

ORIGINALDecision No. 68260

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 INGLEWOOD CITY LINES, a)
 corporation, for an order granting)
 permission to increase its local)
 basic passenger rate and fare)
 structure)

Application No. 46668

(Filed May 25, 1964)

Philip H. Harris and A. W. Howe,
 for applicant.

K. D. Walpert, for the Department
 of Public Utilities and Trans-
 portation, City of Los Angeles,
 interested party.

Mrs. Ralph G. Johnson, for herself;
Mrs. Clarence Lewis, for herself,
 protestants.

Fred G. Ballenger and Kenji Tomita,
 for the Commission's staff.

O P I N I O N

Inglewood City Lines operates as a passenger stage corporation within, and in the vicinity of, the City of Inglewood. By this application it seeks authority to increase its fares on less than statutory notice.

Applicant's fares are maintained on a single zone basis. Present fares are 25 cents a ride for adults and for children 12 years old or older. The fare for children of 6 through 11 years of age is 10 cents a ride. Children younger than 6 years of age are carried free. A special fare of 10 cents a ride applies for students of 17 years of age or less going to and from school.

Applicant seeks to increase its present 25-cent fares to 30 cents, cash, or to 26-2/3 cents, token (3 tokens, 80 cents), and to increase its 10-cent fare for children and students to 15 cents.

Applicant alleges that increases in its fares as sought have been made necessary by increases in its labor costs, in its costs for insurance and in its costs for materials and supplies. It also states that it has incurred additional costs as a result of an extension of its service within the Los Angeles International Airport.

Public hearing on the application was held before Examiner Abernathy at Inglewood on August 7, 1964. Evidence was presented by applicant's president, by two engineers and an accountant of the Commission's staff and by two of applicant's patrons. The matter was taken under submission with the receipt of a late-filed exhibit on August 11, 1964.

Applicant's president submitted and explained exhibits setting forth estimated results of operations under present and proposed fares. Similar data were submitted by one of the Commission engineers. The other engineer reported upon a survey which he had made of applicant's service and equipment. The accountant reported on the results of a review which he had made of applicant's records. Those of applicant's patrons who testified opposed the fare increases which applicant seeks. In addition one urged that present school fares be made applicable the year around instead of being limited to regular school terms from September to the following June.

The respective estimates of operating results under present and proposed fares are summarized in Tables Nos. 1 and 2 below:

Table No. 1

Estimated Revenues, Expenses and Operating Results under Present Fares

	<u>Applicant</u> (a)	<u>Engineer</u> (b)
Revenues	\$275,705	\$283,050
Expenses	<u>296,117</u>	<u>296,840</u>
Net Operating Revenues	<u>(\$ 20,412)</u>	<u>(\$ 13,790)</u>
Provision for Income Taxes	<u>**</u>	<u>100</u>
Net Income	<u>**</u>	<u>(\$ 13,890)</u>
Rate Base	\$179,057	\$174,710
Rate of Return Operating Ratio	107.0%	104.9%

 Indicates loss

- (a) Estimates for year ending with March, 1965.
- (b) Estimates for year ending with August, 1965.

** Not calculated.

Table No. 2

Estimated Revenues, Expenses and Operating Results under Proposed Fares

	<u>Applicant</u> (a)	<u>Engineer</u> (b)
Revenues	\$316,630	\$322,690
Expenses	<u>297,976</u>	<u>296,650</u>
Net Operating Revenues	\$ 18,654	\$ 26,040
Provision for Income Taxes	<u>\$ 5,172</u>	<u>\$ 4,580</u>
Net Income	\$ 13,482	\$ 21,460
Rate Base	\$179,057	\$174,710
Rate of Return	7.5% (c)	12.3%
Operating Ratio	95.7% (c)	93.3%

- (a) Estimates for year ending with March, 1965.
- (b) Estimates for year ending with August, 1965.
- (c) Adjusted figure.

The engineer also submitted estimates of operating results under an alternative basis of fares wherein a 25-cent token fare (4 tokens, \$1.00) would apply instead of the 26-2/3-cent token fare which is sought, and wherein in other respects increased fares as sought would be established. Such estimates are summarized in Table No. 3 below:

Table No. 3

Estimated Operating Results Under Alternative Fares
Year Ending with August, 1965

Revenues	\$314,810
Expenses	<u>296,600</u>
Net Operating Revenues	\$ 18,210
Provision for Income Taxes	<u>2,520</u>
Net Income	\$ 15,690
Rate Base	\$174,710
Rate of Return	9.0%
Operating Ratio	95.0%

The engineer who testified concerning applicant's service and equipment stated that the service is maintained at a reasonable and adequate level, and that the company's compliance with safety rules of the Commission and safety rules of the California Highway Patrol is good. As to the equipment he reported that the majority of the buses are 17 years old or older; that the buses are in good mechanical condition, but that they are in need of refurbishing that would include, amongst other things, exterior and interior painting and repair and/or replacement of exterior and interior panels, flooring, step well assemblies, stanchion bars, windows, and seats. He

recommended that the company be directed to recondition its fleet during the coming year and to submit to the Commission, by the end of 1964, a bus replacement program which would result in the purchase of new buses at regular intervals.

