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Decision No. 52310

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of FRESNO CITY LINES, INC., for) Application No. 37222
authority to increase fares.)

Avery, Meux & Gallagher, by Kenneth G. Avery, for applicant.
Lloyd A. Bowes, for Employees' Local Union 1027, Amalgamated Association of Electric Railway Motor Coach Employees of America;
C. M. Ozias, for the City of Fresno; interested parties.
Harold J. McCarthy and John L. Pearson, for the Commission's staff.

O P I N I O N

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

Public hearing was held before Examiner Carter R. Bishop at Fresno on October 5 and 6, 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 three of applicant's officers, by members of the Commission's staff, and by several public witnesses. The city attorney of Fresno, appearing on behalf of that city, assisted in the development of the record.

The present fares were authorized by Decision No. 49484 of December 21, 1953, in Application No. 34735. The revisions in its fare structure which applicant proposes herein are as follows:

(a) Increase the basic, adult, intrazone fare from 12 cents to 15 cents and discontinue the use of so-called "convenience" tokens, which are sold at the rate of five for 60 cents.

(b) Increase children's and students' cash fares from six cents to 10 cents, applicable intrazone, or between Zones 1 and 2, or between Zones 2 and 3, and from 11 cents to 15 cents between Zones 1 and 3.

(c) Increase student token fares, applicable intrazone, or between points in Zones 1 and 2, or between points in Zones 2 and 3, from one token sold at the rate of five for 30 cents to one token sold at the rate of two for 15 cents.

No change is proposed in the five-cent increment added to the basic adult fare for movement through each additional zone.

Applicant alleges that the filing of the instant application was dictated by the impairment which it has experienced in its financial and earning position since the last increase in fares. Assertedly, this condition is the result of a continuing decline in volume of traffic,[1] coupled with increased wage costs.[2]

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1 According to the application the total revenue passengers transported by the carrier declined from 11,624,931 in 1944 to 5,988,138 in 1952, 5,751,484 in 1953, and 4,964,037 in 1954.

2 The principal increase in wage costs stems from an agreement with the employees' union under which hourly wages were increased five cents retroactively effective July 1, 1955, with additional increases of 2 cents each to become effective January 1, 1956 and July 1, 1956, respectively. The agreement also increases the pension for employees retiring after July 1, 1955 and provides for three weeks of vacation for employees after 12 years' service. This last provision will become effective January 1, 1956.

Studies of the financial results of applicant's operations were introduced by the carrier's chief research engineer and by a transportation engineer of the Commission's staff. The studies, which were independently prepared, included analyses of traffic flows and trends, balance sheets, operating statements, depreciation and rate base statements, and projections of revenues and expenses for representative future periods under the present and proposed fares.

With reference to operating results of the recent past, the record discloses that, during the 12-month period ending July 31, 1955, applicant's operating revenues and operating expenses amounted to $608,435 and $572,344, respectively. After making provision for income taxes, the net operating revenue for this period was $21,200, and the operating ratio was 96.5 per cent.

The studies of record included estimates of operating results under present and proposed fares, for the 12-month period ending September 30, 1956.[3] Under present fares, applicant estimated that it would, during the test period, sustain a loss of $31,835. The staff calculated for the same period net operating revenue of $12,300, after provision for income taxes, reflecting a rate of return of 4.7 per cent on a rate base of $262,040. The operating ratios under the two estimates would be 105.7 and 97.9 per cent, respectively. Under proposed fares the company's witness estimated net operating revenue for the test period, after taxes, of $32,510, and a rate of

[3] Applicant's study also included estimates of operating results for the 12-month period ending September 30, 1957. The purpose of this additional showing, the research engineer stated, was to show, for a representative period, the effect of the total wage increase of nine cents per hour resulting from the recent wage agreement. The full amount of the increase, he pointed out, will not become effective until July 1, 1956. The test period in question is too far in the future for reliance to be placed on the estimates of operating results for that period as developed by applicant's witness. Those estimates will not be further considered in this opinion.

return of 11.6 per cent on a rate base of $281,160. The staff estimated net operating revenue of $56,800, after taxes, and a rate of return of 21.7 per cent. The operating ratios under proposed fares, as estimated by applicant and the staff, would be 95.0 and 91.5 per cent, respectively, after taxes. The estimated operating results under present and proposed fares are set forth in Table I, below.

