SW/ds

ORIGINAL

Decision No. 68139

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Transit System for authority to increase fares.

Application No. 45418
(Filed May 19, 1963; amended June 19, 1963, and March 11, 1964.)

Leon W. Scales, for applicant.

Edwin L. Miller and Stanley M. Lanham, for the City of San Diego; Thomas D. McGeary, for the County of San Diego; and William L. Todd, Jr., for National City, interested parties.

B. A. Peeters, for the Transportation Division of 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.

Applicant's present basic fare for adults per one-way ride within one fare zone or between two contiguous fare zones is 30 cents, cash, or 25 cents, token (6 tokens, $1.50). For transportation beyond two contiguous fare zones an additional charge of 8 cents a zone applies. Reduced fares which are approximately one-half of the fares for adults are provided for children 11 years old or younger (under 5, free). Reduced fares which are the same as, or less than, the children's fares are provided for students of less than 20 years of age who are going to, or returning from, a school of junior college level or lower.

The fare increases which applicant seeks would apply to its token and interzone fares. The token fare would be increased to 27½ cents, based on the sale of tokens at the rate of 4 tokens for $1.10. The interzone fare would be increased to 10 cents.

Applicant's present level of fares was established pursuant to Decision No. 66265, dated November 5, 1963. Said decision authorized applicant to increase the then applicable basic cash fare of 25 cents to 30 cents. However, it also provided that the 25-cent fare be continued as a token fare. The authorization was granted on an interim basis pending study of applicant's operations by applicant, by members of the Commission's staff, and by representatives of the City of San Diego and of National City to ascertain what, if any, alternative courses might be taken which would obviate or lessen a need for further increases in applicant's fares.

As a consequence of said studies applicant has made changes in its schedules which have permitted reductions in its operating expenses. It now alleges that notwithstanding said changes, its revenues under the fares authorized by Decision No. 66265 are not sufficient to maintain its operations and that the further fare increases which it seeks are necessary for that purpose.

On April 1, 2, and 3, 1964, public hearings on applicant's further proposals were held before Commissioner Holoboff and Examiner Abernathy at San Diego. Evidence was presented by applicant through its general manager, by engineers of the Commission's staff, and by several patrons of applicant's services. Representatives of the City of San Diego and National City participated in the examination of the witnesses. The record was closed and the matter was taken under submission with the filing of briefs on April 27, 1964.

According to evidence which was presented by applicant's general manager, the further fare increases which are now sought are necessary to offset the effect of losses in revenues resulting from a declining trend in traffic which applicant is experiencing, and has been experiencing for several years. The fare increases are also needed to enable applicant to meet increases in operating costs resulting from wage increases it has had to grant its employees. The general manager estimated that the sought fares will produce approximately $185,000 in additional revenues during the coming year; that without said fares applicant's operations will result in a loss of $320,600, and even with the increased fares applicant will incur a loss of $136,300.

Estimates on a similar basis were presented by a transportation engineer of the Commission's staff. Whereas the general manager predicted losses both under present and proposed fares, the engineer predicted earnings of about $48,000 under present fares and of about $200,000 under the sought fares. The respective estimates of the general manager and of the engineer are summarized in Tables Nos. 1 and 2 below:

Table No. 1

Estimated Results of Operation Under Present Fares
Year Ending with June 30, 1965

	Applicant	Engineer
Revenues		
Passenger	$4,854,200	$5,035,200
Charter and Contract	234,300	233,500
Advertising and Other	46,700	53,760
Total Revenues	$5,135,200	$5,322,460
Expenses		
Maintenance	$ 767,600	$ 744,420
Transportation	2,907,800	2,886,320
Traffic and Advertising	130,400	126,230
Insurance and Safety	223,600	213,820
Administration	528,800	512,450
Operating Rents	22,300	22,080
Operating Taxes	504,700	504,730
Depreciation	370,500	263,930
Total Expenses	$5,455,700	$5,273,980
Net Operating Revenues	($ 320,500)	$ 48,480
Income Taxes	100	100
Net Income	($ 320,600)	$ 48,380
Rate Base	$2,720,228	$2,934,630
Operating Ratio	106.2%	99.1%
Rate of Return	-	1.6%

( ) Indicates loss.

