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ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	Application No. 43535
of SAN DIEGO TRANSIT SYSTEM)	
for authority to increase fares)	(Filed June 26, 1961)

Leon W. Scales, for San Diego Transit System,
applicant.

Edwin L. Miller, Jr. and Stanley M. Lanham,
for the City of San Diego, interested
party.

Jean L. Vicenz, for the County of San Diego,
interested party.

Robert O. Curran, for the City of National City,
interested party.

James S. Duberg, for the City of Chula Vista,
interested party.

J. R. Goodbody, for the City of Coronado,
interested party.

Elmer Sjostrom, for the Commission's staff.

O P I N I O N

The San Diego Transit System operates a common carrier passenger stage service within and between the City of San Diego and adjacent cities and communities. By this application it seeks authority to establish increased fares on less than statutory notice.

Public hearings on the application were held before Commissioner Frederick B. Holoboff and Examiner C. S. Abernathy at San Diego on August 16, 17 and 18, 1961. Evidence was presented by applicant's general manager, by engineers of the Commission's staff,

and by several of applicant's patrons. Representatives of the Cities of San Diego, Coronado, National City and Chula Vista and of the County of San Diego also participated in the hearings. The matter was taken under submission on August 18, 1961, subject to the filing of a designated exhibit on or before August 25, 1961.

Applicant's present fares are constructed on the basis of seven fare zones which radiate from the central portion of the City of San Diego. They range from a cash fare of 25 cents or a token fare of 20 cents per adult per one-way ride between points within a single zone or two contiguous zones to 60 cents cash or 55 cents (including one token) per adult per one-way ride through seven zones. Reduced fares are provided for children and for¹ students.

By its proposals in this matter applicant seeks to increase its adult fares by cancellation of the 20-cent token fare, and by effecting a 1-cent increase in the present additional charge of 7 cents per zone or fraction thereof which is used in the computation of applicable fares for transportation beyond two² contiguous zones. Applicant also seeks increases in its fares

¹ Some rides may involve passage through more than seven zones. When such is the case, the applicable adult fare may be as much as 95 cents, depending upon the length of the ride.

² As an exception to the increases which otherwise are sought, applicant proposes no increase in the present adult fare of 60 cents for a seven-zone ride. This exception would be made in order that the seven-zone fare would be retained below the level of fares which are subject to federal tax. Neither is any increase proposed in a 10-cent fare which applies for transportation via a special service that applicant operates within the central business district of San Diego.

for children and for students. The proposed children's and students' fares are set forth and compared with corresponding present fares in the margin below.

Applicant alleges that increases in its fares have been made necessary by the following circumstances:

- a. Decreases in the patronage of its services with a resultant decrease in its revenues, and
- b. Increases in its operating costs.

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Present and proposed children's and students' fares, per child or per student, in cents per one-way ride:

	<u>Present</u>	<u>Proposed</u>
<u>Children, 5 years or older</u> <u>but less than 12 years</u>		
Between points within the same or 2 contiguous zones	10	15
Additional fare per each 2 additional zones or fractions thereof	7	8
	(a)	(a)
<u>Children, less than 5 years old</u>	No charge	No charge
<u>Students, less than 20 years of age,</u> <u>attending schools of junior</u> <u>college level or lower,</u> <u>traveling between home and</u> <u>school between hours of 6:00 A.M.</u> <u>and 6:00 P.M.</u>	10	15 (b)

(a) Not more than 2 children will be carried free for every accompanying adult passenger. One child's fare applies for each additional two children of less than 5 years of age.

(b) To apply only during regular school sessions.

Applicant states that as a consequence of these circumstances, its fares no longer return sufficient revenues to meet its costs of operation and to provide a reasonable profit, and that its financial and earning position is being impaired to the point that immediate relief in the form of increased fares is necessary to the maintenance of its operations.

The evidence which was submitted by applicant through its general manager was directed principally towards a showing of (a) the extent of the decreases in revenues and increases in expenses which prompted this application and (b) estimates of the financial results of applicant's future operations if present fares are continued in effect and if the sought fares are established. The estimates for the future are those for the year ending with September, 1962, a period of time which is hereinafter referred to as the rate year for purposes of convenience.