The accountant presented and explained balance sheet and income and expense data covering applicant's operations during the past two years. It was his conclusion from said data and from supporting data that applicant's financial position has been deteriorating and at present is very weak.

With reference to applicant's and the Commission engineer's estimates of revenues, expenses and operating results for the coming year, the main differences between said estimates are in the respective estimates of revenues, of maintenance expense, and of taxes and licenses. Said estimates are compared below:

	<u>Applicant</u>	<u>Engineer</u>
Revenues		
Present Fares	\$275,705	\$283,050
Proposed Fares	316,630	322,690
Maintenance Expenses	52,242	54,830
Taxes and License	30,446	25,590

The engineer's estimates of revenues were developed on the assumption that applicant's level of traffic for the coming year would be about the same as it was for the latter part of 1963 and the early part of 1964. Applicant predicted that its traffic would be somewhat less. The evidence shows that applicant's traffic has declined since 1963. The lower estimates of applicant will be adopted as reasonable.

Applicant's and the engineer's estimates of maintenance expense were both developed on actual operating experience, with adjustments to take into account increased labor costs under present wage contracts and the additional mileage which applicant operates as a result of extension of its service within the Los Angeles International Airport area. In addition the engineer included an allowance of \$5,000 to cover refurbishing of applicant's buses as heretofore mentioned.¹

The evidence regarding the refurbishing shows that this work, if done, would not have to be repeated for about three years. It is evident that the assignment of the full costs of this work to one year's operations would result in an overstatement of the actual costs of operation for the year. In view of the need shown for the refurbishing involved, we find it reasonable to allow \$2,000 for a charge against applicant's operations during the rate year, and that the balance of the costs of the refurbishing should be charged to the operations during the succeeding two years.

Aside from the provision for refurbishing, it appears that applicant's estimate for maintenance expense is reasonable and should be adopted in lieu of that of the engineer. The engineer's estimate (with the refurbishing allowance excluded) is at about the same level as applicant's actual expense for maintenance for the 12 months through April, 1964. Since, however, applicant has not been maintaining its buses at a reasonable standard (as shown by the

¹ Applicant estimated that the cost of the necessary refurbishing would be about \$7,500. No provision for such work was included in applicant's estimates.

present need for refurbishing in addition to maintenance), it is evident that applicant's recorded expenses for maintenance are correspondingly low. For this reason the higher estimate of applicant appears reasonable. Adjustment of applicant's estimate to include provision in the amount of \$2,000 for refurbishing results in a figure of \$54,242. This amount will be adopted as a reasonable estimate of maintenance expense for the year.²

In arriving at his estimate of \$25,530 for operating taxes the engineer included an adjustment to reflect a recent reduction in the vehicle weight fees which are assessed by the Department of Motor Vehicles. Said reduction applies in certain circumstances to buses operated in urban service. The record is not clear, however, that applicant will be eligible for the full amount of the fee reduction which the engineer calculated. We are of the opinion that the operating taxes that applicant will actually pay will be somewhat more than the amount estimated by the engineer but less than the amount estimated by applicant. We adopt a figure of \$28,000 as a reasonable estimate of operating taxes.

In his calculation of income taxes the engineer included an allowance for investment credit which applies under present tax laws. The allowance is based on the condition that for rate making purposes equipment purchases should be considered on a uniform basis for investment tax credit application.

² Since part of the total refurbishing costs which are involved should not be charged to expense until after the year under consideration, an allowance of \$4,000 to cover the improvements to the buses as a result of the refurbishing will be made in the rate base figure which is adopted herein.

However, in view of the fact that applicant has not been making regular purchases of equipment we conclude that the allowance for investment credit is not justified. None will be made.