Table No. 2

Estimated Results of Operation Under Proposed Fares
Year Ending with June 30, 1965

	Applicant	Engineer
Revenues		
Passenger	$5,038,600	$5,246,930
Charter and Contract	234,300	233,500
Advertising and Other	46,700	53,410
Total Revenues	$5,319,600	$5,533,840
Expenses		
Maintenance	$ 767,300	$ 743,340
Transportation	2,904,200	2,881,630
Traffic and Advertising	130,400	126,230
Insurance and Safety	224,200	213,370
Administration	528,800	512,450
Operating Rents	22,300	22,080
Operating Taxes	508,100	508,120
Depreciation	370,500	263,930
Total Expenses	$5,455,800	$5,271,150
Net Operating Revenues	($ 136,200)	$ 262,690
Income Taxes	100	62,090
Net Income	($ 136,300)	$ 200,600
Rate Base	$2,720,228	$2,934,630
Operating Ratio	102.6%	96.4%
Rate of Return	-	6.8%

( ) Indicates loss.

On the basis of his estimates and studies of applicant's operations, the engineer recommended that the sought fare increases be authorized.

On the other hand, the authorization of the sought fare increases was opposed by eighteen of applicant's patrons who presented evidence. Many of those who testified spoke as a representative of a group, particularly Senior Citizen groups. In general, said patrons stated that they are living on fixed incomes and cannot pay the higher fares.

The Cities of San Diego and National City also opposed the authorization of the increased fares. Representatives of said cities declared in effect that applicant's proposals to increase its fares are prompted by losses which applicant is incurring from transportation services which it provides for students going to or from school; that said proposals constitute an effort of applicant to impose the burden of the losses from the school services upon applicant's services generally, and that such action would be unreasonable and unreasonably discriminatory as to the other services. They pointed out that the history of applicant's operations over the past decade is one of numerous fare increases to compensate for the effect of a continuing downward trend in traffic and an upward trend in operating expenses and that fare increases themselves have contributed to the losses in traffic which applicant is, and has been, experiencing, inasmuch as with each increase in fares a significant number of applicant's patrons cease using applicant's services.

The evidence which was presented in connection with the school services shows that applicant transports about 2,800,000 students annually under a special fare of 15 cents a ride. About 41 percent of this transportation is performed by applicant's regularly scheduled services. The remainder is performed by supplemental, special services involving either extra trips by drivers and equipment used in the regularly scheduled services or the use of drivers and equipment which would otherwise not be required for applicant's operations. Applicant's manager presented an exhibit at the request of the Examiner which was compiled during the latter part of 1963 and showed that the operating results of the special services were then being performed at an annual direct loss of about $230,000 and a total loss of about $260,000 if all of the costs of the services were taken into account.

Applicant's general manager justified the continuation of the special school fare of 15 cents per ride, on the ground that applicant is bound by historical precedent and custom to assess fares for students going to or from school at a level that is substantially below the fares that otherwise apply. He said that another consideration is that, in his opinion, if the school fares were increased much of the traffic which is involved would be lost and no additional revenue would result. In its brief, applicant takes the position that the record does not justify the conclusion that the present school fares are casting an unreasonable burden upon applicant's other patrons.

The staff engineer's report also included an analysis of the results of operation of the school traffic based on out-of-pocket expenses. This study showed that the total revenue from school fares exceeds the out-of-pocket expenses required to provide the extra service for school passengers by more than $81,000 per year. The engineer explained his comparison of total school revenue with expenses related only to the extra or special school service on the ground that if the school traffic were not carried no expenses could be eliminated in the regular service and, therefore, the net out-of-pocket effect of the school traffic is the difference between the total school revenue and the out-of-pocket expense for the extra or special service. The engineer's out-of-pocket expenses for the special service were based on unit costs developed from applicant's total operation.

