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Decision No. 51839 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of STOCKTON CITY LINES, INC., requesting authority to increase its rates of fare.	Application No. 36718

Daniel S. Lane and George H. Hook, for applicant.
Joseph F. Holt, in propria persona, protestant.
William J. Biddick, Jr., for the City of Stockton, interested party.
Harold McCarthy, 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 it seeks authority to establish increased fares.

Public hearing was held before Commissioner Matthew J. Dooley and Examiner Carter R. Bishop at Stockton on May 4, 1955. Advance notices of the hearing were posted in applicant's vehicles, and published in a newspaper of general circulation in the area served. Notices were also sent by the Commission's secretary to interested persons and organizations, including civic, educational and commercial bodies of the area.

Evidence was introduced by applicant's treasurer and by members of the Commission's staff. Two individuals, appearing on their own behalf, protested the granting of the application. Counsel for the City of Stockton assisted in the development of the record.

With the exception of the school fare, the present fares were authorized by Decision No. 50337 of July 27, 1954, in Application No. 35243.[1] The adult cash fares are 13 cents and 18 cents,

1 The present school fares were authorized by Decision No. 49321 of November 10, 1953, in Application No. 34552.

applicable within Zones 1 and 2, respectively, and 18 cents for interzone movements. Tokens are sold at the rate of four for 45 cents, one token being accepted in lieu of 13 cents cash. The school fare is $1.20 for 20 rides. Applicant alleges that in spite of the 1954 fare increases the decline in patronage which it has experienced during the past year has been so serious that it is not obtaining the revenues necessary for the maintenance of a financially healthy operation. In order to secure additional revenue, applicant proposes to increase the 13-cent and 18-cent intrazone fares to 15 cents and 20 cents respectively, and to increase the interzone fare to 20 cents. The school fare would be raised to $1.50 for 20 rides and the sale of tokens would be discontinued.

Studies of the financial results of applicant's operations were introduced both by the carrier's treasurer and by a transportation engineer of the Commission's staff. These studies had been developed independently. They embraced analyses of traffic flows and trends, balance sheets, operating statements, depreciation and rate base statements, and projection of revenues and expenses for representative future periods under the present and proposed fares.

The studies disclosed that for several years applicant has experienced a continuing decline in the number of passengers transported. In 1954 it carried 17 per cent fewer revenue passengers than in 1953 and during the first four months of 1955 the number of passengers carried was 15.8 per cent less than the total for the corresponding period in 1954.[2] According to applicant's

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2 The total number of revenue passengers transported annually by applicant during recent years was as follows: 7,108,850 in 1950; 5,648,196 in 1951; 6,075,368 in 1952; 5,742,575 in 1953; and 4,767,066 in 1954.

witness, the carrier does not anticipate that this downward trend of traffic will level off or reverse its direction. He pointed out that in the past the carrier, in making forecasts of future traffic, has been over optimistic, the actual experience having fallen short of the carrier's expectations. The carrier's book records indicate that its net revenue from operations for the year 1954, before provision for income taxes, amounted to $51,746. After payment of income taxes on this sum and on a small amount of nonoperating income there remained net income of $32,188. The corresponding operating ratio was 94.0 per cent.

Applicant's study, as well as that of the Commission's staff, included estimates of operating results, under both present and proposed fares, for the 12-month period ending May 31, 1956. Under present fares applicant estimated that it would, during the test period, experience an operating deficit of $5,326, while the staff calculated, for the same period, net operating revenue of $9,740, after provision for income taxes. The corresponding operating ratios were 101.17 and 97.83 per cent, respectively. On the basis of the proposed fares the company's treasurer estimated a profit, after taxes, of $37,993 for the test period. The staff estimate, however, reflected a profit of $46,398. The operating ratios calculated by the treasurer and the staff under the proposed fares were 92.73 and 91.15 per cent respectively.

The estimated operating results under present and proposed fares are set forth in Table I, below.

