

**ORIGINAL**Decision No. 65008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of PASADENA CITY LINES, INC., )  
requesting authority to increase )  
certain rates of fare. )

Application No. 44674

John W. Holmes and George H. Hook, for applicant.  
Fred Metheny, for the City of Pasadena; R. W.  
Russell, by K. D. Walpert, for the City of Los  
Angeles; D. Floyd Fugit, for Brotherhood of  
Railroad Trainmen; Lisle J. Maxson, for  
Pasadena Senior Center; Miss G. Jacoby, in  
propria persona; interested parties.  
C. V. Shawler and Albert C. Porter, for the  
Commission staff.

O P I N I O N

Pasadena City Lines, Inc., is a passenger stage corpora-  
tion engaged in the transportation of passengers within Pasadena,  
also between that city and neighboring communities. By this appli-  
cation it seeks authority to establish increased fares.

Public hearing was held before Examiner Bishop at Pasadena  
on September 20, 1962. 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.

The most recent adjustment in applicant's fares was made  
pursuant to Decision No. 62097, dated June 6, 1961, in Application  
No. 43086. The present and proposed adult fare structures are as  
follows:

TABLE I

<u>Length of Ride (No. of Zones)</u>	<u>Present Cash Fare</u>	<u>Proposed Fares</u>	
		<u>Cash</u>	<u>Token</u>
1	15c	20c	T = 17½c (4 for 70c)
2	20c	25c	T + 5c = 22½c
3	25c	30c	T + 10c = 27½c
4	30c	35c	T + 15c = 32½c

Applicant proposes also to increase its present school ticket fare from 7½ cents per ride (20 rides for \$1.50) to 10 cents per ride (20 rides for \$2.00).

Prior to July 1, 1961 token fares were in effect. They were eliminated under the terms of the aforesaid Decision No. 43086. The instant proposals would restore their use, but on a more costly basis.

Under the terms of a wage agreement which was concluded after the present fares became effective applicant's drivers have received pay increases totaling 20 cents per hour since October 3, 1962 and will receive an additional increase of 4 cents per hour on May 1, 1963. Similarly, the carrier's maintenance employees have received wage increases amounting to 17 cents per hour since February 21, 1962 and will obtain an additional increase of 7 cents per hour on February 22, 1963. According to the application the carrier suffered a financial loss of \$11,432 during the six-month period ended June 30, 1962, due principally to increased wage costs. Assertedly, these losses will be accentuated further by the additional wage increases effective or to become effective subsequent to July 31, 1962.<sup>1</sup> These circumstances, the application states, have obliged the carrier to seek financial relief through increased fares.

<sup>1</sup> According to an exhibit introduced by a financial examiner of the Commission's staff, applicant's net operating income, before income taxes, for the 12-month period ended July 31, 1962 was \$254.

Evidence was presented by applicant, by the Commission's staff and by three public witnesses.

Estimates of the operating results of applicant for a rate year ending October 31, 1963, under present fares and under proposed fares, were submitted by applicant and by the staff. The forecasts are set forth in Table II as follows:

TABLE II

Estimated Results of Operations Under  
Present and Proposed Fares for  
the 12-Month Period Ending October 31, 1961

	<u>Applicant</u>		<u>Staff</u> (Present Equipment)	
	<u>Present Fares</u>	<u>Proposed Fares</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Revenues	\$823,300	\$959,600	\$829,090	\$970,480
Operating Expenses	<u>871,840</u>	<u>873,640</u>	<u>870,810</u>	<u>872,740</u>
Net Before Income Taxes	<u>(\$ 48,540)</u>	\$ 85,960	<u>(\$ 41,720)</u>	\$ 97,740
Income Taxes	<u>100</u>	<u>41,469</u>	<u>100</u>	<u>47,910</u>
Net After Income Taxes	<u>(\$ 48,640)</u>	\$ 44,491	<u>(\$ 41,820)</u>	\$ 49,830
Operating Ratio*	105.9%	95.4%	105.0%	94.9%

\* After Income Taxes.

     - Indicates red figure.

The engineer who prepared the staff estimates of operating results shown in Table I also submitted estimates under the proposed fares predicated on two additional assumptions, the first of which is that applicant shall have five newly purchased buses in operation throughout the rate year, the second alternative assumption being that said new buses are equipped with air conditioning equipment.<sup>2</sup> These estimates are summarized in Table III.

