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ORIGINAL

Decision No. 51902

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of LOS ANGELES TRANSIT LINES, a corporation, and METROPOLITAN COACH LINES, a corporation, for authority to adjust rates.

Application No. 35601

1st Supplemental Application of Los Angeles Transit Lines for additional interim relief and 1st Supplemental Application of Metropolitan Coach Lines for additional interim relief concurring with Los Angeles Transit Lines Application dated August 2, 1955.

In the Matter of the Application of GLENDALE CITY LINES, INC., requesting authority to adjust the token rate of fare in effect in present joint fare arrangement with Metropolitan Coach Lines.

Application No. 35653
1st Supplemental Application

APPEARANCES (SEE ATTACHED APPENDIX A)

O P I N I O N

On February 15, 1955, this Commission issued an interim order, Decision No. 51110, in Applications Nos. 35601 and 35653 herein, authorizing the Los Angeles Transit Lines and the Metropolitan Coach Lines to increase their single zone fares from 15 cents to 17 cents and the fare for each additional zone traversed on all interzone rides from 5 cents to 6 cents. The Glendale City Lines, Inc., was authorized to increase its joint fares with Metropolitan Coach Lines. The interim order also authorized Metropolitan Coach Lines to cancel its 30-ride commutation books and sell 10-ride commutation books on a basis of 95 per cent of the one-way cash fare when such cash fare exceeds 35 cents, adding a sufficient amount to make the 10-ride fares end in 0 or 5 cents.

Paragraph (5) of the interim order provided:

"(5) That this order is interim and experimental in nature and may be reconsidered by this Commission whenever good cause appears so to do."

Supplemental Applications

On August 2, 1955, Los Angeles Transit Lines filed its first supplemental application for additional interim relief requesting authorization to increase the price of the reduced rate tokens so that such tokens will be sold at five for 80 cents instead of seven for \$1.00 as at present. As the basis for the additional interim relief, Los Angeles Transit Lines alleged that subsequent to March 7, 1955, the date on which the previously authorized fare increases were made effective and following a strike of 35 days' duration from June 20 to July 24, 1955, it negotiated a new labor agreement effective June 1, 1955. The application states that the estimated costs of the wage increase for a year in the immediate future approximates three-quarters of a million dollars, and for the second year of the contract over a million dollars. It is also alleged in the application that Los Angeles Transit Lines has continued to experience a downtrend in the level of patronage which was in evidence prior to the strike. In addition to the substantial losses of revenue sustained during the strike, the company claims that a loss of patronage and revenue over and above the normal downtrend has resulted and will result from the strike. Applicant Los Angeles Transit Lines states that its financial position has been seriously affected and, pending determination of the full impact of the above factors, requests authority to increase its fares as proposed and to place such fares in effect on one day's notice to the Commission and to the public.

Two days later on August 4, 1955, Metropolitan Coach Lines filed its first supplemental application to Application No. 35601, requesting therein additional interim relief through an increase of its token fare in like amount as requested by Los Angeles Transit Lines' first supplemental application above referred to. Two reasons were given for the request: (1) The fares of the local operations of Metropolitan Coach Lines and those of Los Angeles Transit Lines historically have been established upon a uniform basis with free transfer privileges between the lines of the two companies. (2) Subsequent to the hearings on the original Application No. 35601, Metropolitan Coach Lines reached agreements with its operators and with its clerks providing for substantial increases in wages over the wage rates used in developing operating expenses produced in evidence at the hearings on Application No. 35601. Metropolitan Coach Lines will soon be in negotiations with its operators, clerks and shopmen for an extension of their present contracts. Indications are that there will be further substantial increases for each of these three classes of employees considering the increases in wages recently bargained for by other companies.

On August 8, 1955, Glendale City Lines, Inc., filed its first supplemental application to Application No. 35653, requesting the same adjustment in the joint token rate fare in effect between Glendale City Lines, Inc., and Metropolitan Coach Lines as is sought by Los Angeles Transit Lines and Metropolitan Coach Lines. The purpose of the request is to continue to provide a uniform joint fare structure between Glendale City Lines, Inc., and Metropolitan Coach Lines.