TABLE I

Estimated Results of Operations Under Present and Proposed Fares for the 12-Month Period Ending September 30, 1956

	Applicant		Commission Engineer	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues				
Passenger	$507,370	$600,090	$518,870	$611,460
Special Bus	45,880	45,880	49,130	49,130
Advertising	7,670	7,670	7,670	7,670
Total Operating Revenues	$560,920	$653,640	$575,670	$668,260
Operating Expenses				
Equipment Maintenance and Garage	$ 88,420	$ 88,420	$ 83,900	$ 83,900
Transportation	301,460	301,460	309,700	309,700
Traffic and Advertising	6,600	7,290	4,950	4,950
Insurance and Safety	31,350	31,350	32,680	32,680
Administrative and General	41,270	44,830	35,860	35,860
Operating Rents	1,800	1,800	1,800	1,800
Depreciation	49,270	49,270	33,340	38,340
Operating Taxes and Licenses	51,685	53,690	51,870	53,880
Contingencies	20,900	20,960	-	-
Total Operating Expenses	$592,755	$599,070	$559,100	$561,110
Net Before Income Taxes	$(31,835)	$ 54,570	$ 16,570	$107,150
Income Taxes	-	22,060	4,270	50,350
Net After Income Taxes	$(31,835)	$ 32,510	$ 12,300	$ 56,800
Rate Base	$281,160	$281,160	$262,040	$262,040
Rate of Return	-	11.6%	4.7%	21.7%
Operating Ratio After Taxes	105.7%*	95.0%	97.9%	91.5%
Bus Miles	1,292,000	1,292,000	1,319,400	1,319,400

( ) - 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. This is true as to the estimates both under present and proposed fares. In the development of the estimates a diminution factor has been applied, giving recognition to the adverse effect upon traffic of the increased fares.[4]

With respect to operating expenses, Table I shows that applicant's estimates for the rate year, both under present and proposed fares, are somewhat higher than the estimates of the Commission's staff. Under present fares, applicant's estimate is $592,755, while that of the staff is $559,100. On the basis of the proposed fare structure, the respective estimates are $599,070 and $561,110. These divergences are attributable principally to significant differences in the items of advertising, maintenance, management and depreciation costs and to the inclusion, in applicant's estimate, of an allowance for so-called contingent expenses.

For advertising expense, applicant allowed $4,210 and $4,900 under present and proposed fares, respectively. The staff's estimate for this item, under both fare structures, was $2,000. It reflects the average of the advertising expense actually incurred by the carrier during the calendar years of 1953 and 1954. Applicant's estimates conform to the company's stated policy of allowing three quarters of one per cent of the revenue for advertising. In explanation of the fact that during the year ending July 31, 1955, applicant had spent only $774 for advertising, the research engineer stated

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[4] The revenue estimates of both witnesses were predicated on a continuation of the current downward trend in the number of riders. Due to differences in the methods employed in the measurement of this trend, the staff engineer calculated the long-range decline in patronage at a more gradual rate of progression than did applicant's witness.

that the earnings of the past year were not sufficient to justify the expenditure of a greater amount. According to applicant's president, the much greater amounts included in the expense estimates for the projected rate year would be spent, provided the revenues should permit such outlay.