The data which the general manager presented concerning the decreases in patronage and revenues were developed from an analysis which he had made of applicant's traffic for the past two years. From this analysis he concluded that during this period the volume of applicant's traffic has declined almost 9 percent, and that this rate of decline is continuing and will continue during the rate year. His revenue estimates for the future were developed on the basis of such conclusions, and include allowance also for a further decline or diminution in traffic that would follow the establishment of increased fares.

The increases in operating costs upon which applicant's fare increase proposals are based are principally a result of wage

increases which applicant has had to grant to the drivers of its buses. In this connection the general manager testified that as of June 1, 1961, applicant entered into a two-year contract with its drivers providing for wage increases of 5 cents an hour, effective June 1, 1961; 4 cents an hour, effective December 1, 1961; 5 cents an hour, effective June 1, 1962, and 4 cents an hour, effective December 1, 1962. The contract also provides for increases in the so-called fringe benefits thereunder. The general manager said that in addition applicant is confronted with the practical certainty that it will have to grant similar increases to its mechanics commencing with October 1, 1961, upon the termination of its present contract with the mechanic's union and the renegotiation of a new contract as of that date. He said, furthermore, that with the increases in drivers' wages like wage increases, percentage-wise, have been granted the unorganized personnel as of July 1, 1961, with a further increase scheduled July 1, 1962.

The general manager estimated that under expected revenues and expenses applicant will suffer a loss of almost \$400,000 from its operations during the rate year unless it can offset the effect of the revenue reductions and expense increases by increases in its fares.⁴

The evidence which was submitted by the two engineers of the Commission's staff also consists mainly of estimates of

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The corresponding operating ratio would be 107.4 percent.

applicant's results of operations under present and proposed fares during the year ending with September, 1962.⁵ In general, the engineers' estimates were reached by substantially the same methods as those which were employed in the estimates of applicant's general manager. However, because of certain differences in the factors considered, and in the weight given such factors, the engineers' estimates are greater than those of the general manager in some respects, and in other respects they are less. For example, the engineers concurred with the general manager that applicant has been experiencing decreases in the volume of its traffic. However, they disagreed with the general manager that the downward trend for the future would be as severe as he predicted. Thus, whereas the general manager predicted a loss of almost \$400,000 during the rate year if present fares are continued in effect, the engineers predicted the loss would be approximately \$100,000. The difference between the traffic estimates, as well as other of the more important differences between the estimates of the general manager and of the engineers will be discussed hereinafter. In Tables Nos. 1 and 2 below the respective estimates are summarized:

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In the development of the staff engineers' estimates the work of one of the engineers was directed largely towards analysis and review of the physical aspects of applicant's operations, particularly with respect to the miles of operation involved and the sufficiency of the service provided. The investigations and estimates of the other dealt principally with the financial aspects of applicant's operations. Although the engineers reported separately on the results of their studies, their reports were inter-related, and for convenience herein will be considered as a joint report.

TABLE NO. 1

Estimated Financial Results of Operations
Under Present Fares;
Year Ending September 30, 1962.

	<u>Applicant</u>	<u>Commission Engineers</u>
Revenues:		
Passenger	\$5,048,000	\$5,490,400
Contract and Charter	203,000	202,500
Advertising and Other	<u>49,500</u>	<u>55,000</u>
Total Revenues	\$5,300,500	\$5,747,900
Expenses:		
Maintenance	\$ 787,800	\$ 791,100
Transportation	3,082,700	3,123,500
Traffic and Advertising	139,200	132,400
Insurance and Safety	227,200	219,700
Administrative and General	510,000	486,100
Depreciation and Amortization	373,400	505,200
Operating Taxes	549,100	570,500
Operating Rents	<u>24,800</u>	<u>20,600</u>
Total Expenses	\$5,694,200	\$5,849,100
Net Operating Revenues	<u>(\$ 393,700)</u>	<u>(\$ 101,200)</u>
Income Taxes	<u>\$ 100</u>	<u>\$ 100</u>
Net Income	<u>(\$ 393,800)</u>	<u>(\$ 101,300)</u>
Rate Base	\$4,207,165	\$3,977,400
Operating Ratio	107.4%	101.8%
Rate of Return	-	-