Public Hearings

These matters were consolidated for hearing. The public hearings were held in Los Angeles before Commissioner Ray E. Untereiner and Examiner Wilson E. Cline on August 17 and 18, 1955. At the conclusion of the hearings the matters were taken under submission subject to the filing by the City of Los Angeles of a written motion to dismiss the first supplemental applications herein and the filing of answers thereto by the applicants herein on or before August 25, 1955. The last of these filings was made August 25, 1955.

Glendale City Lines, Inc.

An affidavit was introduced in evidence as Exhibit No. S-1 by Glendale City Lines, Inc., stating it is estimated that the proposed joint fare adjustment will result in additional gross revenue of \$900 per year to Glendale City Lines, Inc., and after the application of Federal and State income taxes the net result would be \$600 in estimated additional annual net income. No further showing was made by Glendale City Lines, Inc.

Los Angeles Transit Lines

The following estimates are taken from Exhibit No. S-2 introduced into evidence by Los Angeles Transit Lines.

Results of Operations at Present Fares

	Seven Months Commencing <u>June 1, 1955</u>	Year <u>1955</u>
Operating Revenue	\$10,859,855	\$20,897,105
Operating Expense, Depreciation and Taxes	<u>10,947,856</u>	<u>20,146,704</u>
Operating Income	\$ (88,002)	\$ 750,401
Income after Income Taxes	<u>(38,132)</u>	406,300
Net Income after Amortization of Retirements	<u>(124,232)</u>	258,700
Net Income after Amortization of Retirements and after Interest Expense	<u>(176,192)</u>	164,360

(Red Figure)

Both of the above periods cover the 35-day strike which commenced on June 20 and terminated on July 24, 1955. The Vice President and Director of Planning of Los Angeles Transit Lines testified that the reduction in gross revenues during the 35-day strike period amounted to \$2,300,000, and that expenses amounting to approximately \$400,000 were incurred during this period. The sum of \$237,700 was included in expenses for the 6-month period, June through December, 1955, as additional wage costs resulting from the new labor agreement. In computing estimated revenues for the 4-month period of September through December, 1955, the Los Angeles Transit Lines witness adjusted the equivalent weekday passenger traffic figures for the same 4 months in 1954 by 6.884 per cent for estimated normal downtrend and downtrend resulting from the fare increase authorized by Decision No. 51110 and made effective March 7, 1955. A further reduction of 8 per cent was made for estimated permanent loss of traffic resulting from the strike.

The balance sheet as of June 30, 1955, appearing on page 1 of Exhibit "A" attached to the first supplemental application of Los Angeles Transit Lines, shows current assets of \$3,655,509.97 and a ratio of current assets to current liabilities of approximately $2\frac{1}{2} : 1$. The Los Angeles Transit Lines witness stated, however, that during the strike the cash position was reduced rather drastically. No further evidence was offered at the hearing respecting the cash position of the applicant. Counsel for applicant in his closing argument stated that the purpose of the supplemental application is not to obtain emergency relief to prevent insolvency. Rather, the supplemental application was filed because as a result of the strike and the labor contract which became effective as of June 1, 1955, the financial position

of Los Angeles Transit Lines has been seriously affected and the expected relief from the fare adjustments made in Decision No. 51110 cannot be achieved.

On cross-examination the Vice President and Director of Planning of Los Angeles Transit Lines stated that the company had made an estimate of earnings for the year in the future, beginning with September 1, 1955, and that his best recollection of the estimate was that it was of the order of \$700,000. He stated, however, that in his opinion the earnings will actually be less because this estimate was based on a 5 per cent loss of patronage by reason of the strike, whereas in the preparation of the exhibits presented in evidence by Los Angeles Transit Lines an 8 per cent loss of patronage by reason of the strike was forecast for the last four months of 1955.

