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Decision No. 55618

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of FRESNO CITY LINES, INC. for)
authority to increase fares.)

Application No. 38983, Amended

Kenneth G. Avery, for Fresno City Lines, Inc.
Hugh Wesley Goodwin, for certain bus patrons, protestants.
Harold Thompson, Acting City Attorney, for the City of Fresno.
W. R. Roche, for the Commission staff.

O P I N I O N

Fresno City Lines, Inc., a wholly-owned subsidiary of Western Transit System, Inc., is a passenger stage corporation engaged in the transportation of passengers within and in the vicinity of the City of Fresno. By this application, as amended, it seeks authority to increase its fares.

Public hearing was held, after due notice, before Examiner John M. Gregory at Fresno on July 10 and 11, 1957.

The present fares were authorized by Decision No. 52310, issued November 29, 1955, in Application No. 37222 (54 Cal. P. U. C. 516). That decision also directed the company to obtain the Commission's approval before making any reductions of service on any of its routes. Applicant, at the hearing on the instant application, requested cancellation of that direction because of losses experienced in the interval between determination of the necessity for reduced service and the issuance of the requisite authority.

Applicant's fare structure consists of a three-zone system. The present minimum or intrazone cash fare is 15 cents with increments of 5 cents for each added zone of travel. Tokens are available in lieu of the single-zone cash fares at the rate of 5 for 60 cents. A token plus 5 cents cash applies for two-zone travel, and a token plus 10 cents cash for three-zone travel. Reduced rates are provided for children and students. Transfers between lines are free. There is no transfer or joint-fare arrangement with connecting carriers.

Applicant proposes to increase the intrazone cash fare from 15 cents to 20 cents and the token rate of fare from 5 for 60 cents to 3 for 50 cents, with retention of the 5-cent increment for interzone travel. Student fares would be increased from 5 for 30 cents to 5 for 50 cents. No change is proposed for children's fares. The staff study (Exhibit 13) includes four alternate fare structures which show adult cash fares of 20 cents, 17 cents and 15 cents, with various rates of fare assigned to tokens. School fares are included in all alternates at the rate of 10 for 80 cents, with no change in children's fares.

Applicant presently operates 47 buses over a total of 75.7 route miles for an estimated 1,313,516 miles annually. The company disclosed plans at the hearing, in line with recommendations developed in a survey conducted by the Commission staff, for extension of bus service on its No. 6 and No. 9 routes to the area northeast of the Mayfair district, and on its No. 2 line to the Lincoln Heights area south of the city. The staff study also recommends that the company should survey the possibility of extending service into the area south of Shaw Avenue and west of Van Ness Boulevard, in the northwesterly portion of the city, and inaugurate a study, looking to revision of its entire system of routes, with emphasis on methods of providing faster and more direct service to the downtown area.

The proposed route extensions, with eventual implementation of the service study, should tend to alleviate the complaints voiced by certain patrons and their representatives at the hearing concerning the present extent of service.

We pass now to the consideration of the applicant's request to increase fares, assertedly made because of the impairment of its financial and earning position, due to a recently accelerated decline in passenger volume, and to the impact of a new wage agreement with its employees concluded during the course of the hearing. The cost of the new wage agreement, including fringe benefits, effective July 1, 1957 and extending to June 30, 1959, is estimated at $19,720 for the rate year ending August 31, 1958, and at $31,486 for the second year during which the contract will be in effect. The increase in wages is calculated to amount to 12.003 cents per hour for the rate year.

A comparison of the company's and staff's versions of recorded operating results for recent but different periods is shown by Table I.

TABLE I

Operating Results

	Applicant (Ex. 7) 12 mo. to 5/31/57	Staff (Ex. 13) 12 mo. to 3/31/57 As Recorded	Adjusted*
Operating Revenue	$607,743	$612,575	$614,075
Operating Expense, including Operating Taxes and Depreciation	614,149	610,423	564,704
Net Income Before Income Taxes	(6,406)	2,152	49,371
Income Taxes	-	25	19,169
Net Income	-	2,127	30,202
Operating Ratio	-	99.7%	95.1%

( ) Indicates loss.
* Adjusted to include expenses on the method found reasonable in Decision No. 52310, supra.

According to the applicant, the differences shown in Table I, above, can be attributed to losses experienced in April and May of 1957, which months were included in the period used by the applicant but not by the staff, which were more than balanced by profits experienced in the corresponding months of 1956, which were included in the staff's exhibit but not in the applicant's.

Studies showing estimates of operating results for the future under present and proposed fares were introduced by a research engineer employed by applicant and by a transportation engineer of the Commission's staff. These studies, which were independently prepared, did not include the wage agreement, referred to above, which was concluded during the course of the hearing, except that applicant estimated some of the additional wage cost and included it in its study. The estimated operating results under present and proposed fares are set forth in Table II below.

