

ORIGINAL

Decision No. 58366

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CITIES TRANSIT, INC., doing business as Cross Town Suburban Bus Lines for permission to adjust rates on its Sunset Stages Division.

Application No. 40648

John J. Cayer for the applicant.
Elmer Sjostrom and Glenn Newton for the Commission staff.

O P I N I O N

By Decision No. 50774, dated November 16, 1954, in Application No. 35435, Sunset Stages, a passenger stage corporation, was authorized to establish fares as follows:

Originating Zone	12 cents
Originating Zone and the next contiguous zone	15 cents
Each zone after the first two zones	5 cents

This decision also established the zone limits on the several Sunset Stages lines. The applicant's rules, inter alia, provide for reduced fares for children as follows:

Children under 5 years of age when accompanied by an adult passenger and not occupying a seat to the exclusion of other passengers, will be carried FREE. Children under 5 years of age occupying seats to the exclusion of other passengers and children 5 years and under 12 years of age will be charged one-half of the adult fare increased where necessary to make such fare end in the next "0" or "5", minimum fare 7 cents.

By Decision No. 56998, dated July 15, 1958, in Application No. 40136, Southern Cities Transit, Inc., doing business as Cross

Town Suburban Bus Lines, acquired Sunset Stages and thereafter designated the operation thereof as its Sunset Stages Division.

By the application herein, filed on December 5, 1958, and amended by an amendment filed on December 10, 1958, applicant, Southern Cities Transit, Inc., doing business as Cross Town Suburban Bus Lines, seeks authority to increase its fares on the Sunset Stages Division and to discontinue reduced fares for children. The proposed fares are as follows:

<u>Adult Fares</u>	<u>Proposed Fares</u>
(1) For travel in one zone	15c
(2) For travel encompassing two contiguous zones	20c
(3) For travel encompassing three contiguous zones	25c
(4) For travel encompassing four contiguous zones	30c
(5) For travel encompassing five contiguous zones	35c

Public hearings on the application were held before Examiner Kent C. Rogers in Hawthorne on February 13, 1959, and in Los Angeles on February 16, 1959. Prior to the first day of hearing, notice thereof was published and posted, as required by this Commission. There were no appearances at the hearing other than by the applicant and the Commission staff.

A summary of the applicant's and the staff's estimates of the results of operations for one year under the present and proposed fares is as follows:

Item	Estimate Under Present Fares		Estimate Under Proposed Fares	
	Applicant (1)	P.U.C. Staff (2)	Applicant (1)	P.U.C. Staff (3)
Operating Revenue	\$ 235,510	\$ 235,490	\$ 281,110	\$ 286,440
Operating Expense	259,150	216,650	262,210	216,650
Net Bef. Inc. Taxes	(23,640)	18,840	18,900	69,790
Income Taxes	-	5,750	6,200	33,220
Net Income	(23,640)	13,090	12,700	36,570
Operating Ratio %	110.0	94.4	95.5	87.2
Rate Base	Not Shown	70,150	Not Shown	70,150
Rate of Return %	-	18.7	-	52.1

(Red Figure)

Southern Cities Transit, Inc., doing business as Cross Town Suburban Bus Lines, is affiliated with the Cross Town Lines of Huntington Park, Norwalk City Lines, Sunset Stages, and Cross Town Bus Lines of Fullerton. Whittier Bus Lines is a separate corporation, but with the same stockholders as Southern Cities Transit, Inc. Lynwood is the home office of these companies, where the administrative and management functions are performed and books and operating records are maintained for all divisions. The buses are repaired at the Lynwood garage, with the exception of minor repairs. Major overhauls, maintenance, painting, and body work are done in Lynwood. The Whittier and the Sunset Stages Division garages have limited facilities for minor repairs. Southern Cities Transit, Inc., files its own annual report. Neither Cross Town Lines of Huntington Park nor Norwalk City Lines files an annual report, on

(1) From p. 9, Exhibit C on the First Amended Application.
 (2) Page 17, Exhibit No. 2.
 (3) Page 18, Exhibit No. 2.

the basis that such report is not required, as each operation is wholly within an incorporated city. Sunset Stages records have been maintained by applicant since it assumed control thereof on May 1, 1958. It has revenues from regular passenger service plus advertising only. Southern Cities Transit, Inc., doing business as Cross Town Suburban Bus Lines, has charter, school, and passenger stage, plus advertising, revenues.

