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Decision No. 59791

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. 41559

Avery, Meux & Gallagher, by William C. Meux, and Jesse L. Haugh, for applicant.
John H. Lauten, for the City of Fresno, interested party.
William C. Bricca, for the Commission 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, filed on October 7, 1959, and amended on November 30, 1959, it seeks authority to establish increased fares.

Public hearing was held before Examiner Carter R. Bishop at Fresno on December 9 and 10, 1959. 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.

Evidence was introduced by three of applicant's officers, by members of the Commission's staff, and by 19 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. 57297, dated September 2, 1958, in Application No. 40175. The revisions in its fare structure which applicant proposes herein are as follows:

(a) Increase the basic, adult, intrazone fare from 20 cents to 25 cents, with corresponding increases in the two-zone and three-zone cash fares from 25 cents and 30 cents to 30 and 35 cents, respectively.

(b) Increase the intrazone token fare from 18 cents (five tokens for 90 cents) to 22½ cents (four tokens for 90 cents). The basis for two-zone and three-zone token fares would be one token plus five cents and one token plus ten cents, respectively.

(c) Student Fares. Cancel the present intrazone and two-zone token fare of 9 cents (10 tokens for 90 cents) and the three-zone token fare of one token plus five cents cash. Retain the present intrazone and two-zone cash fare of 10 cents and the three-zone cash fare of 15 cents.

(d) Children's Fares. No changes are proposed in the present fares, which are the same as the present student cash fares as set forth above.

According to the application, the proposed fare increases are made necessary by increased operating expenses which have been experienced by the utility since the last fare adjustment. These include increases in the items of wages and "fringe" benefits, tire and depreciation expense, and unemployment and social security taxes. Assertedly, the combination of these augmented operating costs, coupled with a continuing decline in the volume of traffic, has resulted in the impairment of applicant's financial position to the point where immediate relief is essential.

Applicant's book records, after adjustments by the Commission's staff show the following results of operation for the 12-month period ended September 30, 1959: revenues, $689,865; expenses $613,933; net after income taxes, $50,432; operating ratio, 92.7 percent.

At the hearing the chief accounting officer of Western Transit Systems[1/] presented and explained figures reflecting his estimates of the financial results that applicant will realize from its operations for the year 1960 (a) if no adjustment in fares is made to offset the increased expenses, and (b) if the sought fares are established. Transportation engineers of the Commission's staff presented estimates which they had similarly developed from independent studies and analyses of applicant's operations and records.

The respective financial estimates are summarized in Table I below:

TABLE I

ESTIMATED RESULTS OF OPERATIONS
UNDER PRESENT AND PROPOSED FARES FOR
THE 12-MONTH PERIOD ENDING DECEMBER 31, 1960

	Applicant		Staff	
	Present Fares	Proposed Fares	Present Fares	Proposed Fares
Operating Revenues	$634,700	$719,400	$675,560	$767,740
Operating Expenses	687,990	692,020	657,370	658,930
Net Before Income Taxes	$ 53,290	$ 27,380	$ 18,190	$108,810
Income Taxes	$ 100	$ 9,460	-	$ 43,460
Net After Income Taxes	$ 53,390	$ 17,920	$ 18,190	$ 65,350
Operating Ratio#	108.4%	97.5%	97.3%	91.5%
Rate Base	$550,600	$550,600	$364,000	$364,000
Rate of Return#	-	3.3%	5.0%	17.9%

#After income taxes.
( ) Indicates red figure.

1/ Fresno City Lines is owned and operated by Western Transit System.

It will be seen from Table I that the staff's estimates of revenues for the rate year under both present and proposed fares are somewhat greater than those of applicant. These differences are due principally to the fact that the staff forecast a considerably lower rate of long-range decline in the volume of traffic and, under the proposed fares, a lower percentage of token use than was estimated by applicant.

Table I discloses also that the staff estimates of operating expenses for the rate year are somewhat less than those in applicant's study. The items which reflect substantial differences in the respective cost estimates are as follows: In the category of maintenance expenses the staff deducted an amount of $8,000, representing the estimated net profit of the utility for "outside" repair work to be performed by it for other concerns.[2/] Applicant made no similar deduction from its estimate of operating expenses.