() Indicates Loss

TABLE NO. 2

Estimated Financial Results of Operations

Under Proposed Fares;

Year Ending September 30, 1962

	<u>Applicant</u>	<u>Commission Engineers</u>
Revenues:		
Passenger	\$5,584,720	\$6,071,400
Contract and Charter	203,000	202,500
Advertising and Other	<u>49,500</u>	<u>55,000</u>
Total Revenues	\$5,837,220	\$6,328,900
Expenses:		
Maintenance	\$ 784,900	\$ 781,600
Transportation	3,046,700	3,088,500
Traffic and Advertising	139,200	132,400
Insurance and Safety	228,900	219,100
Administrative and General	510,000	486,100
Depreciation and Amortization	373,400	505,200
Operating Taxes	557,000	579,800
Operating Rents	<u>24,800</u>	<u>20,600</u>
Total Expenses	\$5,664,900	\$5,813,300
Net Operating Revenues	\$ 172,320	\$ 515,600
Income Taxes	<u>\$ 28,900</u>	<u>\$ 231,900</u>
Net Income	\$ 143,420	\$ 283,700
Rate Base	\$4,207,165	\$3,977,400
Operating Ratio	97.5%	75.5%
Rate of Return	3.4%	7.1%

Authorization of the increases in fares which applicant seeks was opposed by five of applicant's patrons and by the City of Coronado. In general the opposition of the patrons was on the grounds that the resultant fares would be excessive. The representative of the City of Coronado said that he protested most strongly "any proposed fare increases." He said that the level of the costs of public transportation is of vital concern to the public affected thereby, and he declared in effect that applicant's fares are approaching unreasonable levels.

Discussion, Findings and Conclusions

Despite such opposition as was registered against applicant's proposals in this matter, it must be concluded on this record that increases in applicant's fares have been shown to be justified and should be authorized. The evidence is clear that the volume of applicant's traffic has declined since the present fares were established. The evidence is also clear that in recent months applicant has become committed to the payment of increases in operating expenses for which no provision is included in its fare structure. It appears that as a consequence of these circumstances applicant will not be able to realize sufficient revenues under its present fares to meet the costs of its services. If applicant's services are to be continued at their present level, there appears to be no reasonable alternative to the establishment of higher fares. The question that remains to be decided is whether the full amount of the sought increases is justified, and should be authorized. In this connection we direct our attention to the

estimates which were submitted by applicant's general manager and by the Commission engineers of the financial results of operations that would be achieved during the rate year if the sought fares are established.

As previously stated herein, the estimates of applicant's general manager and of the Commission engineer differ in several important respects. The main differences, as pertaining to operations during the rate year under the sought fares, are in the estimates of revenues, in certain items of expense, and in rate base. These estimates are as follows:

	<u>Applicant</u>	<u>Commission Engineers</u>
Revenues	\$5,837,220	\$6,328,900
Expenses		
Transportation	3,046,700	3,088,500
Traffic and Advertising	139,200	132,400
Insurance and Safety	228,900	219,100
Administrative and General	510,000	486,100
Depreciation	373,400	505,200
Operating Taxes	557,000	579,800
Rate Base	4,207,165	3,977,400

Revenues

It will be noted from comparison of the above revenue figures that the engineer's estimate of revenues exceeds that of applicant's general manager by almost \$500,000. The difference stems largely from differences in judgment between applicant's general manager, on the one hand, and the engineers, on the other hand, as to the number of passengers that applicant will transport during the rate year if the proposed fares are established.

According to a statistical analysis of applicant's traffic which was made by the general manager, applicant's traffic has been declining consistently and materially during the past two years. In the judgment of the general manager this trend will continue at about the same rate throughout the rate year. The engineers likewise made a statistical analysis of applicant's traffic, and concluded therefrom that the rate of decline has lessened in recent months. Consequently, their prediction of the volume of applicant's traffic during the rate year is greater than that of the general manager.