<sup>2</sup> In connection with a study of applicant's service, a second staff engineer recommended that during each of the next three years applicant purchase five new 45-passenger buses, and that consideration be given to including air conditioning equipment in the new vehicles. These proposals are hereinafter discussed.

TABLE III

Staff Estimates of Operating Results  
Under Proposed Fares, With Recommended  
Purchase of New Buses, for 12-Month Period  
Ending October 31, 1963

	<u>Recommended Equipment - A</u>	<u>Recommended Equipment - B</u>
Operating Revenues	\$970,480	\$970,480
Operating Expenses	<u>880,930</u>	<u>883,740</u>
Net Before Income Taxes	\$ 89,550	\$ 86,740
Income Taxes	<u>43,430</u>	<u>41,900</u>
Net After Taxes	\$ 46,120	\$ 44,840
Operating Ratio *	95.2%	95.4%

\* After Income Taxes.

A - New buses without air conditioning units.

B - New buses with air conditioning units.

It will be seen that, in the aggregate, the revenue and expense estimates of the staff, as shown in Table II, do not differ materially from those of applicant. Even in the breakdown of revenue estimates among the various movements and classes of passengers there are no substantial differences, although the factors employed by the respective witnesses in estimates of token usage, of deflection due to proposed increases in school fares, and of long-range downward trend in volume of traffic were not identical.<sup>3</sup>

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The staff forecast of revenues for the transportation of postal employees was several hundred dollars higher than applicant's estimate. At the hearing it developed that a new postal contract had taken effect in July 1962, of which the staff had not been aware. The staff engineer witness agreed that applicant's revenue estimate was correct. All staff estimates of operating results shown in this opinion reflect the adjustments which were necessary to give appropriate effect to the revised postal revenue estimate.

With respect to the expense estimates, the only notable differences relate to the items of transportation supervision, public liability and property damage insurance, and management, supervision and accounting. The staff estimate for transportation supervision includes \$5,700 for salary of an additional outside supervisor, to give effect to a staff recommendation that applicant's personnel be augmented by such a position. This amount was not included in applicant's estimate. The estimates of applicant and the staff for the above-mentioned insurance item were \$44,800 and \$43,290, respectively. Applicant's estimate reflects its contract basis of 5½ percent of gross passenger and charter revenue. The staff estimate, in accordance with past practice, was derived from the actual cost to the company of claims, claims handling and excess liability coverage for the years 1959, 1960 and 1961, including certain adjustments. Likewise applicant's estimate of management expense is based on a percentage of revenue whereas the staff estimate is predicated, as in past practice, on a cost analysis.

Disregarding, for the moment, the item of salary expense for an additional supervisory employee, the staff estimates of revenues and expenses for the rate year appear the more reasonable. They will be adopted.

The staff introduced estimates of operating results also under a suggested alternate fare structure reflecting the same cash fares as proposed by applicant, but with tokens to be sold at the rate of six for one dollar (16-2/3 cents each). The forecasts for the rate year under these fares are set forth in Table IV.

TABLE IV

Staff Estimates of Operating Results  
Under Suggested Alternate Fares, for  
12-Month Period Ending October 31, 1963

	<u>Present Equipment</u>	<u>Recommended Equipment - A</u>	<u>Recommended Equipment - B</u>
Operating Revenues	\$947,760	\$947,760	\$947,760
Operating Expenses	<u>872,430</u>	<u>880,620</u>	<u>883,430</u>
Net Before Income Taxes	\$ 75,330	\$ 67,140	\$ 64,330
Income Taxes	<u>35,480</u>	<u>31,020</u>	<u>29,500</u>
Net After Income Taxes	\$ 39,850	\$ 36,120	\$ 34,830
Operating Ratio *	95.8%	96.2%	96.3%

\* After Income Taxes.

A - New buses without air conditioning units.

B - New buses with air conditioning units.

As hereinbefore stated, a study of applicant's service and equipment was made by the second staff engineer witness. The results of that study were set forth in a report, concerning which he testified. The witness found that present schedules provide adequate capacity during peak periods and a reasonable frequency during off peak hours. The study disclosed fairly good on-time performance; however, it was observed that in a number of instances drivers were operating ahead of schedules and two drivers were observed passing up waiting passengers. These situations indicated to the engineer a lack of line supervision. He pointed out that present supervision of drivers is limited to that exercised by the superintendent and assistant superintendent of transportation, both

of whose time is devoted almost exclusively to other necessary supervisory functions, including office duties. The result is that there is little or no line supervision before 7:00 a.m., between 8:00 a.m. and 3:00 p.m. and after 6:00 p.m. The witness recommended that the carrier add one supervisor, who should be assigned to full-time outside duties.