Equipment maintenance and garage expense was estimated by applicant and the staff to be $88,420 and $83,900, respectively. The difference in these amounts is due almost entirely to the fact that the staff engineer, after developing his estimate of total expenses in this category, had reduced that amount by applying a credit of $6,530. This figure represents an estimate of the net revenue to be received by the carrier from maintenance and repair work performed by its employees with its garage facilities for outside concerns. This type of work, according to the record, was first undertaken by the carrier in May of this year.[5] The staff estimate is a projection for the rate year of the net revenue received during the period ending July 31, 1955. The amount in question, the staff engineer explained, has been applied as an offset to the total estimated maintenance expense in his study because the carrier's book records make no allocation of overhead expenses in connection with the outside work.

Management, supervision, and accounting expense, as estimated by applicant for the rate year, would amount to $28,050 and $31,610 under present and proposed fares, respectively, while the staff calculated this item at $24,700 under both present and proposed fares.[6] Applicant's estimates, the research engineer testified, reflect a percentage of its estimated revenues, in accordance with a contract

5 The record indicates that applicant will continue to do the outside work as long as it is available. It is expected that the work will continue indefinitely.

6 According to the record, the carrier's actual expenditure for these services during the 12-month period ending July 31, 1955, amounted to $29,898.

which the carrier has with its parent company, Western Transit Systems, Inc. The latter company, according to the record, performs the management and accounting services in question for account of applicant. The amount shown in the staff study for management expense was developed from an analysis of the operations and records of the parent company to arrive at the actual costs of the managerial services rendered by it for the operating companies of its system. The figure used by the staff reflects that proportion of such costs which the revenues and expenses of applicant bear to the total revenues and expenses of all the operating companies controlled by the parent company.

Depreciation expense for the rate year was estimated by applicant to be $49,270, while the staff estimate was $38,340. The substantial difference between the two estimates is largely attributable to the fact that the applicant's witness had, in his calculation, employed a service life of ten years or less on the carrier's vehicles, while the staff engineer had assigned service lives of twelve years to the buses[7] over five years old and ten years to the remainder of the vehicles.[8] The latter witness testified that the practice of assigning ten and twelve-year service lives to vehicles

[7] According to the staff witness, many of the buses to which a service life of twelve years was assigned are used generally only during peak traffic hours and, consequently, accumulate less annual mileage than the buses which are assigned to base service.

[8] The record discloses that applicant has 43 buses, 11 of which are fully depreciated. Four of the buses, constructed in 1947, were recently acquired by purchase from Asbury Rapid Transit System (two each on September 1 and October 1, 1955, respectively). Two of these vehicles were not included in applicant's depreciation schedule, because they had not been received when applicant's study was made. Because of differences in methods employed, the staff estimate of depreciation expense for the four buses in question exceeded that of applicant for the two shown in its study by approximately $5,400. Applicant included in its study two new buses which it expects to acquire about September 1, 1955. Their effect on the total estimated depreciation expense for the rate year is small.

is in accord with procedure which the staff has followed generally in estimating service lives of buses in connection with fare increase proceedings for other carriers. He asserted that estimates of the service lives of applicant's buses, made by the staff in the last rate increase proceeding involving this carrier, were reviewed by him in the light of the current condition of the buses and that, where it appeared proper, adjustments were made in such former estimates in the development of the current staff study.

Applicant included in its operating expense estimates an item of $20,960 for contingencies. This figure represents an allowance for variations from anticipated revenues and expenses which would have the effect of increasing expenses or lowering revenues. The particular contingencies on which applicant's cost witness based the expense item in question were the following:

(a) Inability to secure fare increases simultaneously with the impact of adverse changes in revenues or expenses due partly to the lag in regulatory procedures.

(b) Increases in costs of labor, materials or taxes unforeseen at the time the level of fares was authorized.

(c) Decreases in traffic below the level anticipated when rates were fixed.

(d) Work stoppages, such as strikes.