The applicant has indicated it does not place credence in its exhibit on school traffic. Inasmuch as the staff engineer's figures are more comprehensive, up-to-date and supported by the presenter, we find that the estimates of the staff engineer for school traffic are reasonable and they will be adopted. We turn now to consideration of the showings in this matter in other respects.

As previously shown in Tables Nos. 1 and 2, above, applicant and the Commission engineer differed materially in their estimates of operating results for the coming year under present and proposed fares. The engineer's estimates of revenues exceed those of applicant by about $200,000, whereas his estimates of expenses are about $180,000 less. In general, the engineer's higher revenue estimates are a result of higher estimates of traffic volume than those predicted by applicant. On the other hand, the main differences between the expense estimates lie in the fact that applicant's estimates of certain labor costs, of depreciation expense, of dues and donations, and of injuries and damages expense are higher than those of the engineer.

Applicant's estimate of its traffic volume for the year ending with June, 1965, was developed on the expectation that the downward trend in its traffic which has prevailed for several years would continue at the same rate. The engineer pointed out that the present rate of decline cannot continue indefinitely without reaching a virtually irreducible level. He said, in his opinion, that such a level is being reached, and he therefore reasoned that the actual level of applicant's traffic for the coming year will be higher than that indicated by the present trend.

On the basis of the record before us, it appears that the factual evidence does not support a conclusion that there will be a material lessening of the rate of decline in applicant's traffic during the coming year. In present circumstances, the more probable result is that the downward trend in traffic will continue at its present rate. We adopt applicant's estimate of revenues as reasonable.

In arriving at its estimate of labor costs, applicant included provision for wage increases for its nonunion employees corresponding generally to increases which have been, or will be, granted to its employees who are working under union contracts. The engineer's estimate was developed upon applicant's present wage costs with allowance for only such wage increases as those to which applicant is specifically committed under its labor contracts. The record shows that applicant follows the practice of granting wage increases to its nonunion employees of about the same amounts as the increases granted to its union employees. We find that applicant's estimate of its labor costs is reasonable and that said estimate should be adopted.

Applicant's estimate of depreciation expense was developed upon the basis of service lives for the properties involved which are shorter than the service lives which are reflected in applicant's usage of said properties. Also, applicant's estimate was based in part upon salvage prices which are less than those which applicant has been receiving in the disposal of its depreciated properties. As a consequence of these factors applicant's estimate is unduly high. The corresponding estimate of the Commission eningeer appears to be more nearly reflective of applicant's experience. It will be adopted as reasonable.

Applicant's estimate of miscellaneous or other general expenses includes a greater provision for dues and donations than we have heretofore stated will be allowed in the expenses to be considered in the establishment of increased fares.1/ The allowance for dues and donations which was included in the engineer's estimate of other general expenses is generally in accord with our past decisions concerning this matter and will be adopted. The amount involved in such an allowance is inconsequential in relation to the total expenses. Whether this item is approved or disallowed, the adopted operating results for the test year indicate that the applicant has need for the additional revenue.

The estimates of applicant's manager and of the engineer of the applicable expense for injuries and damages during the coming year are as follows:

Applicant	$73,500
Engineer	64,370

Applicant's estimate represents an average of its actual payments per year for injuries and damages over the past four years. The engineer's estimate was calculated by a procedure whereby he first developed a loss or exposure factor by relating the number of

1/ Decision No. 60583, San Diego & Coronado Ferry Company, 57 Cal. P.U.C. 787 (August 16, 1962).

passengers transported and miles of operation to the accrued liability per year for injuries and damages over the past three years. This loss or exposure factor was then applied to the passenger volume and miles of operation predicted for the coming year to produce the estimate shown.