The Commission staff witness, in his report on the operations of Los Angeles Transit Lines, Exhibit No. S-8, points out that in addition to the strike during the period June 20 to July 24, 1955, and the new labor agreement resulting therefrom, two other items are of importance, namely, (1) the interim fare increase made effective March 7, 1955, and (2) the conversion of about 40 per cent of all streetcar lines to motor coach on May 22, 1955.

His estimates are based on the book record for the period, January through April, 1955, annualized. Adjustments as indicated in the footnotes have been made in deriving the

figures appearing in columns (A) and (B) of the following tabulation taken from Exhibit No. S-8.

Results of Operations at Present Fares

January-April 1955 Book Record Annualized

	<u>Unadjusted</u>	<u>(A)</u>	<u>(B)</u>
Total Revenues	\$24,027,567	\$24,027,567	\$24,435,920
Total Expenses	22,034,430	21,394,015	21,117,353
Operating Income	\$ 1,993,137	\$ 2,633,552	\$ 3,318,567
Net Income before Income Taxes	\$ 1,896,135	\$ 2,633,552	\$ 3,318,567
Net Operating Income	\$ 879,480	\$ 1,269,910	\$ 1,585,565
Allowance for Amortization and Interest on Paving and Removal Obligations	-	154,000	209,000
Net Income	\$ 879,480	\$ 1,115,910	\$ 1,376,565
Rate Base		\$17,224,200	\$17,840,000
Rate of Return		6.48%	7.72%
Operating Ratio:			
Before Income Taxes	91.70%	89.05%	86.42%
After Inc. Taxes & Allowance	96.34%	95.36%	94.37%

(A) Book Record adjusted as follows:

- (1) Public Liability and Property Damage Insurance adjusted to reflect cost of insurance rather than premium paid.
- (2) Rate Base and Depreciation Expense on Commission staff basis.
- (3) Commission staff allowance for amortization and interest on paving and removal obligations.

(B) Book Record adjusted as in Footnote (A) and in addition adjusted for:

- (1) Fares in effect March 7, 1955.
- (2) Change in expenses due to conversion of certain streetcar lines to motor coach service on May 22, 1955.
- (3) Wage increase for the period June 1 to December 31, 1955.

Admittedly the Commission staff witness made no adjustment in operating revenues and expenses based on an apparent continued normal downtrend and loss of traffic resulting from the strike.

The speedy preparation of Exhibit No. S-8 occasioned by the filing of the request for interim relief and the fact that any estimate of downtrend would be tentative only in view of the short period of actual experience after the strike were given as reasons why the staff witness did not follow usual procedures in making his study of results of operation. On the other hand, the staff witness stated that his estimates had not taken into consideration factors favorable to the company, particularly with reference to conversion. He stated that the decrease in expenses resulting from the conversion, particularly with respect to maintenance, has far exceeded the estimates made by the staff. The staff witness also stated that a further decrease in the allowance for public liability and property damage insurance might be in order. As stated in Decision No. 51110, the difference in the staff's estimates and the company's estimates of the cost of public liability and property damage insurance amounted to \$240,600.

The company's depreciation expense estimate is \$446,500 higher than the staff's estimate.

In Decision No. 51110 the staff's estimates with respect to the allowable expense for public liability and property damage insurance and for depreciation were adopted by the Commission. They likewise will be adopted in this proceeding.

The Vice President and Director of Planning of Los Angeles Transit Lines stated that the company does not seek to recover the costs of the strike from its passengers but rather seeks to have an allowance made in its fare structure for increased future wage costs resulting from the new labor agreement. If the \$400,000 expense incurred during the strike period is eliminated from expense estimates to correspond to the elimination of revenues during this period, and if the expenses of the company

are further reduced by \$240,600 for the public liability and property damage insurance and by \$446,500 for depreciation expense, the company's \$258,700 estimate of net income after amortization of retirements for the year 1955 will be increased to \$770,000. In effect this is a figure based on slightly less than 11 months' operation by reason of the elimination of revenues and expenses during the 35-day strike period. On an annual basis this represents a rate of return of approximately 4.8 per cent on the staff's rate base.

