

Decision No. 66825**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 ) Application No. 43664  
 of fare. )

George Thomas, Donahue, Richards and  
Gallego, for applicant.  
Timothy J. Canty, for the Commission staff.

O P I N I O N

By petition filed November 12, 1963, San Jose City Lines, Inc., seeks suspension of ordering paragraph 6 of Decision No. 62960, dated December 19, 1961, in this proceeding. Said ordering paragraph states:

"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
8	January 1, 1964
8	January 1, 1965
8	January 1, 1966
8	January 1, 1967"

Applicant has purchased the five buses required by November 1, 1962. Applicant alleges that it does not have the resources with which to purchase the eight new buses required by January 1, 1964. Inasmuch as a decision on this matter following public hearing could not be

rendered prior to January 1, 1964, an interim order (Decision No. 66537, dated December 27, 1963) suspended the requirements of ordering paragraph 6 of Decision No. 62960 until further order by the Commission.

A duly noticed public hearing was held before Examiner Mallory in San Francisco on December 19, 1963. The matter was submitted on that date. Evidence was adduced by applicant's president and by two transportation engineers and a financial examiner of the Commission's staff. No other parties participated in this phase of the proceeding.

In support of the petition, applicant's president offered evidence designed to show that applicant's current financial position will not permit the purchase of any new buses at this time. Financial statements were submitted to support this conclusion. Profit and loss statements for the years 1959, 1960, 1961, 1962 and for the first 11 months of 1963 indicate that applicant had net profits of \$34,976 for 1959 and \$13,750 for 1960; and net losses of \$17,306 for 1961, \$27,371 for 1962 and \$673 for the first 11 months of 1963. A balance sheet as of November 30, 1963, showed that current liabilities are approximately equal to current assets, providing a current ratio of 1:1. A statement submitted by applicant's witness showed that cash on hand January 1, 1959 was \$350,541; and as of November 30, 1963 was \$59,480. The largest deduction from cash in this period was the purchase of motor coach and other equipment in the amount of \$325,773.

The witness presented traffic data to show that its patronage is declining and that it would have little opportunity

to better its cash position in the near future from operating profits. The average number of passengers boarding per-mile-operated declined in each period from 4.54 in 1959 to 3.40 in 1963.

The witness for applicant contended that its cash position clearly indicates that the new buses required January 1, 1964 cannot be purchased outright, but could only be purchased by financing. The witness presented an exhibit showing the first-year cost of financing eight new buses, allegedly under the most favorable terms available to it. Including a twenty percent down payment, the first year expenditure would amount to \$85,832. Such cost, it was alleged, if added to present operating expenses would cause the operations to be conducted at a substantially greater loss. Applicant's witness was not prepared to state when the financial resources of the company would, in his opinion, be sufficiently improved to permit the purchase of new bus equipment.

An associate transportation engineer testified concerning the bus equipment now operated by applicant. This testimony showed that 44 of the 56 buses operated (78.6 percent) are 13 years or older. More than half are 17 years or older. The witness stated that he had checked the condition of all of the buses and that they were generally well maintained. He also stated that the Commission had received no informal complaints concerning the safety or condition of the buses. If new buses as required by Decision No. 62960 are acquired, the witness opined that better coverage of afternoon peak period schedules, and the advantages of appearance and design of new buses would accrue to the public.

An associate transportation engineer presented in evidence operating results for the year ending September 30, 1963. He also developed estimated results of operation for a test year ending December 31, 1964, with present equipment and with eight new buses. The figures in the staff report show that applicant had an operating ratio of 99.5 percent for the year ending September 30, 1963. The witness estimated that applicant would attain an operating ratio of 98.5 percent for the rate year if it purchased eight new buses, and an operating ratio of 97.8 percent for the rate year if the operations were conducted with present equipment. The estimates were developed in the same manner as similar staff estimates presented in prior proceedings, except that the engineer concluded for the purpose of this proceeding that the steadily declining trend in the number of adult passengers would be reversed. The engineer estimated that the level of adult passengers for the rate year will be 5,859,610 as compared to 5,774,476 for the 12 months ended September 30, 1963. The witness concluded that traffic would increase for the test year because of an increase in passengers during the three months of July, August and September 1963. Evidence in rebuttal by applicant's witness showed a downturn in traffic in November 1963.