The staff service and equipment study disclosed that the company has an effective preventive-maintenance program and that its buses are kept in good operating condition. The study points out, however, that, of the carrier's fleet of 45 buses, all but five are at least 15 years old. The five newer buses were purchased in 1960. In the opinion of the staff, a definite bus replacement program should be established. The staff recommends specifically that a minimum of five new 45-passenger buses be purchased during each of the next three years. The 15 new buses, together with the five 1960 models, would, the engineer stated, permit the assignment of modern equipment to all base period schedules on the major lines. The staff further recommends that consideration be given to including air conditioning equipment in the new vehicles.

A financial examiner from the Commission's staff testified concerning a report which he had prepared on the financial position of applicant. The report was based upon an examination of the company's book records and included financial and statistical analyses and comparisons for various years, in some instances as far back as 1941. In Table V below is a summary of certain statistical data, relating to applicant's operations since 1956, as taken from the aforesaid report.

TABLE V  
Pasadena City Lines  
Operations, 1956 - 1962

<u>Year</u>	<u>Miles Operated</u>	<u>Revenue Passengers</u>	<u>Operating Ratio<sup>2</sup></u>	<u>Revenue Per Mile</u>	<u>Expenses Per Mile<sup>3</sup></u>	<u>Ratio of Wages to Revenue</u>
1962 <sup>1</sup>	1,742,700	5,486,600	100.0%	48.2c	48.2c	64.5%
1961	1,739,500	5,770,600	98.5	46.5	45.8	63.5
1960	1,743,300	6,279,200	97.1	46.1	44.8	61.5
1959	1,740,000	6,558,300	90.0	48.3	43.5	55.9
1958	1,540,200	5,628,000	96.1	44.7	42.9	58.5
1957	1,596,900	6,766,900	95.0	42.8	40.7	57.0
1956	1,784,900	7,664,900	91.3	43.1	39.4	54.4

1 - 12 months ended July 31, 1962.

2 - Before Income Taxes.

3 - Excluding Income Taxes.

The financial statistics in the staff report, the accounting witness stated, indicate that operations of applicant were successful from 1941, when the company began service, until 1960, but that in the year 1960, and to July 31, 1962, reverses occurred.

Testimony was offered by three public witnesses. One represented the members of the Pasadena Senior Center, another testified for Grandmother's Club No. 32 of Pasadena and the third spoke in her own behalf. Two of the witnesses suggested that consideration be given to special reduced fares for senior citizens, since their incomes are generally fixed and small, and many of them do not have automobiles or are not able to drive. The third witness also stressed the hardship which increased fares would place on the elderly. Additionally, she suggested the increased use of fare zones, with lower fares to the short-distance riders, and drew attention to



the absence of service at night and on Sundays on the Craig and Washington lines. She moved that an adjourned hearing be held in order that more time might be provided to develop interest and organized participation in the proceeding.<sup>4</sup>

Expenses incurred by applicant in its operations during the 12-month period ended July 31, 1962 approximately equalled its revenues. Because of increased labor expense, the full effect of which was not felt during that period, both applicant and the staff estimate that operations during the projected rate year will, under a continuation of present fares, result in substantial losses. The long-range downward trend in applicant's traffic volume has also been a factor in the unfavorable forecasts. It is clear that applicant will require an upward adjustment in its fares if deficit operations are to be avoided.

