

Decision No. 62860**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN JOSE CITY LINES, INC., for
authority to increase certain rates
of fare.

Application No. 43664
(Filed August 7, 1961
Amended September 20, 1961)

Geo. E. Thomas and Geo. M. Hook, for San Jose City
Lines, applicant.

Elmer Sjostrom, for the Commission staff.

O P I N I O N

San Jose City Lines, Inc., is a California corporation engaged in the operation of an urban passenger stage corporation in the Cities of San Jose and Santa Clara and in the immediate vicinity thereof. By this application it seeks authority to increase passenger fares by increasing its present single zone cash rate of fare from ten cents to fifteen cents and to establish a token rate of fare in conjunction therewith, selling at the rate of two tokens for twenty-five cents. Applicant does not have a token rate of fare at present. No change is proposed in the present student fares and no change is proposed in the boundaries of the present zones or the present five cent charge made for each zone travelled beyond the initial zone.

Public hearing was held September 26, 1961 before Examiner J. E. Thompson at San Jose. Notices of the proposed increases in fares and of the public hearing were published and posted by applicant in accordance with the Commission's procedural rules. No one opposed the granting of the increases sought; however, a number of

persons using applicant's lines testified concerning the service performed by the company.

Applicant's present fares were made effective November 20, 1953 pursuant to authority granted in Decision No. 57607, dated November 10, 1953, in Application No. 40282. Since the present fares were established applicant has experienced increased costs of operation resulting principally from increases in labor costs. Pursuant to a contractual agreement between applicant and the agent for its employees, effective July 1, 1959 and expiring July 1, 1961, applicant paid wage increases totalling 24 cents per hour as well as certain increases in benefits. Following a strike extending from July 1, 1961 to July 27, 1961, applicant entered into a new agreement, retroactive to July 1, 1961 and expiring on July 1, 1963, under which applicant is required to pay an additional ten cents per hour, retroactive to July 1, 1961 and further increases of five cents per hour effective on July 1, 1962 and March 1, 1963, respectively. Additional fringe benefits were also granted.

Reports were introduced by applicant and by the Commission's staff showing operating statistics for past periods as well as forecasts of operating results under present fares and under proposed fares for a rate year ending October 31, 1962. These forecasts are set forth in the following tabulation.

Table I

San Jose City Lines

Estimated Results of Operations
Under Present and Proposed Fares
12-Month Period Ending 10/31/62

	<u>Present Fares</u>		<u>Proposed Fares</u>	
	<u>Applicant</u>	<u>Staff</u>	<u>Applicant</u>	<u>Staff</u>
<u>Operating Revenue</u>				
Passenger	\$739,025	\$790,530	\$874,810	\$930,740
Special Bus	50,000	50,000	50,000	50,000
Advertising	13,365	13,590	13,365	13,590
	<u>\$802,390</u>	<u>\$854,120</u>	<u>\$938,175</u>	<u>\$994,330</u>
<u>Operating Expense</u>				
Maintenance	\$127,900	\$132,070	\$127,900	\$132,070
Transportation	496,345	514,740	496,345	514,740
Traffic	8,350	8,340	8,350	8,340
Insurance & Safety	47,550	59,130	47,550	59,130
Administrative	55,925	52,370	55,925	52,370
Depreciation	22,560	20,890	22,560	20,890
Taxes & Licenses	83,510	85,650	84,070	86,230
	<u>\$842,140</u>	<u>\$873,190</u>	<u>\$842,700</u>	<u>\$873,770</u>
Net Operating Income	\$ (39,750)	\$ (19,070)	\$ 95,475	\$ 120,560
Other Income	250	-	250	-
Net Income before Taxes	<u>\$ (39,500)</u>	<u>\$ (19,070)</u>	<u>\$ 95,725</u>	<u>\$ 120,560</u>
Income Taxes	100	100	46,200	54,810
Net Income after Taxes	<u>\$ (39,600)</u>	<u>\$ (19,170)</u>	<u>\$ 49,525</u>	<u>\$ 65,750</u>
Rate Base	\$234,209	\$253,420	\$234,209	\$253,420
Rate of Return	-	-	20.9%	25.9%
Operating Ratios:				
Before Income Taxes	104.9%	102.2%	89.8%	87.9%
After Income Taxes	104.9%	102.2%	94.8%	93.4%

(Red Figure)

In December 1960, applicant entered into an agreement with the City of Santa Clara whereby it would provide a service within Santa Clara on an experimental basis for a six-months term. The service would be provided at cost and the City of Santa Clara would receive credit for all revenue taken in through the fare box. Any revenue received in excess of the cost would revert to applicant.