The estimates of applicant and staff of expenses for management and accounting were $33,580 and $27,500, respectively. The services in question are rendered for account of applicant by Western Transit Systems, the parent company. The compensation paid to the latter under this arrangement is a specified percentage of applicant's gross operating revenues. The staff estimate, the record indicates, was based on a detailed analysis of Western Transit's costs and an attempt to determine what it would cost to operate a transit company the size of applicant.

Depreciation expense, as estimated by applicant for the rate year, is $53,516, while the staff figure is $34,400. The record

2/ This figure is approximately the same as the net profit earned by applicant in the performance of such work in the 12-month period ended September 30, 1959. Neither applicant nor staff included in their studies gross revenues or gross expenses relating to such "outside" work.

shows that this divergence is the result of differences in the service lives and salvage values of the utility's vehicles, as assigned by applicant and the staff, respectively. The staff assigned longer service lives to the buses than did applicant, while, at the same time, it estimated salvage value at $1,500 for each of the vehicles, as contrasted with applicant's corresponding figure of $350.

The foregoing differences in revenue and expense estimates of applicant and the Commission's staff operate to produce highly divergent forecasts of net revenue for the rate year, as between the two studies. Under a continuation of present fares applicant's study indicates a loss of $53,290, while the staff's corresponding figure is a profit of $18,190 before income taxes. Based upon the proposed fares the estimates of net revenue before income taxes are $27,380 and $108,810 for applicant and the staff, respectively.

The revenue estimates of applicant appear to be unduly pessimistic. While the staff's forecast may be somewhat more favorable than may be realized during the rate year, such forecast will be adopted for the purposes of this proceeding. The expense estimates of the staff, with the exception of depreciation expense which involves the salvage values of the buses, reflect past practices of the staff, which have been approved by the Commission in prior decisions. While the staff's estimate of salvage value of the utility's buses is considerably greater than that used in former proceedings, it appears justified by current conditions.[3/] The staff's estimate of operating expenses will be adopted.

3/ The record indicates that in the last prior fare proceeding involving the applicant herein the staff estimated the salvage value for vehicles at $600.

In the calculation of estimated income taxes for the rate year the staff first deducted from net income the interest payments made by the utility. The state and federal tax rates were then applied to the resulting figure. Applicant made no interest credit deduction in calculating estimated income taxes. It appears from the record, moreover, that whereas the staff in former proceedings used as a deduction from net income only interest payments on equipment loans, in the instant study it also included in the deduction interest on the utility's bonds held by an affiliated company.[4/]

Applicant's accounting witness expressed the view that since the Commission has not recognized interest payments as an operating expense for rate-making purposes, it is unfair to the carrier to apply such interest expense as a deduction against net income in calculating income taxes for rate-making purposes. In prior fare increase proceedings we have recognized the propriety of deducting interest payments from net income in calculating estimated income taxes. It appears, however, that in determining the amount of interest to be so deducted, bond interest in this case should be excluded. When the staff figures set forth in Table I, supra, are revised in accordance with this principle the following estimate of operating results after income taxes is reached: (1) under present fares: net operating income $12,960; operating ratio, 98.1 percent; (2) under proposed fares: net operating income $56,360; operating ratio, 92.7 percent. The rates of return under present and proposed fares, related to the staff's rate base estimate, would be 3.6 and 15.5 percent, respectively.

4/ According to the record the figures utilized by the staff were $16,450 bond interest, and $2,750 interest on equipment loans, making a total of $19,200.

The average rate base estimated by applicant for the rate year, namely, $550,600, is greatly in excess of the figure of $364,000 developed by the staff witness. As in past proceedings, applicant has included in its rate base estimate certain elements which the Commission has deemed to be improper. Among these are allowances for drivers' cash fund, various prepayments, accounts receivable, and use value for 19 fully depreciated coaches.[5/] We see no reason for changing our policy in the instant proceeding.

Other factors contributing to the divergence in rate base estimates are the values assigned to land and structures. As to land, the staff utilized original cost figures. Applicant, as in past proceedings, utilized an amount which was the result of an appraisal made several years ago. Even these figures, applicant's president stated, were considerably below present market value. The buildings were shown in the staff estimate at original cost less depreciation. Applicant, on the other hand, utilized an estimated present replacement cost less depreciation. We see no reason why we should depart from the long-established practice of allowing in rate base estimates the original cost of land and the original cost less depreciation of structures. The rate base estimate of the staff appears reasonable. It will be adopted.

