

ORIGINAL

Decision No. 58181

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
AIRPORTTRANSIT, a corporation, for
authority to increase its fares as
a passenger stage corporation.

} Application No. 40041
}

Ivan McWhinney and E. G. Wunner, for applicant.
Jack O. Sanders, for Department of Public Utilities
and Transportation of the City of Los Angeles,
interested party.
Karl Roos and Glenn Newton for the Commission
staff.

O P I N I O N

Airporttransit now operates a passenger stage service for the transportation of airline passengers and employees of airlines (a) between the Los Angeles and Hollywood territories, as said territories are described in Appendix A of Decision No. 55705, and the City of Beverly Hills, on the one hand, and the Los Angeles International Airport and the Lockheed Air Terminal, on the other hand; (b) between the West Los Angeles and Inglewood-Hawthorne territories, as said territories are described in Appendix A of Decision No. 55705, and the Cities of Santa Monica and Culver City, on the one hand, and the Los Angeles International Airport, on the other hand; (c) between the Los Angeles International Airport and the Hollywood Park Race Track; (d) between the Los Angeles International Airport and Lockheed Air Terminal; and between the

San Fernando Valley territory, as said territory is described in Appendix A of Decision No. 56497, and the Cities of Burbank and Glendale, on the one hand, and the Los Angeles International Airport, on the other hand; subject to the conditions and restrictions as set forth in said decisions. Airporttransit, under contract with the various airlines, also transports airline passengers to and from other nearby airports when weather or other emergency conditions require the use of such facilities.

By this application applicant seeks authority to increase its present fares between certain of the points now served. Applicant alleges that its operating expenses have increased materially, and the fare increases proposed are necessary to permit applicant to earn a reasonable profit from its operations and to continue to provide the frequency and quality of service demanded by its passengers.

Hearings were held on October 9 and December 3, 1958, before Examiner Mark V. Chiesa. Oral and documentary evidence having been adduced, the matter was submitted for decision. President George J. Corsello and Vice President E. G. Wunner testified for applicant, and an engineer of the Commission staff also testified.

Applicant's present and proposed fares, exclusive of the 10 percent Federal transportation tax, are as follows:

<u>Between</u>	<u>And</u>	<u>Present</u>	<u>Proposed</u>
Los Angeles International Airport and Lockheed Air Terminal	Los Angeles Territory	\$1.09	\$1.36
	Hollywood Territory	1.09	1.36
	Beverly Hills City	1.09	1.36
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Los Angeles International Airport	West Los Angeles Territory	1.09	1.36
	Santa Monica City	1.00	1.36
	Culver City	1.09	1.36
	Inglewood-Hawthorne Territory	.50	.50 *
	Hollywood Park Race Track	1.00	1.00 *
	Lockheed Air Terminal	1.75	1.75 *
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Los Angeles International Airport	San Fernando Valley Territory	2.27	2.27 *
	Burbank City	2.27	2.27 *
	Glendale	2.27	2.27 *

* No increase proposed.

Applicant's financial condition as of June 30, 1958
(Exhibit No. 9) was as follows:

Assets	\$499,631.66	
Liabilities	<u>297,225.50</u>	
Net Worth		\$202,406.16
Represented by:		
Capital Stock		
Outstanding	96,330.00	
Surplus	<u>106,076.16</u>	202,406.16

For the year ending July 30, 1958, applicant's records indicate a net loss of \$6,013.92.