It is evident from the record herein that the judgment of the general manager concerning the probable volume of applicant's traffic during the rate year was influenced substantially by the method by which he undertook to ascertain the trend of traffic over the past two years. The method which he employed -- one that he referred to as a semi-average method -- consists essentially of a measurement of the change in the average number of passengers per month which applicant transported during the 12 months' period ending with May, 1961, as compared with the preceding 12 months' period. The development of trend by this method, however, tends to obscure a change in trend which may occur during a 12 months' period being studied. It appears from the analysis which was made by the engineers that such a change did occur, and that the rate of decline which applicant has been experiencing in the trend of its

⁶ The respective estimates of the number of passengers that applicant will transport during the rate year if the sought fares are established are as follows:

General manager	21,753,500
Commission engineers	23,506,500

traffic has lessened. Accordingly, we conclude that from a standpoint of trend the general manager's estimate of applicant's volume of traffic for the rate year understates the volume that actually will be realized. The estimate of the engineers appears to be the better substantiated in this regard and, subject to a modification explained below, should be adopted as a basis for our conclusions hereinafter.

Another factor which was considered both by the general manager and the engineers as affecting the volume of applicant's traffic is an increasing development of large shopping centers in the environs of San Diego. According to the general manager, the establishment of these centers adversely affects applicant's traffic in several ways. It results in a lessened demand for applicant's services for transportation to and from the central business district of San Diego. By reason of the proximity of the shopping centers to shoppers in the outlying areas, there is a lesser need for such shoppers to use applicant's services in going to and from the centers. Furthermore, the operation of these centers during evening hours affords an incentive to shoppers to defer their shopping until such time, and to use the family automobile which may then be available to meet their transportation needs. Thus as to such shoppers applicant's services may be by-passed altogether.

The testimony of the general manager in this respect is convincing that the establishment of the outlying shopping centers is a factor that has a definite bearing upon applicant's traffic, both as to the number of passengers transported and as to the average length of ride per passenger. Although weight was given to this

factor by the engineers in the development of their estimate of revenues, we are of the opinion from the evidence which was presented by the general manager that the circumstances justify a greater allowance for this factor than that which the engineers made. Accordingly, we conclude that the engineers' estimate of applicant's revenues under the proposed fares during the rate year should be reduced to \$6,275,000. We find and conclude that such amount is a reasonable estimate of the revenues that applicant will realize, and that it should be adopted as a basis for our further findings and conclusions herein.

Transportation Expense

The difference between the general manager's estimate of \$3,046,700 and the engineer's estimate of \$3,088,500 for transportation expense is due principally to the difference between the respective estimates of the number of passengers to be transported during the rate year. Transportation expense includes such expense items as wages for drivers and drivers' supervisors; fuel and oil for motor coaches, and ferry tolls. In general, these items vary with the volume of the traffic transported. Inasmuch as the estimate of revenues which is adopted herein is that of the engineers, modified, the estimate for transportation expense should be a conforming amount. Such an amount is \$3,087,200. This amount is hereby adopted as a reasonable estimate of applicant's transportation expense for the rate year in connection with the transportation of the volume of traffic which is expected under the sought fares.

Traffic and Advertising Expense

The estimates of \$139,200 and \$132,400 of the general manager and the engineers differ mainly in the allowance included therein for advertising. The general manager's estimate provides for a continuation of advertising effort during the rate year at about the same level as that which prevailed during the year which ended with May, 1961. The engineers' estimate conforms to the average level of applicant's expenditures for advertising over the past three and one-half years. In view of the difficulties which applicant has been experiencing in retaining patronage in the face of declining trend and changing traffic patterns, it appears that the judgment of the general manager as to the amount that will be expended for advertising to promote the company's operations should be accepted. Accordingly, the general manager's estimate for traffic and advertising expense will be adopted.

Insurance and Safety Expense

The difference between the estimates of \$228,900 and \$219,100 of the general manager and the engineers, respectively, for insurance and safety expense is principally a difference in the allowances included in the estimates for injuries and damages. The general manager allowed \$87,900. The engineers allowed \$73,000. The general manager's allowance represents an average of applicant's payments for injuries and damages for the years 1957 through 1960. The engineers' estimate was developed by relating applicant's actual and potential claim costs assignable to the years 1958 through 1960 to the number of passengers transported and the bus miles of operation during those years in order to obtain average cost figures

per passenger and per bus mile. The estimate for the rate year was then developed by applying the resultant figures to the anticipated number of passengers to be transported and bus miles to be operated during the rate year and totalling the results.