A financial examiner of the Commission staff testified concerning an analysis which he had made of applicant's financial records. He stated that in his opinion applicant does not have sufficient resources to warrant the purchase of the eight new buses required by January 1, 1964. Applicant had, in the period covering the year 1962 and nine months of 1963, net cash expenditures in

excess of cash receipts in the amount of \$3,000. Current assets are approximately equal to current liabilities and a further reduction in the current ratio would, in his opinion, be undesirable. There are no temporary investments to convert into cash. Annual depreciation accruals are approximately equal to the purchase price of one new bus. According to the witness there are no internal sources of funds for the required down payment which would be necessary if new buses are to be purchased.

The financial examiner suggested that if the Commission should decide to grant the company's request it could, as a condition of such grant, require that the company file a stipulation to the effect that management fees will not be increased and that future earnings, depreciation and bond interest will be made available for additional bus purchases.

#### Discussion and Findings

It is clear from the record that applicant does not have the resources to purchase the eight new buses required prior to January 1, 1964, either from cash or by financing over a period of years. The evidence also shows that applicant's operation is conducted at or near the break-even point. The staff engineer's estimates of increased traffic and net revenues appear to be overstated in that they are based upon a conclusion that a temporary upturn in traffic will continue on a permanent basis. Unless there is a change in operations, volume of traffic or level of fares, applicant will continue to operate at or near the break-even point for the foreseeable future.

In Decision No. 62960, we found that public convenience and necessity required the program for replacement of buses as

ordered therein. No change has been made in applicant's fleet of buses since the issuance of Decision No. 62960, except for the purchase of five new buses during 1962. Other conditions have changed, however, since Decision No. 62960 was issued. Two additional fare increases have been authorized, and applicant has been authorized to extend its service. The record shows, notwithstanding the fare increases, the earning position of applicant is not as favorable under current conditions as it was when Decision No. 62960 was issued. However, applicant is placed on notice that the net income of a public utility is not intended to be adequate to provide cash for new or additional capital, which is required in this case because the cost of replacement buses is approximately twice the cost of applicant's original equipment.

Based upon the evidence, we find:

1. Pursuant to ordering paragraph 6 of Decision No. 62960, dated December 19, 1961, applicant was ordered to acquire five new buses prior to November 1, 1962, and eight new buses each year for the following four years, beginning January 1, 1964, for a total of 37 new buses.

2. Applicant purchased for cash the five new buses required by said Decision No. 62960 to be acquired by November 1, 1962.

3. As a result of a lower volume of traffic, increased cost of operations and extensions of service, the anticipated earning position of applicant is not as favorable now as it was when Decision No. 62960 was issued.

4. The financial resources of applicant would not permit it prudently to purchase the eight new buses required prior to January 1, 1964.

5. Present bus equipment operated by applicant, while old, is well maintained and safe for the services conducted.

6. Applicant cannot continue to provide adequate service without a program for replacement of its older buses.

Based upon the foregoing findings, we conclude that ordering paragraph 6 of Decision No. 62960 should be modified to require the purchase of 32 new buses, eight by January 1, 1965, and eight in each 12-month period thereafter to January 1, 1968. We also conclude, in view of the following order, that no good purpose would be served by requiring applicant to earmark future earnings, depreciation and bond interest for the purpose of acquiring new buses.

O R D E R

IT IS ORDERED that the requirements of ordering paragraph 6 of Decision No. 62960 in this proceeding are hereby modified as follows:

6. San Jose City Lines, Inc., shall acquire thirty-two new motor buses in replacement of older buses prior to January 1, 1968, 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>Number of Buses</u>	<u>Shall be Acquired Prior to</u>
8	January 1, 1965
8	January 1, 1966
8	January 1, 1967
8	January 1, 1968

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

Dated at San Francisco, California, this 18th day of FEBRUARY, 1964.

Holloman Bennett  
President  
George H. Thover  
Frederic B. Hallock  
Commissioners