Metropolitan Coach Lines

Metropolitan Coach Lines has under submission with this Commission its Application No. 36869 to increase its interurban fares. When this Commission issues its decision therein, full consideration will be given to applicant's earning position on its interurban, local and over-all operations.

The following tabulation of estimates of the results of operation on local lines for the 12-month period ending June 30, 1956, are taken from Exhibits No. S-6 and S-9.

	<u>Under Present Fares</u>	
	<u>Company Engineer</u>	<u>Commission Engineer</u>
Rate of Return	5.6%	10.7%
Operating Ratio after Income Taxes	95.1%	92.0%

It is evident that under the circumstances there is no justification for an interim increase in local fares of Metropolitan Coach Lines unless such be necessary to maintain a uniform joint fare structure with Los Angeles Transit Lines.

Motion to Dismiss

Upon the completion of the direct testimony of the Los Angeles Transit Lines witness but prior to cross-examination and the introduction in evidence of the exhibits which had been

identified, the City of Los Angeles moved that the several related first supplemental applications for interim relief be dismissed by the Commission.

In its motion the City of Los Angeles points out that Exhibit No. S-2 of the Los Angeles Transit Lines shows that for the calendar year 1955 the company will meet all of its expenses, including its fixed interest expense; that it will in addition absorb the loss it sustained from the strike and that it will finish the year with a net income of nearly \$165,000. No comment is made respecting such applicant's showing of an estimated net loss of \$124,232 before interest expense for the 7-month period commencing June 1, 1955; nor has the City observed that a net income before interest expense for the year 1955 of \$258,700 when related to a rate base of \$17,840,000 will produce a rate of return of less than 1.5 per cent. If such estimates were not subject to adjustment and if they were representative of the results of operations which Los Angeles Transit Lines might reasonably expect to experience in the future, this Commission might well find that such a financial emergency existed as would justify the granting of the interim relief requested.

The motion to dismiss upon the statements made in the supplemental applications and upon the affirmative showing of the applicant Los Angeles Transit Lines will be denied. The Commission will consider the entire record in this proceeding in making its findings and rendering the order herein.

The City of Los Angeles also requested that Decision No. 51110 in Applications Nos. 35601 and 35653 should be deemed a final adjudication.

Public Participation

Several patrons of the applicants appeared at the hearing and made statements opposing any further increases in fares.

Conclusions

Decision No. 51110 was issued by this Commission after the usual complete and detailed showing by the applicants and the Commission staff. As stated by the City of Los Angeles in its motion to dismiss, the Commission made its order on an interim and experimental basis only because substantial operational savings were expected to arise from the rail to bus conversions proposed in Application No. 35728. In February, 1955, those changes had not been made and it was not known when they would be made. The expected savings from the conversion could not therefore be considered and the rates then fixed were those which the Commission deemed reasonable, excluding consideration of such anticipated savings.

Inasmuch as the interim order was outstanding, it was appropriate for applicants herein to request further interim relief through the filing of supplemental applications. The interim relief requested by applicants fundamentally is based on allegations by Los Angeles Transit Lines that its financial position has been seriously affected by the events of recent occurrence and that pending determining of the impact of the various factors it was necessary to request further interim relief forthwith. The record herein does not support the finding of financial distress which would warrant this Commission granting further interim relief on the showing which applicants have made herein, and we find and conclude that applicants are not entitled to the relief requested.

It is apparent that the savings anticipated to result from authorized conversion of Los Angeles Transit Lines are to some degree now offset by increased wage costs and loss of traffic. All parties of record in these proceedings have now had ample opportunity to consider whether the applications herein should be reopened in order to effect a decrease in fares by reason of savings occurring through the conversions and no such request having been made, Decision No. 51110 shall now be deemed to be a final order of this Commission.