The research engineer introduced exhibits and offered testimony purporting to show that the above-mentioned circumstances have materially affected applicant's operations, as well as those of other passenger carriers, over the past several years.[9] According to the

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9 Testimony in support of an allowance for contingencies was also offered by applicant's president.

calculations of this witness, a figure of 8.8 per cent of the company's operating expenses reflects the amount by which its earnings have been reduced by these causes. It was his view that, in the development of expense estimates, specific recognition should be given to these contingencies, and that a conservative allowance would be at least 4 per cent of applicant's total operating expenses, exclusive of applicant's depreciation expense. This percentage assertedly is the basis for the aforementioned figure of $20,960, which the witness included in his expense estimates.

The rate base estimates, as developed by applicant's cost witness and the staff engineer, were $281,160 and $262,040, respectively. Two items are principally responsible for the divergence of these estimates. They relate to the respective values assigned to the carrier's revenue equipment and to the inclusion in applicant's estimate, of an allowance for working capital. The depreciated value of the revenue equipment was estimated at $185,607 by applicant, and at $193,413 by the staff. The lower figure of applicant reflects the company's policy, hereinbefore noted, of depreciating its equipment at a more rapid rate than that utilized in the development of the staff study. The sum allowed by applicant's witness for working capital was five per cent of the estimated revenues under present fares and amounts to $28,000. The staff engineer made no provision for this item in his rate base estimate. He testified that, on the basis of past studies made by the staff in connection with transit operations, it had been found that an allowance for working capital in the rate base was not required.

The estimated operating results, including the rate base, developed in the staff study appear to be proper. With the exception of the item of expense for advertising, they will be adopted for the purpose of this proceeding. The Commission is of the opinion that transit operators should not curtail their business promotion activities in the face of declining traffic. Applicant's estimate of $4,900 for advertising will be allowed with the full expectation that it will be expended for the purposes indicated.

The staff study also included estimated operating results under two possible alternate fare structures. Under these alternates the basic adult cash fare would be 15 cents and 13 cents, respectively, tokens to be offered at two for 25 cents in both cases, and children's and school fares to be increased as proposed in the application. At the hearing, the staff witness presented estimated operating results under a third alternate fare structure, namely, a basic adult cash fare of 15 cents, tokens to be offered at five for 60 cents, children's fares as requested by applicant and with no increase in shool fares. The adjusted operating results under the three alternate structures, for the projected rate year, are set forth in Table II, below.

TABLE II

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

	Alternate Fare Structure		
	1	2	3
	Cash 15¢ Tokens 2 for 25¢	Cash 13¢ Tokens 2 for 25¢	Cash 15¢ Tokens 5 for 60¢ No increase School Fares
Total Operating Revenues	$611,570	$606,670	$606,750
Total Operating Expenses	562,760	562,650	562,650
Net Before Income Taxes	48,810	44,020	44,100
Income Taxes	18,900	16,320	16,360
Net After Income Taxes	29,910	27,700	27,740
Operating Ratio *	95.1%	95.4%	95.4%
Rate of Return	11.4%	10.6%	10.6%

* After provision for income taxes.

The carrier's president and its manager adduced evidence purporting to show that the carrier has greatly extended its routes and expanded its facilities in recent years to meet the needs of the increased population of Fresno and its environs.[10] A second engineer from the Commission's staff testified that he had made a study in regard to the on-time performance of the utility's buses, the condition of the equipment, present routings and possible service extensions. He had also made a study of the loading of the carrier's buses during the peak hours. He concluded that the general service conditions and coverage of the territory appeared to be satisfactory.

Six persons, all regular users of applicant's service, testified regarding the proposed fare increases. Most of these witnesses felt that there would be no objection to raising the fares if improvements in the service were made.[11] Increased frequency of schedules and further extensions of routes into portions of Fresno not presently served were urged by some. Various other complaints about applicant's service were voiced by the witnesses. These included, among others, alleged failure of the company to provide adequate service to the city's parks and, on Sundays, to the churches and the cemeteries; failure to provide adequate evening service for theatergoers; poor connections at transfer points and insufficient margins of time within which transfers are valid; failure of drivers to stop or wait for passengers; and lack of courtesy on the part of some drivers.