The evidence shows that the costs which are incurred per year for damages and injuries vary rather widely due to the nature and severity of the injuries and damages experienced. In the circumstances it appears that the longer period used by applicant for the development of its estimate provides the better basis for a normalized result. On the other hand, the effect of costs not applicable to the years under consideration is eliminated under the engineer's procedure. Upon consideration of both estimates and the bases therefor, we find that an amount of $70,000 is a reasonable allowance for injuries and damages expense during the coming year. Such figure will be adopted.

Another respect in which the expense estimates of applicant and of the engineer should be adjusted is in the charges for maintenance. The record shows that included in these estimates is an amount of $37,000 for the repainting of applicant's buses. The record also shows that the repainting of buses is a job that should be done every five or six years. It appears that the assignment of the painting costs to one year's expenses results in an overstatement of expenses for the year by about $23,500. Were applicant's fares to include provision for the cost of repainting the buses at the rate of $37,000 per year, applicant would receive some $203,000 through its fare collections during a 5½-year period to compensate it for work costing $74,000 over the same period. Applicant's maintenance expense estimate also excludes provision for approximately $10,000 a year which it receives from shop work which it does for other parties. Since such work is performed by the utilization of labor and tools otherwise required for applicant's public utility services, the revenues received should be credited to applicant's operations either as income or as a reduction in expense. Adjustment of applicant's estimate of maintenance expense in the foregoing respects would result in a reduction of the estimate by an amount of $33,500.

A further reduction which also should be considered in the expense estimates both of applicant and of the engineer pertains to the estimates for operating taxes. Official notice is taken of the fact that since the close of the hearings on this matter, the California Motor Vehicle Code has been amended by the addition of Section 9107 thereto. Said amendment relieves certain passenger stage corporations from the payment of weight fees specified in Section 9400 of the Code. Insofar as applicant is concerned, it appears that applicant will benefit by a reduction in expense of about $47,000 during the coming year as a consequence of this change. This will be taken into account in evaluating applicant's needs for additional revenues.

In his computation of income taxes the engineer included provision for an investment credit in the amount of $36,500. He explained that this figure was based upon assumed purchases of

18 buses annually for replacement purposes. However, the engineer had made no determination as to whether applicant's purchases of new equipment during the coming year would be made at the level indicated. In view of the extent that applicant's patronage is declining, it may well be that applicant's replacement program will be curtailed. The engineer's investment credit figure should not be adopted without further information on this subject.

An adjustment which should be made in one other area of the estimates is that involving rate base. The difference heretofore mentioned between applicant's and the engineer's estimates of depreciation expense affects the amount to be adopted for rate base purposes, since a direct relationship exists between the two items. In conformity with our view that the engineer's estimate of depreciation expense is reasonable, we find his valuations for rate base purposes to be reasonable.

Taking the foregoing modifications of the revenue, expense and rate base estimates into account, we find that the estimates of operating results which are set forth in Table No. 3, below, are reasonable estimates of applicant's operating results for the test year.

Table No. 3

Estimated Operating Results (Adjusted)
Under Present and Proposed Fares
Year Ending with June 30, 1965

	Under Present Fares	Under Proposed Fares
Revenues	$5,135,200	$5,319,600
Expenses	5,251,270	5,251,370
Net Operating Revenues	$ (116,070)	$ 68,230
Income Taxes	100	100
Net Income	$ (116,170)	$ 68,130
Rate Base	$2,934,630	$2,934,630
Operating Ratio	102.3%	98.7%
Rate of Return	-	2.3%

(Red Figure)

The operating results in the above table show that applicant's operations for the coming year will result in a loss if the present fares are continued in effect. The level of earnings which would result under the proposed fares is lower than that which we have found reasonable for applicant's operations on various occasions heretofore.[2/]