Although the general manager's and the engineers' estimates of injury and damage expense were both developed on the basis of applicant's actual experience in meeting claims for injuries and damages, it appears that the estimate of the engineers is the better founded. Essentially, the general manager's estimate reflects an average of applicant's payments for injuries and damages during the years 1957 through 1960, irrespective of when the liability for such injuries and damages was incurred. Since the period in which a payment is made may or may not coincide with the period in which the liability was incurred, the method which the general manager followed in the development of his estimate does not necessarily provide a measure of the injury and damage expense arising out of a year's operations. The method which the engineers followed overcomes this infirmity since it confines their estimate of the injuries and damage expense to that for the period studied. For this reason the engineers' estimate appears to provide a more representative figure for applicant's injuries and damages expense during the rate year, and should, therefore, be adopted.

⁷ Although the engineers' estimate of injuries and damage expense should be adopted for the reason stated, it should be pointed out that applicant's experience during the rate year may be quite different from that represented by either the estimate of the general manager or of the engineers. Injuries and damage expense may vary widely from year to year, since the number and amounts of the claims for a year are affected not only by the number and severity of the accidents experienced but also by the amounts of jury awards in damage suits against the carrier.

Administrative and General Expenses

The difference of approximately \$24,000 between the estimates of \$510,000 and \$486,100 of the general manager and the engineers, respectively, is, for the most part, due to differences in the estimates for salaries of general office employees, law expense, employees' welfare expense, and dues and donations. It appears that both of the estimates for salaries of general office employees were developed on substantially the same basis and that either might be accepted as reasonable. However, for the purpose of this decision an amount of \$123,000 will be adopted as the amount to be allowed for this item. Such amount is slightly less than that estimated by the general manager and slightly more than that estimated by the engineers. The general manager's estimate for law expense contains an allowance for law services performed for an affiliated company, City Transit Systems, Inc., whereas that of the engineers does not. The engineers' allowance should be adopted, inasmuch as the showing does not establish that the services that are performed for City Transit Systems, Inc., are essentially in applicant's behalf. The engineers' allowance for employees' welfare expense appears to represent a closer appraisal of the charges to be made to this item during the rate year and should be adopted.

The general manager's estimate for administrative and general expense contains an allowance of \$32,090 for dues and donations.

The allowance for dues and donations which was included in the engineers' estimate is \$18,800. In arriving at their estimate,

the engineers disallowed as inappropriate charges to operating expenses approximately 42 percent of applicant's expected outlays for dues and donations during the rate year. This action was taken in asserted conformity with the Commission's policy as set forth in San Diego & Coronado Ferry Company, 57 Cal. P.U.C. 787, dated August 16, 1960. The rule which is reflected in that decision disallows such items as service club dues and miscellaneous donations, but provides for the allowance of one-half of contributions paid to the Red Cross and to the Community Chest.

It is evident from a listing of the donations which were partially allowed in the development of the engineers' estimate that the allowances of the engineers go beyond the limits of the rule followed in the above decision. The engineers' total allowance for dues and donations will be modified so as to exclude therefrom donations to charitable causes which are not clearly in the general welfare. The modification to be so made results in a reduction of \$2,141 in the amount allowed by the engineers.

As applied to the engineers' total estimate for administrative and general expenses, the foregoing modifications in salaries for general office employees and in dues and donations are virtually offsetting. In other respects it appears that the engineers' estimate reasonably provides for the various other expense items within this general category. Said estimate will be adopted instead of that of the general manager.

Depreciation Expense

The respective depreciation expense estimates of \$373,400 and \$505,200 of the general manager and of the engineers differ.

largely as a result of a practice which applicant has followed in the past of computing its charges to depreciation expense for its buses at a higher rate than those which correspond to the actual service lives of the buses as reflected in the operations. As a consequence applicant's records now show that 176 buses of its total fleet of 296 buses are fully depreciated; its expense estimate therefore includes no depreciation expense for such buses. On the other hand, the engineers list only 58 of the buses as being fully depreciated. That the engineers' estimate is higher than that of the general manager is attributable to the greater number of buses still subject to depreciation under the engineers' schedules.