Applicant's manager asserted that applicant receives very few service complaints from its patrons, and that when such are

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10 According to the record, the route mileage in question has grown from 17.5 miles in 1939, when service was rendered by the streetcars of a predecessor company, to 72.4 miles, presently covered by applicant's buses.

11 One of the witnesses strongly opposed any increase in school fares; another who lives in Zone 2 just beyond the boundary of Zone 1 complained of the additional five cents which she must pay when travelling between the two zones.

received prompt steps are taken to satisfy the complaints. The Sunday service he felt to be adequate,[12] considering the amount of patronage involved. Service to the cemeteries, he said, is provided on special occasions, and a limited number of schedules to Roeding Park are operated on Sundays and holidays during the summer season. Assertedly, few riders patronize these services. According to the manager, transfers are punched to allow sufficient time for riders to use them on the first connecting bus leaving the transfer point.

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 sufficient margin between revenues and expenses. On the other hand, the record does not justify the full measure of fare increases herein sought. The third alternate fare structure suggested by the staff contemplates increasing the basic adult single zone fare to 15 cents, with tokens offered at the rate of five for 60 cents, increasing children's fares as proposed in the application, but making no change in the present school cash or token fares. This structure, as shown in Table II, supra, should provide applicant with net revenue of $27,740 after provision for income taxes. The corresponding operating ratio would be 95.4 per cent, and the rate of return 10.6 per cent on a depreciated rate base of $262,040. Giving consideration to the amount of net revenue, the operating ratio, the rate of return and other factors, the

12 An adjustment, the manager stated, which applicant had made in the routing of one of its lines had failed to increase the patronage of churchgoers. Sunday service on the various lines, he further stated, had been reduced only after a thorough check to ascertain the extent to which it was being used.

foregoing operating results, for the purposes of this proceeding, are reasonable, and the Commission so finds.

Although applicant adduced evidence to the effect that service complaints are few, the testimony of the public witnesses indicates that there is room for improvement in respect to the matters of which they complained. Applicant is instructed to watch more closely the performance of its drivers, taking prompt remedial steps where such are indicated. The margin of time for transfer connections should be reviewed to be sure that adequate allowance for normal delays is provided. The record indicates that, while the carrier has extended its lines to meet the population growth of the community, it has also repeatedly reduced the frequency of its schedules. In the order which follows, applicant will be required to obtain approval of the Commission before making any reductions in service as such service existed at the date hereof.

Upon consideration of all the facts and circumstances of record, the Commission is of the opinion and hereby finds that increased fares conforming to those reflected in the third alternate fare structure, supra, have been shown to be justified. To this extent increases in applicant's fares will be authorized.

Applicant asks that in view of its need for additional revenues it be permitted to establish the increased fares on five days' notice to the Commission and to the public. It also asks for authority to depart from the provisions of the Commission's Tariff Circular No. 2 and of General Order No. 79 requiring that fare changes be marked by appropriate symbols in tariff publications. The circumstances justify establishment of the increased fares on less notice than the usual thirty-day period. The request for authority to depart from the symbolling requirements will be denied.

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 Fresno 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 basic adult fare from 12 cents cash to 15 cents cash or one token sold at the rate of five for 60 cents; (2) increase fares for children between the ages of six and twelve (not students' fares) from six cents to 10 cents, applicable within any one zone or between Zones 1 and 2 or between Zones 2 and 3, and from 11 cents to 15 cents, applicable between Zones 1 and 3.

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.

IT IS HEREBY FURTHER ORDERED that Fresno City Lines, Inc., shall obtain approval of the Commission before making any reductions of service on any of its routes as such service existed at the date hereof.

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. 37222 be and it is hereby denied.

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

Dated at San Francisco, California, this 29th day of November, 1955.

Peter E. Mitchell
President
Justus F. Craemer
Ray E. Untereiner
Marvin K. Dooley

Commissioners

Commissioner Rex Hardy, being necessarily absent, did not participate in the disposition of this proceeding.