TABLE II

Estimated Results of Operations Under Present and Proposed Fares For The 12-Month Period Ending August 31, 1958

	Applicant		Staff	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues:				
Passenger	$479,110	$559,870	$480,480	$605,230
Special Bus	74,140	74,140	74,140	74,140
Advertising	10,230	10,230	9,950	9,950
Other	-	-	1,500	1,500
Total Operating Revenues	$563,480	$644,240	$566,070	$690,820
Operating Expenses:				
Eqpm't, Maintenance&Garage	$ 97,070	$ 97,070	$ 81,300	$ 81,300
Transportation	331,500	331,500	314,900	314,900
Traffic and Advertising	5,970	6,640	3,380	3,380
Insurance and Safety	31,750	31,750	24,980	24,980
Administrative and General	38,890	42,300	36,630	36,630
Operating Rents	1,800	1,800	1,800	1,800
Depreciation	45,830	45,830	37,740	37,740
Operating Taxes and Licenses	57,360	59,480	57,310	59,500
Total Operating Expenses	$610,170	$616,370	$558,040	$560,230
Net Before Income Taxes	$(46,690)	$ 27,870	$ 8,030	$130,590
Income Taxes	25	9,530	1,450	62,960
Net After Income Taxes	$(46,715)	$ 18,340	$ 6,580	$ 67,630
Rate Base	$451,600	$451,600	$272,450	$272,450
Rate of Return	-	4.06%	2.4%	24.8%
Operating Ratio After Taxes	108.2%	97.2%	98.8%	90.2%
Bus Miles	1,313,000	1,313,000	1,313,000	1,313,000

( ) Indicates loss.

It will be seen from the above table that, under the proposed fares, revenue estimates of applicant and the staff differ considerably. This results from different treatments of loss of traffic, or diminution, as a result of the proposed increased fares and different estimates of token usage. Applicant computed the traffic trend prior to the last fare increase and the traffic trend following that increase, and from the difference of the trend lines calculated the diminution factor. The staff used a diminution factor developed from studies of a number of transit systems over several years and applied this in conjunction with the long-time trend.

Both applicant and staff used studies made by the Transportation Division of the Commission to develop token usage. From these studies, separate estimates of token usage were developed by the applicant and by the staff. The estimate developed by applicant appears more reasonable. Its adoption will reduce the revenues estimated by the staff by approximately $18,500. The staff also included an allowance under operating revenues for unused tokens in the amount of $1,500. This appears proper. For the purpose of this proceeding, the staff's estimates of operating revenues, adjusted as described above, will be adopted.

In regard to operating expenses, Table II shows considerable differences between the applicant's and staff's estimates in the items of maintenance, transportation, advertising, insurance, administrative and depreciation. Addition to the staff's estimates of the amount represented by the new wage agreement, entered into during the course of the hearing, will largely remove the differences in the transportation item and contribute somewhat to lessening the differences in maintenance and administrative. Most of this additional wage expense was allowed for in the applicant's estimated operating expenses.

A principal difference between applicant and staff in the maintenance expenses is due to the staff engineer, after developing his estimate of total expenses in this category, reducing the amount by applying a credit of $8,380. This figure represents revenue received by the carrier from maintenance and repair work performed by its employees with its garage facilities for outside concerns. The staff witness contended that this amount should be considered as an offset to the total estimated maintenance expense. That contention appears proper. Another difference results from the staff engineer using a smaller cost per mile for repairs to revenue equipment for the rate year than was the experience during the preceding year. It does not seem that the costs per mile would be any lower during the future year, so the figure will be adjusted to the same cost per mile as the engineer showed was experienced during the 12 months ended March 31, 1957. With this adjustment, and the adjustment for increased wages, the staff's estimate will be adopted.

In respect to advertising, applicant based its estimate on the company's policy of allowing three-quarters of one percent of the revenue for advertising. The staff used the actual expenditure for the preceding year. The staff's estimate will be used.

The staff's estimate for insurance included a reduction to reflect refunds during the past three years. The record shows, however, that the insurance company has informed applicant that this year an additional cost of $3,300 will be incurred. The staff's estimate, increased by this amount, will be adopted.

Management expenses, which are included in the item of Administrative and General, are estimated by the applicant, according to one of its witnesses, as a percentage of the revenues in accordance with a contract it has with its parent company, Western Transit Systems, Inc. The amount developed by the staff for this item reflects the cost of this service based on an analysis of the records of the parent company. It appears that the staff's estimate is proper for this proceeding.

The differences in the amounts estimated by the applicant and by the staff for depreciation are attributable mainly to the use of different service lives of buses. The method used by the staff follows that used in previous proceedings involving this and other carriers. The staff's estimates will be adopted.