The agreement expired June 15, 1961 and since that time the parties have agreed to continue the service under the same terms on a month-to-month basis.^{1/} Thus far, the fare box revenues have contributed only 21.5 percent of the cost and the City of Santa Clara has paid the difference.

Applicant's forecasts do not include any of the revenues or expenses for the subsidized operation; the staff's forecasts include those items. Differences in the passenger revenue estimates also result from the applicant assuming a 4.5 percent downtrend in passenger traffic and an 86 percent usage of tokens, whereas the staff estimated a 2 percent decrease in passenger traffic and a token use of 85 percent.

Most of the differences in the estimates of expenses result from the greater revenues and greater bus miles forecast by the staff. The somewhat large difference in the estimates of insurance and safety expense results from the staff basing its forecast on the actual experience over the past five calendar years of cost of claims, claim handling and reinsurance, whereas applicant's forecast is based on a percentage of the estimated revenue under present fares for the rate year.

Applicant pays Pacific City Lines, an affiliated corporation, a management fee which is based indirectly upon a percentage of gross revenue. Applicant's estimate of administrative expense includes a management fee based upon the revenue forecast under present fares. The staff made a study to determine the value of the management services and its estimate is based on that study. The amount of expense allocated for management is \$22,600 as compared to the recorded expense of \$26,909 for the year ended June 30, 1961.

^{1/} Applicant has been authorized to discontinue this service after December 23, 1961.

Both the applicant and the staff used the same depreciation rates on service equipment. The difference in the estimates of depreciation expense results from the staff according a salvage value of \$41,930 for the 51 buses operated, whereas applicant used salvage values totalling \$20,100. The difference in salvage values, together with the fact that applicant allocated \$1,010 to rate base for working cash whereas the staff did not make any allowance for working cash, causes the difference in the estimates of rate base.

Essentially the reason for the differences in the estimates of net income is in the forecasts of passenger traffic for the rate year. Exhibit No. 5 contains a tabulation of the number of revenue passengers carried each year since 1939. The following table is an abstract of that tabulation showing the number of revenue passengerstransported each year for the past five years and for the first six months of 1961.

Table II

San Jose City Lines

Revenue Passengers Transported
for the Years Shown

<u>Year</u>	<u>No. Passengers</u>
1956	7,799,901
1957	7,631,892
1958	7,455,860
1959	7,550,674
1960	7,620,550
1961 (First 6 Mos.)	3,744,279

Applicant suffered a work stoppage during the period July 1 to July 27, 1961. The treasurer of applicant was of the opinion that a sizable portion of traffic would not be recovered

because of said stoppage. He found that the company experienced a loss of traffic of 9.81 percent for the month of August 1961 and for the 50-day period beginning August 1 to September 19 it had a loss of 3.47 percent. Evidence presented by the staff, however, shows that the percentage of loss in traffic as a result of the strike has been declining steadily each week. In August 1955, applicant discontinued operations for one week as a result of a strike. While there was a loss of traffic during the period immediately following the resumption of operations, after a month the level of traffic returned to normal. After full consideration we find that the estimates presented by the staff are reasonable for the purpose of forecasting the results of operations by applicant for a rate year under present fares and under the proposed fares.

A transportation engineer of the Commission's staff presented a report of a study made of the service performed by applicant and of the condition of equipment operated by it. Passenger traffic checks were made by the Commission's staff at selected peak load points on all routes during September 7, 19 and 20, 1961. The engineer stated that the service appears to be satisfactory within the present service area.

The company operates fifty-one buses, all of which are diesel powered. Forty-seven are required for normal peak operations which provide applicant with four spare buses on which repairs and maintenance can be performed. Forty of the buses are over twelve years old, four are ten years old, two are 1959 models and five are 1960 models. According to the engineer, all

buses are maintained in good condition. He recommended that the company replace older equipment with five new buses every year for the next five years.