The applicant estimated that in 1959, its Sunset Stages Division would carry 1,663,600 passengers at an average fare of 14 cents, at the present rates, for a total passenger revenue of \$232,910, to which would be added \$2,600 as Sunset Stages share of system-wide advertising revenues, for a total estimated revenue in 1959 of \$235,510.

The staff estimate of revenues for 1959 at present fares assumes a total of 1,644,800 passengers at an average fare of 14 cents, for a total of \$230,280. The staff added \$5,210 in estimated advertising revenues to arrive at a total of \$235,490 in revenues at present fares.

Both the staff and the applicant based the estimated total fares and distribution of fares on passenger counts taken by applicant on November 5 to 11 and November 14, 1958.

In estimating its revenues at the proposed fares, the applicant estimated a deflection in the number of passengers equal to 30 percent of the percent of increase in the average fare of 14 cents, and an average fare of 18.55 cents for the remaining 1,501,400 passengers, giving a total passenger revenue at increased fares of \$278,510, to which would be added the \$2,600 of advertising revenues for a total revenue for one year at increased fares of \$281,110.

The staff estimated a lesser deflection at increased fares, using a figure equivalent to one-quarter of the percent of increase, leaving a total of 1,515,600 fares at an average of 18.56 cents, for a total passenger revenue of \$281,230, to which it added \$5,210 in advertising revenues, for a total of \$286,440.

The applicant's estimate of deflection was based on what other companies had estimated in other hearings. The staff's estimate of deflection was based on experience. The staff's estimate of the number of passengers at the increased fares and the resulting revenues will be used.

In estimating the advertising revenues, it appears that the applicant inadvertently used too low a figure, as it had revenues of approximately \$11,839 for the year ending August 31, 1958, from advertising. Because, according to applicant, more bus miles are operated per year by the Sunset Stages Division than by the balance of the regular operation of Southern Cities Transit, Inc., it would appear that both the applicant's and the staff's estimates of advertising revenue are too low, even though the applicant stated that the average of such revenue, at the time the application was filed, was \$433 per month on the Sunset Stages Division. The staff's estimate of \$5,210 of advertising revenues in 1959 appears reasonable and will be used.

The total revenues to be used in this decision, at present and proposed fares, are as follows:

<u>Present fares</u>	<u>Proposed fares</u>
\$ 235,490	\$ 286,440

Exhibit No. 4 herein contains a comparison of the expenses of operation as given by applicant and the staff. This

exhibit will not be set out hereinafter, but the major differences in costs will be referred to. The applicant divided many of its items of cost only between the Cross Town Suburban Bus Lines and the Sunset Stages Division; whereas the staff divided the costs between all of the affiliated companies. Which method is used is immaterial as to items which are based on mileage. The other items, such as plant, supervision, rentals, auditing, etc., should be prorated among all the affiliated companies. In any event, expenses must be reasonable, based on the size of the company.

Except for taxes, the staff and the applicant agree that expenses will be the same at present and proposed fares, although there is a difference of approximately \$43,000 per year in their estimates of such expenses, the applicant's estimates being the larger.

In arriving at its estimated results of operation, applicant considered only the Cross Town Suburban Bus Lines, including the Sunset Stages Division, treating these divisions as being separate and distinct from the affiliated companies. The staff, on the other hand, treated the entire group of affiliated operations as one, and allocated expenses on that basis. The staff witness stated that operating expense estimates were based primarily on company experience; that expense items of a fixed character were estimated at current cost levels; that accounts involving labor were adjusted upward to reflect increased wages effective January 1, 1959; and that certain expense accounts were prorated according to the duties performed for each company. The applicant and the staff disagreed on virtually every item of expense.

After careful consideration of the record, the Commission agrees with the staff's estimate of the proper charge for expenses in all but two items. The items which should be modified from the staff's estimate are drivers' wages, Account No. 4220, and public liability and property damage insurance, Account No. 4520.