Restatement of the estimates in Tables Nos. 1 and 2 above to reflect our conclusions with respect thereto results in data shown in Table No. 4, below:

Table No. 4

Estimated Revenues, Expenses and Operating Results (Revised)
Under Present and Proposed Fares
Year Ending with August, 1965

	<u>Under Present Fares</u>	<u>Under Proposed Fares</u>
Revenues	\$275,705	\$316,630
Expenses	<u>298,952</u>	<u>298,472</u>
Net Operating Revenues	<u>(\$ 23,247)</u>	\$ 18,158
Provision for Income Taxes	<u>100</u>	<u>4,132</u>
Net Income	<u>(\$ 23,347)</u>	\$ 14,026
Rate Base	\$178,710	\$178,710
Rate of Return Operating Ratio	108.5%	7.8% 95.6%

 Indicates loss

Except as is otherwise indicated above, the foregoing estimates are those which were developed by the Commission engineer. Since his estimates were developed for the year through August, 1965, whereas applicant's estimates apply for the year through March, 1965, the figures for the later period are the more suitable for the purposes of determining the extent that any increases in applicant's fares are justified. Where applicant's figures have

been used in the development of the data represented in Table No. 4, above, we are of the opinion that said figures may be used without significant change in the estimates for the year through August, 1965. We find that the estimates of revenues, expenses and rate base in Table No. 4 are reasonable for the purposes of determining applicant's needs for increased fares.

It is evident from Table No. 4 that applicant's revenues are substantially below the amount needed to return the costs of service and to compensate applicant reasonably for said service. We find that the additional revenues which would be returned to applicant under the proposed fares will result in reasonable earnings and that the establishment of said fares has been shown to be justified. Subject to the conditions hereinafter specified the application will be granted.³ In view of applicant's evident need for additional revenues to overcome present losses, applicant will be authorized to establish the increased fares on five days' notice to the Commission and to the public. The order herein will be made effective 10 days after the date thereof.

Our conclusions and findings herein have taken into account the fact that applicant's buses are in need of refurbishing to restore them to a reasonable minimum standard. The work to be done in this respect is specified on pages B-3 and B-4 of Exhibit No. 2 of record in this proceeding. With the establishment of the increased fares applicant should proceed with all reasonable dispatch

³ With the authorization of increased cash fares as sought for children and students, applicant will be authorized to establish a corresponding token fare for convenience purposes. The student fares will be made to apply throughout the school year, including the summer term.

to complete said refurbishing within one year after the effective date of this order. The establishment of the increased fares shall be conditioned accordingly.

Furthermore, in view of the evidence that the majority of applicant's buses are 17 years old or older, it must be concluded that said buses are at, or have passed the limits of, their reasonable economic service lives. Obviously, the maintenance of a reasonable and economic standard of service for the public will require replacement of said buses with more modern equipment. To this end applicant will be expected to devise and follow a program which will result in the replacement of its equipment at regular intervals.

ORDER

IT IS ORDERED that:

1. Subject to the conditions specified below, Inglewood City Lines is authorized to amend its Local Passenger Tariff No. 24, Cal. P.U.C. No. 24 to establish the following increased fares for transportation over its lines:

	<u>Cash Fare</u>	<u>Token Fare</u>
Adult, per ride (a)	30 cents	26-2/3 cents (3 tokens, 80 cents)
Child, per ride (b) (c)	15 cents	15 cents (10 tokens, \$1.50)

- (a) Adult fares to apply also for the transportation of children 12 years of age or older.
- (b) To apply for the transportation of children of less than 12 years of age but not less than 6 years of age.
- (c) To apply for the transportation of students throughout school year (summer term included), subject to the conditions otherwise specified in Item No. 8 of applicant's tariff Cal. P.U.C. No. 24.

2. The exercise of the fare increase authority herein granted is made subject to the following conditions:

- a. Applicant shall proceed with all reasonable dispatch in the refurbishing of its buses to the extent specified in the Opinion above.
- b. Said refurbishing shall be performed in accordance with the following schedule:

One-fourth of the total refurbishing to be done shall be completed within 90 days after the date that the increased fares are made effective; a further one-fourth of said refurbishing shall be completed within 90 days thereafter; a further one-fourth of said refurbishing shall be completed 90 days thereafter, and the total refurbishing shall be completed within one year after the date that the increased fares are made effective.

- c. At the end of each 90-day period applicant shall file with the Commission a report of the refurbishing completed.
- d. On or before December 31, 1964, applicant shall file with the Commission a program satisfactory to the Commission, which it will follow in the periodic replacement of its buses with more modern equipment.
- e. Precedent to the exercise of the fare increase authority herein granted, applicant shall file with the Commission a statement acceding to the conditions herein specified.

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 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.

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

Dated at San Francisco, California, this 24th day of November, 1964.

Frederick B. Holdcroft
President
John E. Hatch
Robert W. Gray
George E. Tower
William L. Stewart
Commissioners