Three persons who regularly ride the buses testified at the hearing. None was opposed to the granting of the increase in fares. They urged that the applicant be required to provide more rapid service and to extend its lines. No. 4 Line extends from downtown San Jose to the south and west. There is a loop at the end of the line. Because of traffic conditions between the hours of 3:30 p.m. and 6:00 p.m. applicant places an additional bus in service on that line. This results in the buses having more than enough time to make schedules so that the drivers have a wait of between 10 and 15 minutes at the southwest end of the line before proceeding on the schedule northbound. The area to the west of the intersection of Lincoln Avenue and Curtner Avenue is residential so that the drivers have taken the wait at that intersection in order to avail themselves of the coffee shop located there. This has resulted in passengers destined to points on the route beyond that intersection waiting on the bus for that period of time. Applicant's manager testified that the drivers will be instructed not to wait at that intersection other than for a brief rest stop or, because it is a transfer point, to meet a bus on the No. 3 Line; otherwise waits will be taken at the beginning of the loop at Curtner Avenue and Kirk Road.

It was requested that applicant be required to extend the No. 3 Line beyond its present terminus in southwest San Jose on Foxworthy Avenue to accommodate residents in that area. It was also stated that the one-hour service on Sundays is inadequate to meet the needs of the public attending church.

A resident of the northern sector of San Jose testified that since applicant combined the No. 7 Line and the No. 5 Line so that the northeastern section of the line consists of a long loop extending generally from East Julian Street, northerly on North 10th Street, easterly on Rosa Street and southerly on North 17th Street back to East Julian Street, he has good service from his home on Washington Street to downtown San Jose but that the ride in the reverse direction is just too long. He stated that he has walked home along the route the bus takes inbound (a distance of approximately one mile) much faster than the bus takes to go along its lengthy outbound route. He urged the Commission to require the applicant to restore the separate routes of the No. 5 Line and No. 7 Line so as to eliminate the present long loop.

One of the criteria of the reasonableness of fares is the value of the service performed under those fares. The testimony of the public witnesses indicates that there would be relatively small resistance by the public to the 15-cent cash fare and the token fare proposed; however, from all of the facts of record, we are of the opinion that under those fares the public would be entitled to substantially broader service than is now being performed. Applicant has not indicated any intention of expanding or extending its service. The record here does not provide data, other than in the case of replacement of old buses with new equipment, which would enable the Commission to evaluate any route changes, extensions, increased service or other changes which would promote the comfort and convenience of the public. Applicant should give consideration to a determination of extensions and changes in service which would provide the public with transportation it now does not have;

accordingly, the order herein will direct it to submit to the Commission the results of a study it shall prepare on that subject.

By Decision No. 57607 dated November 10, 1958, in Application No. 40282, applicant was directed to complete with reasonable speed the renovation of its older buses and to formulate a plan for equipment replacement. The equipment renovation was accomplished and in 1959 applicant acquired two new buses and in 1960 obtained five new buses; however, in the instant proceeding it indicated that it has not formulated plans for further replacement of the older buses. The Commission's staff recommended a replacement program for applicant of acquiring five new buses every year for the next five years. Forty of applicant's buses were placed in service during the years 1946 to 1948, inclusive. The program recommended by the staff contemplates that on January 1, 1967 applicant would be operating at least 32 buses not more than eight years old, 4 buses which would be sixteen years old, and at least 11 buses which would be in operation for more than 18 years. If as at present 4 buses would be required as spares, those would have been in operation at least 19 years. The staff's recommendation falls short of what is required in the public interest. Where the public utility is in a financial position to provide better facilities, the requirements of public convenience and necessity are not met when transportation of passengers is performed with antiquated and fully depreciated equipment. Applicant's balance sheet shows that as of June 30, 1961, it had \$215,257 in current assets, most of which was cash, and \$94,995 current liabilities. Applicant and its affiliate San Jose and Santa Clara Railroad Company are wholly owned by National City Lines, Inc. Exhibit No. 5 shows that since January 1, 1946, the year seven of the older buses were placed in service,

applicant has paid \$478,000 in dividends and has paid interest on bonds to its affiliate in the amount of \$346,812.