Account No. 4220

The staff purportedly estimated the salaries of the drivers at current cost levels, but the starting point for estimating salaries was not given. The applicant, on the other hand, presented in detail its method of computing drivers' salaries, which, for the year 1959, are estimated at \$103,766.⁽⁴⁾ According to applicant, the recorded figure for drivers' wages for the eight months of 1958 preceding the five-cent per hour increase, was \$66,476.14, which annualized, and allowing for vacation pay and the five-cent per hour increase, equals \$103,766. This figure will be used in determining applicant's request.

Account No. 4520

This item refers to the cost of public liability and property damage automobile insurance. The staff calculated this item on the basis of cents per mile. The applicant has shopped for insurance, and its witness testified that the only way the applicant could get insurance was on the basis of 6.78 percent of the gross revenue. This will result in a cost of \$15,966 for public liability and property damage insurance, which amount will be adopted because of the shortness of the period during which applicant has been operating the property and because of the lack of recorded cost experience.

(4) Exhibit No. 5.

Using the staff's figures, but adjusting for the two items referred to above, the operating results to be used at present and proposed rates are as follows:

	<u>Present rates</u>	<u>Proposed rates</u>
Income	\$ 235,490	\$ 286,440
Expenses	228,182	228,182
Net before income taxes	7,308	58,258
Income taxes	2,397	25,913
Net income	4,911	32,345
Operating ratio (after taxes)	98.2%	88.7%
Rate base (per staff)	\$ 70,150	\$ 70,150
Rate of return	7.0%	46.11%

After carefully considering the entire record in this proceeding, the Commission finds that the rate increase, as requested, is not justified. However, it appears, and the Commission finds that the present authorized fares do not, and will not afford a fair and reasonable return to applicant, and that some increase is necessary in order to assure the continued operation of applicant's service.

As the Commission has reiterated in numerous rate proceedings, (5) the Commission, in reaching its conclusions in such matters, considers all available data without limitation or restriction as to any method or formula; and while operating ratios, rate bases, rates of return, and other pertinent data are valuable indices of earnings requirements, the primary consideration is that the final result shall be fair and reasonable.

The record in this proceeding clearly indicates an unreasonable disparity, under existing rates, between revenues, expenses, and net income. The record further indicates that the present age and resulting depreciated book cost of a large percentage of applicant's equipment necessitates a higher rate of return than would be considered fair and reasonable for a company whose equipment showed

(5) See Dec. 57289, Key System Transit Lines, 56 Cal. P.U.C. 545

a lower average age.

By increasing the present originating zone fare from 12 cents to 15 cents, there will be a net income after taxes of \$14,560; an operating ratio of 94.2 percent; and a rate of return of 20.8 percent. The reason for the apparently high rate of return has been indicated. However, the resulting operating ratio and net income are reasonable in the case of this applicant's operation. The Commission hereby finds that an increase from 12 cents to 15 cents in the present originating zone fare is reasonable, and it will be granted on less than statutory notice. All other fare increases requested in the application will be denied.

The applicant, at the request of the Commission, checked the need for transfers. Its witness stated that transfers are actually being provided to students of the El Camino College located at Redondo and Crenshaw Boulevards, and that approximately 32 transfers are issued each day. The witness estimated that the use of such transfers would increase approximately 50 percent if provided for in the tariff. It appears from the record that transfers are being issued and, such being the fact, applicant should forthwith amend its tariff to provide for such item. Any transfer provision in the tariff should permit the issuance of a transfer for any trip in the same general direction on any of the Sunset Stages lines.

O R D E R

Application having been filed, public hearings held thereon and the Commission having found that an increase in fares is justified,

IT IS ORDERED: ✓

1. That applicant is authorized to increase its originating zone fare to 15 cents upon not less than five days' notice to the Commission and the public. ✓

2. That in addition to the necessary tariff filings required by this order, 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 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 the application be and the same hereby is denied.

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

Dated at San Francisco, California, this 5th day of May, 1959.

E. L. Fox
President
Robert E. Mitchell
Michael J. Walsh
Richard J. Jensen
Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.