Estimated results of operation under present and proposed fares were introduced at the hearing by applicant's vice president and by the Commission staff engineer. The 12-month periods selected for their forecasts were 12 months ending April 30, 1959, by the applicant's witness, and 12 months ending October 31, 1959, by the staff. The estimated results are set forth in the following table:

Item	Estimate Under Present Fares			Estimate Under Proposed Fares	
	Book Record: 12 Mos. End.: 6-30-58	Applicant: 12 Mos. End.: 4-30-59	PUC Staff: 12 Mos. End.: 10-31-59	Applicant: 12 Mos. End.: 4-30-59	PUC Staff: 12 Mos. End.: 10-31-59
(1)	(2)	(3)	(4)	(5)	(6)
Oper. Revenue	\$ 723,368	\$ 730,494	\$ 778,490	\$ 877,344	\$ 938,190
Oper. Expenses	721,458	820,894	756,140	828,236	764,470
Net Before Inc. Taxes	1,910	(90,400)	22,350	49,108	173,720
Income Taxes	630	-	7,330	20,036	88,170
Net Income	\$ 1,280	\$ (90,400)	\$ 15,020	\$ 29,072	\$ 85,550
Operating Ratio %	99.8	112.4	98.1	96.7	90.9
Rate Base	\$ 433,745	\$ 433,745	\$ 441,140	\$ 433,745	\$ 441,140
Rate of Return %	0.3	-	3.4	6.7	19.4

(Red Figure)

Applicant has estimated that for the period ending April 30, 1959, 527,040 passengers will pay the \$1.09 fare under present fares. Said estimate is based on an historical so-called "moving average," as of April 30, 1958 (Exhibit No. 11), and the application of an estimated 6.2 per cent decline for the projected period ending April 30, 1959. No attempt was made to depict future passenger trend based on the averages of past 12-month periods. On the other hand, the staff's estimate of 573,109 passengers that will pay said fare of \$1.09 under present fare was arrived at by analyzing past passenger trend and the extension thereof for the rate year ending October 31, 1959. In our opinion, the basis for the staff's figure is a more acceptable method of determining passenger trend.

The above table of estimates includes estimated results of the operations of a new service, established by applicant beginning May 5, 1958, between the Los Angeles International Airport and the San Fernando Valley (Decision No. 56497). Applicant's and the staff's estimated results of operation of this service for the said respective periods are as follows:

	<u>Applicant</u> <u>12 mos. ending</u> <u>April 30, 1959</u>	<u>P.U.C. Staff</u> <u>12 mos. ending</u> <u>Oct. 31, 1959</u>
Revenue	\$49,713	\$36,320
Expense	<u>78,066*</u>	<u>94,730</u>
Net Loss	<u>(28,353)</u>	<u>(58,410)</u>
	<u>(Red Figure)</u>	

* Exclusive of depreciation and operating rents.

As hereinabove noted, applicant is not proposing an increase in fare for this service, which fare is \$2.27 one way exclusive of Federal transportation tax. It was testified by applicant's witness that the traffic for said service averages approximately 40 passengers per day for 25 round trips, or less than one passenger per trip. Applicant's projection was based on 60 passengers per day or a 50 percent increase. On the basis of 40 passengers per day, applicant's loss would be increased by one-third or \$16,571. The staff's projection was on the basis of 45 passengers per day.

The staff also presented estimated results of operation under present and proposed fares, excluding the San Fernando Valley service, as follows:

	<u>CASE I</u> <u>Present Fares</u> <u>(\$1.20 Incl. Tax)</u>	<u>CASE II</u> <u>Proposed Fares</u> <u>(\$1.50 Incl. Tax)</u>
Bus Miles Operated	1,138,100	1,138,100
Total Revenue	\$ 742,170	\$ 901,870
Total Expense	<u>661,410</u>	<u>669,740</u>
Net Before Inc. Taxes	80,760	232,130
Income Taxes	<u>38,050</u>	<u>118,890</u>
Net Income	<u>42,710</u>	<u>113,240</u>
Operating Ratio %	94.2	87.4
Rate Base	418,010	418,010
Rate of Return %	10.2	27.1

It is evident that an increase in fares as herein proposed would result in a subsidy of a service for which a general public support has not yet been developed. Applicant has asked that an estimated 527,040 passengers be required to pay a substantial fare increase for the benefit of an estimated 21,900 San Fernando Valley passengers (the staff's figures are 573,190 and 16,000, respectively). Upon the showing made, the Commission is not prepared to burden, to the extent proposed by applicant, such an overwhelming majority of applicant's patrons in order to subsidize a service which, upon the record to date, has not developed the public support which was anticipated.