As an alternative to the fare increases which are in issue herein, applicant asked the City of San Diego for a grant of $85,000 as an offset to a franchise fee of about $100,000 which it pays the city annually. As consideration for said grant applicant offered to forego increases in its fares for a period of a year ending with February, 1965. As explained by applicant's manager,

2/ Decision No. 62849, 59 Cal. P.U.C. 157.
Decision No. 59771, March 8, 1960.
Decision No. 56869, 56 Cal. P.U.C. 381.

this offer was made mainly in order that the city might have an opportunity to complete studies on the future of public transit in the San Diego area. By the retention of present fares in the meantime, applicant hoped to avoid, as much as possible, further losses in traffic, even though by foregoing fare increases it would be foregoing reasonable compensation for its services. Applicant's offer was not accepted.

As mentioned at the outset of this opinion, applicant's fares were established on an interim basis pending studies by applicant, by members of the Commission's staff and by representatives of the Cities of San Diego and National City to ascertain what alternative courses might be taken to obviate or lessen a need for further fare increases. One consequence of said studies is that it was determined that a reduction of some 385,000 miles of operation could be made without materially affecting the quality of applicant's total services. Such reduction has been accomplished. The approximate saving in costs to applicant is about $200,000 annually.

Nevertheless, it is clear from the present record that applicant is still confronted with grave problems that must be resolved. The problem of the school services and the extent that said services should contribute to the maintenance of applicant's services generally is one subject that requires further study. Predominantly to be solved, however, is the additional problem of what other steps should be taken towards the avoidance of fare increases. The need for an early solution of this problem is pointed up by the fact that the record indicates that applicant's fares are approaching the practical limit of what the traffic can bear, and that further fare increases would serve to drive away traffic without an appreciable gain in applicant's ability to maintain its operations. In this connection it is noted that on the basis of applicant's estimates of traffic for the year from October 1, 1963, through September 30, 1964, it appeared that the establishment of the interim fares which were authorized by Decision No. 66265 would produce additional revenues of about $500,000 over the revenues that otherwise would be earned under the fares that the interim fares superseded. However, applicant's estimate of revenues from the interim fares for the year from July 1, 1964, through June 30, 1965, indicates that said revenues will be about $49,000 less than the revenues estimated for the earlier period under the superseded fares. Thus, it appears that in the interval from October 1, 1963, through June, 1965, the revenue effect of the fare increases which were authorized by Decision No. 66265 will be more than nullified by applicant's losses in traffic during that time.

In the circumstances, we are of the opinion that both applicant's own interests, and the public interest as well, require that further effort be made along the lines reflected in applicant's offer to the City of San Diego to arrive at a course which will preserve applicant's necessary services for the San Diego area. The record reveals that overall applicant provides a needed service in an efficient manner.

After careful consideration of the record in this proceeding, we are of the opinion, and so find, that the proposed increases in applicant's fares have been shown to be reasonable and justified. The application for increased fares will be granted.

Authority also will be granted to make the increased fares effective on five days' notice to the Commission and to the public. The order herein will become effective ten days after the date thereof.

ORDER

IT IS ORDERED that:

1. 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,

(a) To establish a 27½-cent token fare, based on the sale of tokens at a rate of four for $1.10, said fare to apply in lieu of the 30-cent cash fare.

(b) To establish increased interzone fares by increasing to 10 cents the increment of 8 cents used in the construction of its present interzone fares which are set forth in Section 2 of said tariff.

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

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

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

5. Except as is otherwise provided herein, or has been granted heretofore, Application No. 45418 is denied.

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

Dated at San Francisco, California, this 27th day of OCTOBER, 1964.

Peter E. Mitchell
President

Everett C. McKeage

W. B. [illegible]

William M. Bennett
Commissioners

We dissent. In our opinion applicant has not justified the full extent of the fare relief authorized today. We will set forth our reasons in full later.

Frederick B. Holoboff

George G. Grover