Should the applicants herein again seek authorization to increase their fares, new applications should be filed. Unless applicants can show that such financial emergency exists as will entitle them to interim relief they should be prepared to proceed with the complete showing required to authorize the establishment of definitive rates. In the opinion of this Commission any new application of Los Angeles Transit Lines should be predicated on at least four or five months' actual experience so that the full effects of the conversions, the new wage agreement, and any change in the level of traffic resulting from the strike can be more accurately determined.

O R D E R

The first supplemental applications as above entitled having been filed, public hearings having been held thereon, the Commission being fully advised in the premises, and good cause appearing,

IT IS HEREBY ORDERED:

(1) That the first supplemental applications for interim relief herein of Los Angeles Transit Lines, the Metropolitan Coach Lines, and the Glendale City Lines, Inc., be, and the same are, hereby denied.

(2) The interim order set forth in Decision No. 51110, issued February 15, 1955, shall be, and the same is, hereby made the final order of this Commission in Applications Nos. 35601 and 35653.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 30th day of August, 1955.

Peter E. Mitchell
President
Justus J. Gammes
Wm. J. ...
R. Hardy
Commissioners

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

APPENDIX A
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LIST OF APPEARANCES

Max Eddy Utt and Gibson, Dunn and Crutcher, by Max Eddy Utt, for Los Angeles Transit Lines, applicant in Application No. 35601 and interested party in Application No. 35653.

Waldo K. Greiner and James H. Lyons, for Metropolitan Coach Lines, applicant in Application No. 35601 and interested party in Application No. 35653.

George H. Hook and K. C. Campbell, for Glendale City Lines, Inc., applicant in Application No. 35653 and interested party in Application No. 35601.

Roger Arneburgh, City Attorney, Alan G. Campbell, Assistant City Attorney, C. E. Hilker, Deputy City Attorney, F. M. Chubb, Chief Engineer and General Manager, Board of Public Utilities and Transportation, and Robert W. Russell, Board of Public Utilities and Transportation, for the City of Los Angeles, interested party.

Henry McClernan, City Attorney, and John H. Lauten, Assistant City Attorney, for the City of Glendale, interested party.

Henry E. Jordan, Chief Engineer, Bureau of Franchises and Public Utilities, and Walhfred Jacobsen, City Attorney, by Leslie E. Still, Deputy City Attorney, for the City of Long Beach, interested party.

Carl E. Fennema, for Downtown Business Men's Association, interested party.

Mrs. Faustina N. Johnson, Secretary-Manager, for Watts Chamber of Commerce, interested party.

Christopher J. Griffin, City Attorney, for the City of Huntington Park, interested party.

Mrs. Francis B. Wood, Manager Los Angeles Tenth District, for California Congress of Parents and Teachers, Inc., and for Child Welfare Bureau, interested parties.

Ernest L. Messner, for 54th and Crenshaw Merchants Association, interested party.

Theodore K. Kesmey, in propria persona, and for Citizens Transit Committee, interested parties.

Ellery G. McClung, for South Side Chamber of Commerce, interested party.

F. R. Coop, Administrative Officer, for City of Inglewood; interested party.

James V. Ramey, for York Boulevard Chamber of Commerce, interested party.

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Orel S. Karnes, for Eagle Rock Chamber of Commerce, interested party.

Lee V. Sida, for Glassell Park Business Men, interested party.

Cecil R. Fletcher, for the York Boulevard Chamber of Commerce, interested party.

Herbert B. Atkinson, for South Los Angeles Transportation Company and Atkinson Transportation Company, interested parties.

H. D. Holcombe, for the Monte Vista Business Men's Association, interested party.

William E. McElroy, for Eagle Rock Realty Board, interested party.

Neville R. Lewis, City Attorney, for City of San Fernando, protestant.

Elliott P. Fagerberg, for Citizens Transit Committee of Metropolitan Los Angeles, interested party.

Clara McDonald, for United Patriotic People, U. S.; and Griffith-Elysian Chamber of Commerce, interested parties.

H. J. McCarthy, Senior Counsel, John L. Pearson, Supervising Transportation Engineer, and Theodore Stein, Financial Examiner IV, for the Commission staff.