The staff study also included estimated operating results under three possible alternate fare structures. The various alternates together with estimated operating results thereunder are set forth in Table II below. The estimates of income taxes and of

5/ The Commission has, in some proceedings, recognized the propriety of including use value for fully depreciated coaches. Such a practice is rendered unnecessary by extending, as the staff has done, the service lives of such equipment. This in turn results in a greater value, in the rate base, for revenue equipment.

net income after taxes have been adjusted to reflect the exclusion of bond interest as an interest deduction in the calculation of income taxes.

TABLE II

ESTIMATED RESULTS OF OPERATIONS
UNDER THREE ALTERNATE FARE STRUCTURES
SUGGESTED BY COMMISSION STAFF, AS ADJUSTED

	Alternate Fare Structure		
	1	2	3
	Cash 20¢ No Tokens	Cash 25¢ Tokens 5 for $1	Cash 20¢ Tokens 5 for 95¢
	School Fares as at Present		
Total Operating Revenues	$693,050	$729,970	$687,660
Total Operating Expenses	657,700	658,280	657,580
Net Before Income Taxes	$ 35,350	$ 71,690	$ 30,080
Income Taxes	12,310	32,170	9,430
Net After Income Taxes	$ 23,040	$ 39,520	$ 20,650
Operating Ratio#	96.7%	94.6%	97.0%
Rate of Return#	6.3%	10.9%	5.7%

#After income taxes

An associate transportation engineer of the Commission's staff testified regarding a study he had made of applicant's service. As a part of this study he investigated various complaints received by the staff regarding alleged deficiencies in the service. The results of his study indicated to him that applicant's facilities for, and program of equipment maintenance were adequate, that in all matters affecting safety its operations were exemplary, and that the utility's on-time performance was satisfactory. The witness incorporated in his report a recommendation that the utility conduct an investigation to determine the possibility of extending its routes into two areas not now served by its coaches.[6/]

Eighteen persons, testifying on their own behalf, spoke in opposition to the proposed fare increase or voiced their complaints regarding applicant's service. Additionally, a representative of one of Fresno's principal retail stores, speaking on its behalf, opposed the fare increase. Those individuals who specifically protested the increase felt that the quality of applicant's service was such that a fare increase was not merited, or that a further increase would simply result in fewer riders and consequently less revenue.

Most of the testimony of the public witnesses was directed to service complaints. It developed that some of these complaints had already been satisfied. Regarding others, the record indicates that applicant's manager made note of these and planned to see that corrective action would be taken. In another category were complaints as to inadequacy of schedules. On some lines there is no evening service and on some no Sunday or holiday service. The testimony of applicant's witnesses was that the lack of patronage on certain routes during the periods in question made it economically impracticable to provide such service. These witnesses replied similarly to complaints that the service was too infrequent on some lines. However, the carrier's president testified that the schedules would be restudied to determine whether improvement could be made on some routes without too much loss. He stated that applicant's officers were constantly studying the service with a view to meeting more adequately the needs of the riders. He pointed out that the

6/ These areas were in the northeast (south of Shaw Avenue and east of First Street) and the northwest (south of Shaw Avenue and west of Van Ness Boulevard) sections of Fresno.

company would soon place in service four new buses of the most modern design, replacing older equipment.

Several of the public witnesses testified to the need for service in the two areas hereinbefore mentioned in connection with the staff engineer's recommendation. In response, the president stated that both of these areas had been under study for some time, that applicant believed that the development thereof had not yet been sufficient to warrant the suggested route extensions, but that as soon as such extensions should be economically feasible they would be made.

Some of the public witnesses urged that arrangements be made with downtown merchants for refund of fares when purchases of agreed amounts are made, similar to existing arrangements for refund of car parking charges by the merchants. The carrier's president stated that he had been unsuccessful in repeated attempts to secure the cooperation of the merchants in this respect.

Conclusions

The adjusted book records of applicant reflect favorable operating results under the existing fare structure for the 12-month period ended September 30, 1959. However, increased operating costs, including upward adjustments in wages and related expenses, some of which are agreed to but are not yet effective, coupled with a persistent downward trend in patronage, demonstrate on this record that continued operation under the present fare structure will not provide applicant with a safe margin between revenues and expenses. As previously noted, the estimated operating results which we have adopted reflect, under such continuation, net income after taxes of $12,960, an operating ratio of 98.1 percent, and return on investment of 3.6 percent.