TABLE I

Estimated Results of Operation Under Present and Proposed Fares for the 12-month Period Ending May 31, 1956

	Applicant		Commission Engineer	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues				
Passenger	$435,200	$512,000	$438,800	$514,050
Special Bus	5,750	5,750	5,160	5,160
Advertising	5,100	5,100	5,200	5,200
Total Operating Revenues	$446,050	$522,850	$449,160	$524,410
Operating Expenses				
Equipment Maintenance and Garage	$ 63,855	$ 63,855	$ 69,600	$ 69,600
Transportation	254,350	254,350	251,820	251,820
Traffic and Advertising	2,500	2,500	2,550	2,550
Insurance and Safety	19,250	19,250	21,280	21,280
Administrative and General	29,900	29,900	27,130	27,130
Depreciation	42,497	42,497	23,235	23,235
Operating Taxes and Licenses	39,024	40,085	39,050	40,040
Total Operating Expenses	$451,376	$452,437	$434,665	$435,655
Operating Income	$(5,326)	$ 70,413	$ 14,495	$ 88,755
Other Income	$ 100	$ 100	-	-
Net Before Income Taxes	$(5,226)	$ 70,513	$ 14,495	$ 88,755
Income Taxes	-	$ 32,520	$ 4,755	$ 42,357
Net After Income Taxes	-	$ 37,993	$ 9,740	$ 46,398
Rate Base	$122,429	$122,429	$125,570	$125,570
Rate of Return	-	31.03%	7.76%	36.95%
Operating Ratio After Taxes	101.17%**	92.73%	97.83%	91.15%
Bus Miles	1,159,150	1,159,150	1,159,000	1,159,000

(______) - Indicates loss.

** - Loss. No income taxes involved.

It will be seen from Table I that the revenue estimates of applicant and of the staff do not differ greatly. Both estimates are predicated on a continuation of the current downward trend in the number of riders. Additionally, in the development of the estimates a diminution factor has been utilized to give recognition to the adverse effect upon traffic of the increased fares.

The marked differences in the net operating results as estimated by applicant and the staff respectively, both under present and proposed fares, are attributable to material differences in some of the items of expense as developed in the two studies.[3] The greatest difference is found in the matter of depreciation expense. Applicant's witness estimated that this item, during the test period would total $42,497, while according to the staff witness the depreciation expense would amount to only $23,235. The large difference in the two estimates is explained by the fact that applicant, in depreciating its vehicles, employed a service life of 10 years, whereas the staff estimated the vehicle service life at 12 years, calculating the monthly depreciation charge for the test period on a remaining life basis.[4] The engineer explained that the 12-year service life had been used because the staff had found from studies of other passenger stage operations that the type of equipment involved herein could normally be expected to give service for that period of time.

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3 Both the company's treasurer and the Commission's staff assumed that the expenses to be incurred by applicant during the test period would be no different under the proposed fares than under present fares, except as to operating taxes and licenses. Expenses in this group would be higher under the proposed fares insofar as such expenses vary directly with the revenues received by the carrier.

4 The record discloses that 30 buses are utilized in applicant's operations. Two of those are fully depreciated and, as a group, the vehicles are about 75 per cent depreciated. Applicant's witness stated that the buses would not necessarily be replaced after 10 years' service, and that the service life "could well be a 12-year period".

There were appreciable differences also in the expense estimates of applicant and the staff with respect to repairs to revenue equipment and, under administrative expense, the allowance for management, supervision and accounting. In applicant's study $29,350 was allowed for the item of repairs, while the staff engineer had estimated this expense at $35,930. Applicant's estimate was bottomed on its actual experience of recent months, while the staff figures assertedly reflect the results of studies of other passenger stage services operating in various areas of this state. The engineer was of the opinion that the company could not maintain its equipment properly over an extended period of time at a cost less than that which he had allowed in his study.[5]

For management, supervision and accounting applicant had allowed, for the test year, $16,000, while in the staff study a figure of $12,000 was employed. According to the record the services in question are performed for account of applicant by Pacific City Lines. Charges assessed by the latter company are on the basis of a specified percentage of applicant's gross revenues.[6] The staff estimate, the engineer testified, is based on a recent study which the staff made of the management services performed by Pacific City Lines for its various system operating companies. In his opinion $12,000 was a fair measure of the value of these services.