Table II shows considerable difference in the rate base as developed by the applicant and by the staff. The rate base developed by applicant amounts to $451,600, while that developed by the staff is $272,450. The principal difference is due to the value placed on the land and structures. The applicant used an appraised value determined by the Fresno Realty Board in 1951, whereas the staff used the original cost to applicant of the land and the depreciated cost of the structures. The applicant also included an amount of $12,540 representing prepayments of insurance premiums and license fees. The rate base developed by the staff we find to be reasonable ~~appears to be proper~~ and will be adopted.

Except as indicated above with respect to some of the items, the estimated operating results as developed in the staff exhibit appear to be proper. The adjusted operating results are summarized in Table III, below.

TABLE III

Adjusted Estimated Results of Operations
For Year Ending August 31, 1958

	Present Fares	Proposed Fares
Total Operating Revenues	$566,070	$672,320
Total Operating Expenses	582,740	584,930
Net Before Income Taxes	(16,670)	87,390
Income Taxes	25	39,730
Net After Income Taxes	(16,695)	47,660
Operating Ratio	102.9%	92.9%
Rate of Return	-	17.5%

( ) Indicates loss.

As mentioned previously, the staff study also included estimated operating results under four alternate fare structures. The adjusted operating results under the four alternate structures, for the projected rate year, are set forth in Table IV, below.

TABLE IV

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

	Alternate Fare Structures			
	1	2	3	4
Cash	20¢	17¢	17¢	15¢
Tokens	5 for 75¢	5 for 75¢	7 for $1.00	7 for $1.00
Operating Revenues	$660,980	$634,560	$628,190	$602,940
Operating Expenses	584,420	583,960	583,850	583,380
Net Income	76,560	50,600	44,340	19,560
Income Taxes	33,805	19,805	16,435	5,260
Net After Taxes	42,755	30,795	27,905	14,300
Operating Ratio	93.5%	95.1%	95.6%	97.6%
Rate of Return	15.7%	11.3%	10.2%	5.2%

It is clear from the record, as is shown in Table III, that it is doubtful that the operating revenues to be reasonably anticipated under present fares during the projected rate year will provide sufficient revenues to meet the expenses of operation. However, the record does not justify the full measure of fare increases herein sought. The second alternate fare structure suggested by the staff would increase the basic adult fare to 17 cents, with tokens offered at the rate of five for 75 cents, and school fares at 10 for 80 cents.

This fare structure, as shown in Table IV, should provide applicant with net revenue of $30,795 after provision for income taxes. The operating ratio would be 95.1 percent, and the rate of return 11.3 percent on a depreciated rate base of $272,450. It should be remembered, however, that the record shows that the wage agreement in effect will result in almost $12,000 additional expense during the second year. Applicant's operating equipment has been depreciated to 30 percent of its original cost. Giving consideration to the amount of net revenue, the operating ratio, the rate of return on the depreciated cost and other factors, the foregoing operating results, for the purposes of this proceeding, are reasonable, and the Commission so finds.

Upon consideration of all the facts and circumstances of record, the Commission is of the opinion and hereby finds that increased fares corresponding to those in the second alternate fare structure proposed by the staff are justified. Applicant will be authorized to increase its fares to that extent.

With respect to the applicant's request to cancel the direction in Decision No. 52310, supra, to obtain the Commission's approval before making any reduction in service, notice must be taken of the fact that the entire problem of timetable filings and reduction of service has been the subject of Commission investigation and hearing in Case No. 5098[1], now under submission. It is believed that a decision as to the restriction ~~or~~ of service reduction for Fresno City Lines should await decision on Case No. 5098. Accordingly, the request of the company for modification of Decision No. 52310 will not be granted at this time.

1/ (Case No. 5098 concerns proposed changes in G. O. 98, rules and regulations governing the safety and operation of passenger stage corporations.)

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. This request appears reasonable and will be granted.

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:

(1) 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: (a) increase the present basic adult fare to 17 cents cash or one token sold at the rate of 5 for 75 cents; and (b) increase the basic school fare, applicable within one zone or between two adjacent zones, to 10 for 80 cents.

(2) 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.

(3) That applicant shall, within thirty days after the effective date of this order, file necessary applications with this Commission for authority to extend its No. 6 and No. 9 routes to the area northeast of the Mayfair district and its No. 2 route to Lincoln Heights.

(4) That applicant shall survey its entire route layout, looking toward routes to provide faster and more direct routing between the residential district and the downtown area of Fresno,

and survey the possibility of extending service into the area south of Shaw Avenue and west of Van Ness Boulevard. A report to the Commission shall be rendered by the applicant within ninety days after the effective date of this order.

(5) That the authority granted in paragraph (1) above shall expire unless exercised within sixty days after the effective date of this order.

(6) That, in all other respects, Application No. 38983 be, and it is, hereby denied.

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

Dated at Los Angeles, California, this 24th day of September, 1957.

President

Commissioners