The evidence of record establishes the need for some upward adjustment in fares. However, increases in the full amount sought by applicant have not been justified. Under the alternate fare structure designated No. 2 in Table II, above, the present intrazone cash fare of 20 cents would be increased to 25 cents as proposed by applicant, but tokens would be increased from 18 cents (five for 90 cents) to 20 cents (five for $1), which is less than sought in the application. Also, under alternate No. 2 no change would be made in school or children's fares. The estimated operating results for the rate year under this fare structure, adjusted to reflect a token usage of 70 percent,[7/] after provision for income taxes, are: net operating income, $37,410; operating ratio, 94.8 percent; rate of return, 10.3 percent. These operating results are reasonable and the Commission so finds.

The evidence of record in regard to the degree of adequacy of the service rendered by applicant is, in some respects, conflicting. Nevertheless, the record is persuasive that applicant is endeavoring to meet satisfactorily the needs of its patrons, consistent with the necessity of meeting operating expenses and other obligations, and with the desire of getting some return on its investment.

With respect, however, to the question of extending its routes into the areas of Fresno and vicinity, hereinbefore mentioned, applicant will be directed to file a written report 180 days after the effective date of the order which follows, advising whether or not the proposed extensions have been made, and if so, the routes involved, and if not, the reasons therefor.

7/ In developing estimated operating results under Alternate No. 2 the staff engineer employed a token usage factor of 65 percent. Applicant's president cited usage factors experienced in four other cities where this same fare structure prevails. In one instance the factor was 68 percent and in the other three cities, 70 percent. The 70 percent factor appears more reasonable and the estimate will be adjusted accordingly.

In view of the demonstrated need for prompt relief, the order which follows will be made effective ten days after the date hereof, and the increased fares will be permitted to become effective on less than statutory notice.

O R D E R

Based upon the evidence of record and upon the findings and conclusions set forth in the foregoing opinion,

IT IS ORDERED:

1. That Fresno City Lines, Inc., is authorized to increase its cash and token or ticket fares to the levels shown in Appendix A attached hereto, on not less than five days' notice to the Commission and to the public.

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 Fresno City Lines, Inc., shall obtain authorization of the Commission before making any reductions of service on any of its routes as such service existed at the date hereof.

4. That Fresno City Lines, Inc., shall file a written report with the Commission 180 days after the effective date hereof, stating either that it has extended its routes into either or both of the areas designated in paragraphs (a) and (b) below, specifying routes so extended and to what extent, together with schedule of service, or that it has not so extended its routes and the reasons therefor:

(a) (Northeast Area)
Area bounded by Shaw Avenue on the north, First Street on the west, and Shields Avenue on the south.

(b) (Northwest Area)
Area bounded by Shaw Avenue on the north, Van Ness Boulevard on the east, and Dakota Avenue on the south.

5. That the authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

6. That in all other respects Application No. 41559, as amended, be, and it is, hereby denied.

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

Dated at San Francisco, California, this 15th day of March, 1960.

Everett C. McKeage
President

Matthew J. Dooley

C. Lyn Fox

Theodore H. Jenner

Commissioners

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

APPENDIX A TO DECISION NO. 59791

FRESNO CITY LINES, INC.

By authority of the decision noted in the margin, Fresno City Lines may increase its fares for passenger stage service in Fresno and vicinity to levels not exceeding the following:

ADULTS

Single Zone:	
Cash	25 cents
Tokens	5 for $1.00
Interzone (between any two contiguous zones):	
Cash	30 cents
Tokens	1 plus 5 cents
Between Zones 1 and 3:	
Cash	35 cents
Tokens	1 plus 10 cents

CHILDREN

Less than 6 years when accompanied by an adult	Free
6-12 years (within 1 zone or between 2 adjacent zones)	10 cents
6-12 years between Zones 1 and 3	15 cents

STUDENTS

Between ages 6-18 years, inclusive, on school days only and on presentation of school identification:

Between points in any two adjacent zones:	
1 Student token at	10 for 90 cents
Between Zones 1 and 3:	
1 Student Token	plus 5 cents

Reference Note:

Management may, in its discretion, substitute multiple-ride punch tickets for adult or student tokens, provided the maximum token and student token fares herein authorized are observed.