The fact that applicant has been depreciating its equipment at an accelerated rate does not mean that applicant's present fares, or those which applied previously, have reflected such a rate. On the contrary the depreciation rates which have been employed in the development of applicant's fares have been those conforming to service lives which have been deemed to be normally and economically consistent with applicant's level of operations. It appears that the depreciation rates which the engineers used in arriving at their estimate correspond to the rates heretofore approved and employed. It appears, furthermore, that such rates are

appropriate in relation to applicant's operations as expected for the rate year. We therefore conclude that the engineers' estimate of depreciation expense is reasonable. It will be adopted.

Operating Taxes

The respective estimates for operating taxes include allowances for payroll taxes in the amounts of \$152,700 and \$165,000. In the development of these allowances the general manager and the engineers both took into account increases in federal social security taxes and state unemployment taxes which will become effective in 1962. The general manager prorated his estimate of the increases in these costs evenly over the year and assigned three-fourths of the increases to the rate year, since the rate year ends with September, 1962. However, the engineers assigned all of the estimated increase in costs to the rate year on the theory that since the federal social security taxes are levied on the first \$4,800 of income and the state unemployment taxes on the first \$3,800 in income, virtually all of the increased costs will be applicable by the end of September, 1962. This difference in method of calculation plus differences in

Exception to the depreciation rates used by the engineers was taken by the general manager on the grounds that applicant has changed its policy governing the replacement of its buses, and has embarked on a program of replacing its buses at the end of ten years of use rather than over a longer period. The depreciation rates used by the engineers are based on a total service life of twelve years. However, under the method used by the engineers, depreciation charges are computed at a 10-year rate during the first five years of use. The remaining depreciation is charged to expense at a seven-year rate. If a change should be made in the allowed depreciation rates as a result of the stated change in applicant's replacement policy of its equipment, it appears that such a change need not be considered in this instance, inasmuch as the same depreciation rates as those sought have been applied to date with respect to the buses that would be affected.

taxes that are proportionate to revenues and to fuel and oil costs account for most of the difference of \$22,800 between the estimates for operating taxes of \$557,000 and \$579,800 of the general manager and the engineers, respectively.

It appears that the general manager's estimate of payroll taxes should be preferred to that of the engineers. Although the bulk of applicant's liability for these taxes will arise during the first nine months of the coming calendar year, the taxes, nevertheless, are on an annual basis. Accordingly, their proration over an annual period appears to be the sounder method of cost development for the purposes of this proceeding. Furthermore, the method of calculation which the engineers employed assumes, in effect, that applicant's wage and salary payments to its employees are not less than \$6,400 per employee per year. The record does not show the level of applicant's annual wage and salary payments to its employees. Nevertheless, before such a figure is adopted for the determination of applicant's payroll costs, information should be had on this point.

The amounts for franchise taxes and fuel and oil taxes which the general manager included in his estimate of operating taxes were developed on the basis of his estimate of the level of applicant's operations during the rate year. Adjustment of these amounts to conform to the estimated level of operations hereinbefore found to be reasonable would result in an increase to \$564,300 in the general manager's estimate of operating taxes. This amount is hereby adopted as a reasonable estimate of applicant's operating taxes for the rate year.

Rate Base

The difference of approximately \$230,000 between the general manager's estimate of \$4,207,165 for rate base and the engineers' estimate of \$3,977,400 is due to differences between the general manager's and the engineers' respective valuations of applicant's operating properties and of applicant's needs for working cash. As previously stated above, applicant has followed the practice of depreciating its properties at higher rates than are consistent with the service lives of the properties as reflected in the operations. As a consequence, the property valuations used by the general manager are less than those which were used by the engineers and which were based on more normal depreciation practices. In view of our conclusions hereinbefore that the engineers' figures for depreciation should be adopted, it follows that the corresponding valuations of applicants' properties should also be adopted.