At this point it is necessary to pass on the staff recommendation that a full-time outside supervisor of drivers be added to applicant's personnel. The carrier's treasurer testified that no complaints regarding the service had been received. However, as hereinbefore mentioned, the Commission's staff by direct observation found instances of drivers operating ahead of schedule or passing up waiting passengers and the record otherwise discloses a substantial number of complaints regarding this problem. We find that applicant's drivers have inadequate outside supervision and that

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The record indicates that about the time the application herein was filed (July 31, 1962) a news story about the proposed fare increases was published in the Pasadena local papers. The record shows, moreover, that at least ten days before the date of hearing notices of the hearing were posted in applicant's buses and published in a newspaper of general circulation in the area. In view of these facts we are of the opinion that sufficient advance notice of the proposals and of the hearing was given the public. The motion for an adjourned hearing is hereby denied.

adequate service to the public requires the addition of a supervisor as recommended by the staff. Applicant will be directed to make provision therefor.<sup>5</sup>

Next to be considered is the staff recommendation that a minimum of five new 45-passenger buses be purchased by applicant during each of the next three years. The age of the carrier's fleet, excluding the five 1960 buses, has been previously pointed out. It is obvious that the operation cannot be continued indefinitely without replacement of some of the old equipment. According to the record, the company has revealed no plan for such replacement. The program of purchases recommended by the staff appears reasonable. The staff also recommended that consideration be given to purchasing buses equipped with air conditioning units. The record, however, is void of persuasive evidence in support of this latter recommendation. We find that the service being rendered with present buses is inadequate and that applicant should be required to carry out the program of bus replacement recommended by the staff but without requiring that said buses be equipped with air conditioning units.

The Internal Revenue Act of 1962 prescribes a business investment tax credit based generally on the purchase of equipment. In a letter dated December 18, 1962, this Commission instructed all utilities and carriers to account for this tax credit in accordance with the method commonly known as "flow through". Taking into account the income tax reduction resulting from the purchase of new equipment required by this order and the corresponding investment tax credit, the estimated operating ratios for the rate year, as developed by the staff and based on the aforesaid purchase of buses without air conditioning units, are 94.2 and 95.2 percent

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<sup>5</sup> As hereinbefore stated, all estimates herein of operating results developed by the staff include an allowance for the salary of the recommended supervisor.

under the proposed and alternate fares, respectively. The only difference in the two fare structures is found in the token fares. Applicant proposes a rate of four tokens for 70 cents (17½ cents per token), while under the alternate basis recommended by the staff tokens would be sold at the rate of six for \$1.00 (16-2/3 cents per token).

An examination of Decision No. 62097, by which applicant's present fares were established, shows that the estimated operating results adopted by said decision for such fare structure reflected an operating ratio, after taxes, of 96.2 percent. However, the actual operating ratio for the 12-month period ended July 31, 1962, which practically coincides with the first full year that said fare structure was in effect, was 100 percent. The actual results were considerably less favorable than those which had been forecast.

In the light of all the facts, we find that, insofar as the operations of the applicant before us are concerned, a fare structure which reflects an estimated operating ratio of 95.2 percent after income taxes is reasonable. We find, therefore, that the increases in the alternate fares recommended by the staff are justified, subject to the findings which hereinabove have been made relative to additional supervision and the purchase of new buses.

As hereinbefore mentioned, public witnesses suggested that some fare relief be granted to senior citizens. There is nothing in this record on the basis of which such a fare might be prescribed. No specific fares were suggested by applicant or others, and if such had been submitted, passenger and revenue estimates would have to be developed, possible adjustments in other classes of fares made, and the estimate of operating results reworked before such a proposal could be properly appraised.

Moreover, there is a question as to whether the Commission has authority to prescribe fares based upon ability to pay. However, in light of the record herein, we find it unnecessary to resolve the issue in this proceeding.

O R D E R

IT IS ORDERED that:

1. Pasadena City Lines is authorized to establish increased fares as proposed in Application No. 44674 with the exception that the token fare shall be 16-2/3 cents, sold at the rate of six for \$1.00. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

2. 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.

3. Applicant is directed to provide and place on duty, not later than thirty days after the effective date of this order, one additional supervisor, to be assigned to full-time outside duties, and within the aforesaid period of time applicant shall advise the Commission in writing that said supervisor has been assigned to duty, or if such is not the case, the reason therefor.

4. Applicant is directed to place in service during each of the three twelve-month periods consecutively following immediately the effective date of this order five new 45-passenger buses, the first group of five buses to be placed in service as soon as

possible after said effective date. Applicant shall advise the Commission in writing as each new bus is placed in service.

5. The authority herein granted by paragraph 1 hereof shall expire unless exercised 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 26<sup>th</sup> day of FEBRUARY, 1963.

George E. Trover  
President  
Robert M. ...  
Robert M. ...  
Frederick B. Holbrook  
William W. ...  
Commissioners