Several estimated results of operation under alternate fares were also presented by the Commission staff, as follows:

	: <u>CASE III</u> :	: <u>CASE IV</u> :	: <u>CASE V</u> :	: <u>CASE VI</u> :
	: <u>\$1.25</u> :	: <u>\$1.30</u> :	: <u>\$1.35</u> :	: <u>\$1.40</u> :
	: <u>Incl. Tax</u> :	: <u>Incl. Tax</u> :	: <u>Incl. Tax</u> :	: <u>Incl. Tax</u> :
Operating Revenue	\$808,830	\$832,350	\$861,770	\$885,280
Operating Expenses	<u>757,850</u>	<u>759,520</u>	<u>761,190</u>	<u>762,610</u>
Net Before Inc. Taxes	50,980	72,830	100,580	122,670
Income Taxes	<u>21,990</u>	<u>33,770</u>	<u>48,730</u>	<u>60,640</u>
Net Income	\$ 28,990	\$ 39,060	\$ 51,850	\$ 62,030
Operating Ratio %	96.4	95.3	94.0	93.0
Rate Base	\$441,140	\$441,140	\$441,140	\$441,140
Rate of Return %	6.6	8.9	11.8	14.1

There is a substantial difference in the expense estimates of the applicant and the staff. The record shows that this difference is primarily due to different methods used to arrive at estimates for supervisory employees and salaries, liability and property damage insurance, management or "home office" fees, proration of certain other expenses between affiliates and the substitution of direct property charges in lieu of intercompany rentals.¹ The Commission is of the opinion that the staff's estimates are reasonable and proper and that the end results do not justify the granting of the requested 24.7 per cent increase for approximately 80 per cent of applicant's passengers.

Having considered the entire record, we find and conclude that a fare of \$1.25, including Federal transportation tax, as shown hereinabove in Case III, will produce sufficient revenue to provide a rate of return of 6.6 per cent which we find to be justified, reasonable and adequate in view of the facts and circumstances as hereinabove set forth.

Applicant will be authorized to establish increased fares as hereinbelow set forth. In all other respects the application will be denied.

O R D E R

Public hearings having been held, the Commission being fully advised in the premises and having found facts and reached conclusions as set forth in the preceding opinion,

¹ Applicant is a wholly owned subsidiary of Yellow Cab Co. of San Francisco, and from an operating standpoint is directly associated with two affiliated trucking firms with headquarters in Los Angeles. The management and supervision in the Los Angeles office and the office, garage and maintenance facilities are common to the three operations.

IT IS ORDERED:

1. That Airporttransit, a corporation, be, and it hereby is, authorized to establish on not less than five days' notice to the Commission and to the public, the following increased fares:

<u>Between</u>	<u>And</u>	<u>Fare*</u>
Los Angeles International Airport and Lockheed Air Terminal	Los Angeles Territory Hollywood Territory Beverly Hills City	\$1.14 1.14 1.14
Los Angeles International Airport	West Los Angeles Territory Santa Monica City Culver City	1.14 1.14 1.14

* Exclusive of Federal transportation tax.


2. That, in addition to the required posting and filing of tariffs, applicant shall post in its buses and at terminals, for at least five days prior to the effective date of this order, a suitable explanatory notice of said fare increases.

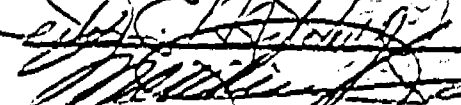
3. That, except as herein authorized, Application No. 40041 be, and it hereby is, denied.


4. That the authority herein granted shall expire unless exercised within sixty days after the effective date hereof.


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

Dated at San Francisco, California, this 24th day of March, 1959.



President






Commissioners