No provision for working cash was included by the engineers in the rate base figure which they developed. On the other hand, the general manager's estimate contains allowances for "business fund requirements". totalling \$420,425. These "business fund requirements" assertedly are necessary for such items as pre-payments, accounts receivables, cash in the hands of drivers and other employees and monies needed for emergencies and certain other items to preserve the stability of the operations. The position of the engineers with respect to these "business fund requirements" is that the lag between the time that applicant's revenues are received in fares and the time that the costs of the services

provided are subsequently paid results in the accumulation of a revolving fund that is sufficient to meet applicant's needs for working cash or "business funds". According to an analysis which the engineers made, the fund which is thus available to applicant throughout a year is, on the average, an amount of about \$350,000.

The representations of the general manager concerning applicant's need for working cash (or "business funds") were made without reference to the funds accumulated during the time lag between the receipt of revenues and the payment of bills. On the other hand the analysis of the engineers did not touch on the question of whether applicant's needs for cash to conduct the operations can be fully met by the flow of the generated funds. However, the position of the engineers that the generated funds are sufficient for applicant's cash needs and that further provision for working cash is not necessary is consistent with the treatment that has been generally accorded the problem of working cash in prior matters involving applicant's fares. The evidence herein does not indicate the extent, if any, that the generated funds have not met applicant's working cash, or "business funds," needs heretofore. In the absence of specific information on this point, and in view of the fact that the generated funds appear to be a substantial amount, we conclude that a need for a further allowance for "business funds" has not been established on this record. The engineers' allowance for rate base will be adopted.

In addition to the major differences between the general manager's and the engineers' estimates which have been discussed above, there are also various lesser differences between the estimates. Discussion of these differences is not necessary

inasmuch as it appears that they are offsetting to a large extent, and that they would not alter our further findings and conclusions herein. In Table No. 3 below is set forth a summary of the estimates which we deem to be representative of the revenues, expenses and operating results that will apply to or be realized from applicant's operations under the sought fares during the rate year.

In connection with the data in Table No. 3 it should be pointed out that although the table shows that applicant's operating ratio under the sought fares would be 95.8 percent, and that applicant would thereby have a margin of 4.2 percent of its gross revenues for profit and against contingencies, the effective margin of revenues over expenses will be less. The data do not reflect any decreases in revenues or increases in expenses that will apply to applicant's operations after the rate year. The evidence indicates that by the end of the rate year the volume of applicant's traffic will be at a lower level than that upon which the estimate of revenues was developed. It appears, furthermore, that the level of expenses for the ensuing 12 months will be raised by more than \$115,000 for wage increases which applicant is committed to pay during that period.

TABLE NO. 3

Estimated Financial Results of Operations
Under Proposed Fares;
Year Ending September 30, 1962

Revenues	\$6,275,000
Expenses	
Maintenance	\$ 784,900
Transportation	3,087,200
Traffic and Advertising	139,200
Insurance and Safety	219,100
Administrative and General	486,100
Depreciation and Amortization	505,200
Operating Taxes	564,300
Operating Rents	<u>20,600</u>
Total Expenses	\$5,806,600
Net Operating Revenues	\$ 468,400
Income Taxes	<u>\$ 206,108</u>
Net Income	\$ 262,292
Rate Base	\$3,977,400
Operating Ratio	95.8%
Rate of Return	6.59%

The showings hereinof applicant's general manager and of the Commission engineers are convincing that increases in fares are necessary to the maintenance of applicant's services. The level of the earnings which the above Table No. 3 indicates will be realized under the sought fares is virtually the same as that which the Commission has heretofore approved as reasonable for applicant's operations. Upon consideration of the record and of the facts and circumstances shown, the Commission is of the opinion and hereby finds that the rate base, operating ratio and rate of return as set forth in Table No. 3 are reasonable and that the sought increased

fares are justified. Said fare increases will be authorized. Applicant's proposal to make the increased fares effective on less than statutory notice likewise appears justified. The application will be granted in this respect also.

The authorized fare increase will include increases which applicant seeks in its fares for children and students and a limitation on the use of the student fares to periods of regular school sessions. The Commission's engineers presented an alternate school fare schedule which would hold such fares to a level of about 50% of the adult fares. The fare increases which applicant seeks would establish the children's fares at a level of about 60% of the adult fares and the students' fares at the same or lower level than the children's fares, depending on the zones traversed. We have given careful consideration to the alternate schedule of the Commission's engineers, but find from the evidence that such schedule should not be adopted in the instant proceeding.