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5 The basis for the staff figure is 3.5 cents per coach mile for labor and materials. Applicant's treasurer admitted that it was questionable whether the company would be able to hold the repair expense down to the amount shown in his study.

6 This figure, the treasurer said, is the ratio which applicant's revenues bear to the total of all the revenues of the operating companies in the Pacific City Lines system. According to the record, applicant's payments for the services in question during the 12-month period ending February 28, 1955, amounted to $19,019.

The estimated operating results for the test period as developed by the staff engineer appear to be proper. They will be adopted for the purposes of this proceeding.

The staff engineer's study also included estimated operating results under several possible alternate fare structures. These results, for the rate year, are set forth in Table II below.

TABLE II

Estimated Results of Operations Under Four Alternate Fare Structures Suggested by the Commission's Staff

	Alternate Fare Structure			
	1	2	3	4
Item	Cash 15¢ Tokens 2 for 25¢	Cash 15¢ Tokens 3 for 35¢	Cash 13¢ No Tokens	Cash 15¢ Tokens 4 for 50¢
Total Operating Revenues	$470,970	$473,690	$478,800	$488,630
Total Operating Expenses	$434,947	$434,982	$435,050	$435,180
Net Before Income Taxes	$ 36,023	$ 38,708	$ 43,750	$ 53,450
Income Taxes	$ 13,924	$ 15,371	$ 18,090	$ 23,321
Net After Income Taxes	$ 22,099	$ 23,337	$ 25,660	$ 30,129
Operating Ratio*	95.31%	95.07%	94.64%	93.83%
Rate of Return*	17.60%	18.58%	20.43%	23.99%

*After provision for income taxes.

In arriving at the foregoing estimates of operating results under each of the four alternate fare structures the engineer employed token usage percentages and diminution factors which had been developed by the Commission's staff from experience data of numerous transit operations throughout the state.

A second engineer from the Commission's staff testified concerning a study which he had made of applicant's operations to appraise the adequacy of the service, load standards, on-time performance and other factors affecting service to the public. He introduced an exhibit in which the results of his traffic checks were set forth and summarized. According to this witness his survey of the service indicated that the passenger loading appeared to be generally satisfactory, and that there had been a marked improvement of the on-time performance of buses over that revealed by previous service studies conducted by the Commission's staff. The witness testified that the company had made no reduction in the annual mileage to compensate for an estimated downward trend in passenger traffic, and that the company does not contemplate any changes in present service schedules or routes during the ensuing 12-month period.[7]

As hereinbefore mentioned, at the hearing two individuals voiced opposition to the sought fare increases. Their protests, however, related primarily to alleged inadequacies in applicant's service. Specifically, the complaints were that during recent years applicant has repeatedly reduced the amount of service offered to the public, the service after 6:30 p.m. is too infrequent, entailing unreasonably long waits at transfer points, and that applicant has failed to provide service for patrons leaving theatres and other places of entertainment after 12:15 a.m., the asserted time of the last scheduled departures from the Stockton downtown area.

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7 By Decision No. 50337 of July 27, 1954, supra, applicant was ordered to make no reduction or curtailment in any of the schedules or services on any of the routes as shown in its published timetable without first obtaining the approval of the Commission.

One of these witnesses in his testimony offered several suggested service changes which he believed, if adopted by the company, would correct the conditions of which he complained.[8]

In Decision No. 50337, supra, the Commission censured applicant for its failure to formulate and prosecute a program designed to regain and develop patronage for its bus routes and to attempt to solve its financial problems by means other than fare increases.[9] Accordingly, applicant was directed therein 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. At the hearing in the instant application the treasurer testified that the Commission's above-mentioned directive had been carried out.

