen years of operation. The average dividend per year for the 15-year period was 4.1 per cent of par value and the payments aggregated \$309,500. In 1941, after retirement of the rail facilities, the company's investment in tangible property amounted to \$116,828. At the end of 1953, it amounted to \$480,507 before allowance for depreciation and had reached as high as \$590,597 in the year 1948. The expansion of investment was accomplished without the issuance of any additional capital stock. The depreciable property has been depreciated down to \$173,023. The balance sheet as of March 31, 1954, shows that cash or special deposits amounted to \$144,123 and that current and long-term liabilities aggregated \$75,701. The foregoing evidence leaves no doubt relative to the passenger traffic potential in Stockton.

The Commission will not sit idly by while applicant continues to pursue a course which inevitably will result in discontinuance of a mass transit service which is essential to the economic welfare of the citizens of Stockton. The paramount immediate issue is the commencement of activities designed to assure the maintenance of Stockton's transit service in full vigor in the public interest. To this end, applicant will be directed to undertake an aggressive advertising and traffic promotion campaign designed to increase the patronage of its services and to seek the joint cooperation of civic and other groups as well as that of the city authorities. In addition, the company will be required to render to the Commission a detailed monthly report of its business

promotion activities. Applicant is advised that it is expected to make a sincere effort to develop and put into operation an appropriate plan and to prosecute it relentlessly. ✓

The success of the business promotion plan is influenced to a substantial extent by the sufficiency of earnings to cover at least the expenses necessarily incurred in maintaining adequate service to the public as well as the added cost of the business promotion plan. It is clear from the financial evidence of record, however, that the earnings derived from the present fares afford a very slim margin between revenues and expenses and that an upward adjustment of the fares is needed. The fares sought by applicant, however, would produce earnings which are not justified on this record. An increase of two cents per ride in the intrazone and interzone cash fares with tokens offered at the rate of four for 45 cents should provide applicant with net revenue of \$24,375 after provision for income taxes at current rates (47 per cent).<sup>2</sup> The corresponding operating ratio would be 95.3 per cent and the rate of return 14.7 per cent on a depreciated rate base of \$165,774. The seemingly high rate of return is attributable to the fact that the rate base on which it is predicated now is depreciated down to only 28.8 per cent of the original book cost of the properties. When considered in connection with the operating ratio of 95.3 per cent after taxes, the earnings, the rate of return and the rate base are reasonable for the purpose of this proceeding and the Commission so finds. Provision was made in calculating the foregoing operating results for \$6,500 per year for the business promotion activities hereinbefore discussed.

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It should be pointed out that in 1951 the City of Stockton reduced the franchise tax collected from applicant from the rate of two per cent of the gross revenue earned within the city to the rate of one and one-half per cent. The reduced rate still is in effect.



Upon consideration of all of the facts and circumstances of record, the Commission is of the opinion and hereby finds that increased fares to the extent provided for in the order which follows are 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 11 cents to 13 cents and the present Zone 2 intrazone and also the interzone cash fare of 16 cents to 18 cents, (2) increase the token rate of fare from the existing basis of five tokens for 50 cents to four for 45 cents with provision for acceptance of one token in lieu of the 13-cent cash fare and (3) the foregoing increased fares shall be subject, to the extent applicable, to the governing rules and regulations as set forth in Exhibit "D" of the application 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 applicant be and it is hereby directed to develop and undertake an aggressive business promotion plan and to render a monthly report to the Commission showing detailed expenditures of the amount provided for the plan together with a brief description of the activities undertaken and of advertising purchased.

IT IS HEREBY FURTHER ORDERED that applicant shall not reduce or curtail any of the schedules or services on any of the routes as shown in its published timetable during the month of May 1954 without first obtaining the approval of the Commission.

IT IS HEREBY FURTHER ORDERED that in all other respects Application No. 35243 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 Los Angeles, California, this 27<sup>th</sup> day of July, 1954.

[Signature]  
[Signature] President  
Justin J. Cascard  
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 Commissioners