The representative of the City of Coronado and various of applicant's patrons, who participated in this proceeding, took exception to applicant's proposals and asserted, in effect, that the increased rates requested by applicant would be excessive. However, we have found from the evidence that such is not the case. Nevertheless, we are constrained to conclude that applicant's fares are approaching the reasonable and practicable limits of the value of the services provided.

In this connection it should be pointed out that over the past decade the level of applicant's fares has been raised several times. However, during this period the basic form of applicant's fare structure has remained the same. The evidence is clear that in recent years, particularly, the pattern of the transportation needs of San Diego and adjacent cities and communities has been changing. In the circumstances it would seem that applicant should subject its fare structure to a critical analysis with the view of determining what changes, if any, should be made in the locations, arrangement, and lengths of its fare zones in order to align its fare structure with present needs of its traffic. Applicant should expect to present the results of such an analysis as a preliminary to consideration of any proposals for further fare increases that future decreases in revenues or increases in expenses might seem to dictate.

O R D E R

Based on the evidence and on the findings and conclusions contained in the preceding opinion,

IT IS HEREBY ORDERED that San Diego Transit System be, and it hereby is, authorized to amend its Local and Joint Passenger Tariff No. 3, Cal. P.U.C. No. 7, on not less than five days' notice to the Commission and to the public,

- a. To cancel its present 20-cent token fare for adult passengers.
- b. To establish increased fares for adult passengers in accordance with the following table:

<u>Where present fare, per adult, per one-way ride, is</u>	<u>The authorized fare, per adult, per one-way ride, is</u>
\$.32	\$.33
.39	.41
.46	.49
.53	.57
.60	.60*
.67	.68
.74	.76
.81	.84
.88	.92
.95	1.00

*No change

- c. To establish a fare of 15 cents cash, per child, per one-way ride, for the transportation of children of 5 years or older but less than 12 years of age between points within any one zone or two contiguous zones, and, in connection with transportation beyond two contiguous zones, to assess an additional fare of 8 cents per child for each two additional zones (or fraction thereof) traversed.
- d. To effect an increase of 5 cents per one-way ride in present 10-cent fares for students and to limit the use of said student fares to the hours between 6:30 a.m. and 6:00 p.m. on school days during the regular school sessions.

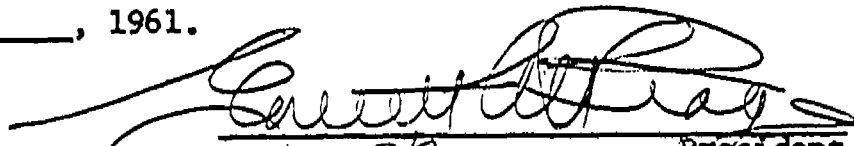
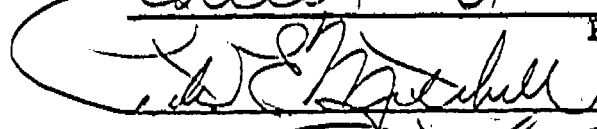
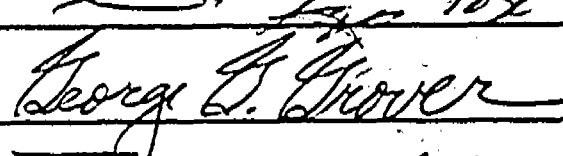
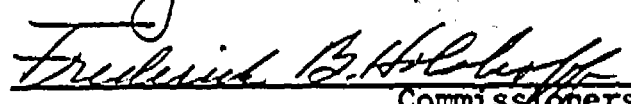
IT IS HEREBY FURTHER ORDERED that the authority herein granted be, and it hereby is, made subject to the following conditions:

- a. In addition to the required filing of tariffs, San Diego Transit System shall give notice to the public of the fare changes herein authorized by posting in its vehicles and terminals a printed explanation of said fare changes. Such notices shall be posted not later than five days before the effective date of the fare changes and shall remain posted until not less than five days after said effective date.

- b. The authority herein granted shall expire unless authorized within ninety days after the effective date of this order.

This order shall become effective twenty days after the date hereof.

Dated at San Francisco, California, this 21st
day of NOVEMBER, 1961.


President

S. L. Fox

George B. Grover

Commissioners