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8 The suggestions offered by the witness were:

> (1) better coordination of schedules at transfer points where the frequency of service is at intervals of more than 20 minutes, (2) observance of a minimum frequency of service of 30-minute intervals on all lines at all times, (3) extension of service in the evening so that the last schedule of the day will start at 1:15 a.m. instead of 12:15 a.m., (4) reduced fares (amount not specified) for application during off-peak hours, and (5) direct radio communication between dispatcher and bus operators in order to minimize delays when emergencies arise.

9 In commenting on applicant's dereliction in this respect the Commission said, in part, "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 Commission will not sit idly by while applicant continues to pursue a course which inevitably will result in discontinuance of 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."

Early last fall, he said, the principal advertising agency in Stockton had been retained to assist applicant in the prosecution of the program. Over an extended period of time applicant's services were publicized through the newspapers, over the radio and via television. Additionally, posters and signs were placed on the benches at bus stops and in other prominent locations. Also the company's schedules were widely distributed.[10]

No concrete beneficial results, applicant's witness further testified, had been evidenced from the aforementioned advertising program. As far as the management had been able to ascertain, he said, no help in building up the company's declining traffic had been received therefrom. With respect to the possibility of stimulating traffic through increased frequency of service the treasurer testified that experiments conducted in Sacramento and in various other cities had clearly shown that the additional revenues obtained were far exceeded by the increased operating expenses involved. In view of these results, he said, applicant has no plans for initiating a similar experiment in Stockton.

Conclusions

It is evident from the record that the operating results to be reasonably anticipated under present fares during the projected rate year will not provide a safe margin between revenues and expenses. On the other hand, the record does not justify the full measure of fare increases herein sought. Fares of 15 cents

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10 According to applicant's book records the total amount spent for advertising during the 12-month period ending March 31, 1954 was $183. The corresponding figure for the 12-month period ending February 28, 1955, was $3,626. The estimates of applicant and the Commission's staff of total advertising expense for the rate year ending May 31, 1956, were $1,300 and $1,350, respectively.

within Zone I, 20 cents within Zone II and interzone, with tokens offered at the rate of three for 35 cents, but with no increase in school fares, should provide applicant with net revenue of $20,466 after provision for income taxes. This fare structure is the same as that embraced in staff alternate proposal No. 2, supra, except as to the school fares. The corresponding operating ratio would be 95.6 per cent, and the rate of return 16.3 per cent on a depreciated rate base of $125,570. The apparently high rate of return is attributable to the fact, hereinbefore mentioned, that applicant's equipment has been depreciated down to approximately 25 per cent of its original book cost. The foregoing operating results, for the purposes of this proceeding, are reasonable and the Commission so finds.

The record indicates that the results obtained from applicant's advertising program have not been encouraging. Nevertheless, it is essential, for the maintenance of adequate transit service in Stockton, that applicant continue to bring forcefully to the public's attention the advantages of using applicant's facilities. Accordingly, it is expected that the company will continue to make all reasonable efforts, by the various means at its command, to increase its volume of traffic.

In regard to certain service matters complained of at the hearing, the evidence of record does not afford sufficient detail for determining at this time to what extent, if at all, the suggested changes should be made. In the circumstances, applicant is expected to review its operations with particular reference to improved coordination of schedules at transfer points, minimum service frequency, extension of evening service and the other service matters hereinbefore described, and to report to the

Commission, within thirty days after the effective date of the order herein, an outline of its studies of such matters together with the action proposed to be taken.

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 13 cents to 15 cents and the present Zone 2 intrazone and also the interzone cash fare of 18 cents to 20 cents, (2) increase the token rate of fare from the existing basis of four tokens for 45 cents to three for 35 cents with provision for acceptance of one token in lieu of the 15-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 in all other respects Application No. 36718 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 16th day of August, 1955.

Peter E. Mitchell
President

Justus F. Craemer

Ray E. Untereiner

Matthew J. Dooley

Rex Hardy

Commissioners