Exhibit No. 2 shows that for its present operations 43 buses are required for the morning peak hours, 30 buses during the midday base period, 47 during the afternoon peak and 11 during the late evening. After full consideration of all of the facts of record, we find that public convenience and necessity require the following program of bus replacement by applicant: five new buses shall be acquired before November 1, 1962 and eight new buses shall be obtained each year for the calendar years 1963 through and including 1966. This will result in applicant having on January 1, 1967, 44 buses which will not be fully depreciated and 4 buses which will be sixteen years old. From the record, the minimum number of buses, without allowance for spares, which will be required for operations in the future, is 47. In determining the reasonableness of the fares which will be established, five new buses will be considered to be in operation during the rate year.

The evidence shows that operations in the future under present fares would be conducted at a loss. Applicant is entitled to a fare increase but the proposed fares will provide it with results substantially in excess of those required to maintain its present service, including the requirements of the equipment replacement program, and a reasonable return. We find that the proposed increases in fares have not been justified and that for the service under applicant's present routes and schedules the following increased fares are justified:

Adult Cash Fare (Single Zone) 12 cents
Adult Token Fare (Single Zone) . . . 4 tokens for 45 cents.

Table III sets forth the estimated results which may be reasonably anticipated from operations under said increased fares for

a rate year and we find those estimated results to be reasonable for the operations of this carrier.

Table III

Forecast of Operating Results
of San Jose City Lines for
a Rate Year Under Authorized Fares

<u>Operating Revenue</u>	
Passenger	865,990
Special Bus	50,000
Advertising	<u>13,590</u>
Total	\$929,580
<u>Operating Expense</u>	
Operation & Maintenance	\$762,370
Depreciation	31,510
Taxes & Licenses	<u>88,190</u>
Total	\$882,070
Operating Income	\$ 47,510
Income Taxes	<u>15,510</u>
Net Income from Operations	\$ 32,000
Rate Base	\$381,110
Rate of Return	8.4%
Operating Ratio after Taxes	96.6%

In view of the losses being incurred under present fares, the applicant will be authorized to make the increased fares effective on less than statutory notice and the order authorizing the fare increases will be made effective ten days after the date hereof.

ORDER

Based on the evidence of record and on the findings and conclusions set forth in the preceding opinion,

IT IS ORDERED that:

1. San Jose City Lines, Inc., is authorized to establish the following increased fares for transportation within a single zone:

- Cash Fare 12 cents
- Token Fare 4 tokens for 45 cents.

2. The tariff publications authorized to be made as a result of the order herein may be filed not earlier than the effective date hereof, and may be made effective on not less than five days' notice to the Commission and to the public.

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

4. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its buses and terminals a printed explanation of its fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.

5. Applicant shall make a study of route changes, extensions of service, and changes in service which may be feasible and which would provide the public with transportation not presently available and shall submit to the Commission, within sixty days after the effective date of this order, a report of such study.

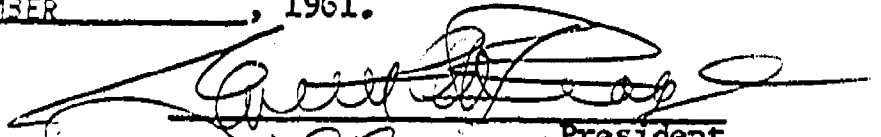
6. San Jose City Lines, Inc., shall acquire 37 new motor buses in replacement of older buses prior to January 1, 1967 and the number of buses acquired and the dates of acquisition shall not be less in number or in time than specified in the following schedule:


<u>No. of Buses</u>	<u>Shall be Acquired Prior to:</u>
5	November 1, 1962
3	January 1, 1964
3	January 1, 1965
3	January 1, 1966
3	January 1, 1967

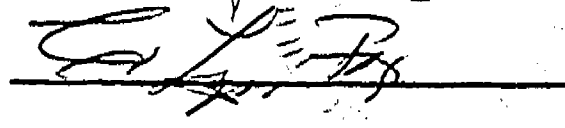
7. In all other respects Application No. 43664 is denied.

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

Dated at San Francisco, California, this 19th day of DECEMBER, 1961.



President




Commissioners