

**ORIGINAL**

Decision No. 69661

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. 47690  
Filed June 21, 1965

Leon W. Scales, for San Diego Transit  
System, applicant.  
Joseph D. Patello and Stanley M. Lanham,  
for the City of San Diego; and  
William L. Todd, Jr., for the City  
of National City, interested parties.  
B. A. Peeters and Eric Mohr, for the  
Commission staff.

O P I N I O N

The San Diego Transit System operates a common carrier passenger 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.

Public hearings on the application were held before Examiner Abernathy at San Diego on July 26, 27 and 28, 1965. Applicant's president and a research engineer presented evidence on applicant's behalf. A transportation engineer of the Commission staff testified concerning a study he had made of applicant's operations and records. Testimony in opposition to the application was submitted by several of applicant's patrons. Representatives of the City of San Diego and of National City participated

in the development of the record. The record was closed and the matter was taken under submission with the receipt of a late-filed exhibit on August 3, 1965.

The fares which applicant seeks to increase are mainly those which it maintains for students. Applicant also proposes to effect some changes in its fares for children other than students. Applicant's present and proposed student and children's fares are as follows:

	<u>Present</u>	<u>Proposed</u>
<u>Student</u> , per one-way ride between any two points on San Diego Transit System's lines . . . . .	15¢ cash, or token (6 tokens, 90¢)	25¢ cash, or token (4 tokens, \$1.00)

Note: Student fares apply for the transportation of students, under 20 years of age, traveling between home and an institution of learning with a curriculum not more advanced than junior college level. Said fares apply only between the hours of 6:00 a.m. and 6:00 p.m. on school days during regular school sessions.

<u>Child</u> , 5 years or older but less than 12 years		
Per one-way ride between points within the same or 2 contiguous zones . . . . .	15¢	
Additional fare per each 2 additional zones or portion thereof . . . . .	10¢	
Per one-way ride between any two points on San Diego Transit System's lines . . . . .		25¢
<u>Child</u> , less than 5 years old . .	No charge	No charge

Note: Not more than 2 children will be carried free for every accompanying adult passenger. One child's fare applies for each additional two children of less than 5 years of age.

No increases in its fares for adults are sought by applicant at this time. Said fares are as follows:

Adult, per one-way ride

Between points within the same or two contiguous zones .....	30¢ cash, or 27½¢ token (4 tokens, \$1.10)
Additional fare for each zone or portion thereof .....	10¢

According to applicant's president, the sought fare increases are needed to alleviate heavy losses which applicant claims it is now experiencing. The proposed increases are mainly to the student fares because these have not been increased since 1961, whereas the fares for adults were increased in 1963 and in 1964 (Decision No. 66265, dated November 5, 1963, and Decision No. 68139, dated October 27, 1964.<sup>1</sup> Assertedly, a substantial portion of applicant's losses stems from its transportation of students. Moreover, applicant has recently entered into an agreement with the City of San Diego under which, for a consideration of a grant in aid of \$84,000, it will not seek any increases in its adult fares prior to January 1, 1966. Applicant's president stated his company will realize greater benefits from the grant in aid than it could from any justifiable increases in adult fares prior to the close of the present year.

Figures showing the financial results of applicant's operations for the year through April, 1965, and estimates of operating results from present and proposed fares for the year through August, 1966, were submitted both by a research engineer for applicant and by a transportation engineer of the Commission staff.

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<sup>1</sup> Applicant's fares for children of more than 5 but less than 11 years of age are maintained at a level of about half that of the fares for adults. Hence, with the increases in adult fares in 1963 and 1964, increases were also made in the fares for children.

For the year through April, 1965, applicant's engineer and the Commission engineer reported revenues, expenses and operating results as follows:

	<u>Revenues</u>	<u>Expenses</u>	<u>Net Income</u>
Applicant's engineer	\$5,218,110	\$5,323,156	( <u>\$105,045</u> )
Commission engineer	5,218,110	5,144,340	68,260*

( ) Indicates loss.

\*After provision for income taxes.

The respective estimates of applicant's engineer and of the Commission engineer of operating results for the year through August, 1966, are shown in Tables Nos. 1 and 2 below:

TABLE NO. 1

Estimated Results of Operation Under Present Fares  
Year Ending with August 31, 1966

	<u>Applicant</u>	<u>Commission Engineer</u>
<u>Revenues</u>		
Passenger	\$4,270,300	\$4,139,910
Charter and Contract	225,000	233,250
Advertising and Other	40,100	45,840
Grant in Aid - City of San Diego	84,000	84,000
Total Revenues	<u>\$4,619,400</u>	<u>\$4,503,000</u>
<u>Expenses</u>		
Maintenance	\$ 682,200	\$ 673,640
Transportation	2,591,400	2,640,700
Traffic and Advertising	113,700	111,340
Insurance and Safety	228,100	222,410
Administration	505,300	448,170
Operating Rents	17,900	22,150
Operating Taxes	445,600	433,920
Depreciation	369,200	227,680
Total Expenses	<u>\$4,953,400</u>	<u>\$4,780,010</u>
Net Operating Revenues	\$ ( <u>334,000</u> )	\$ ( <u>277,010</u> )
Income Taxes	<u>100</u>	<u>100</u>
Net Income	\$ ( <u>334,100</u> )	\$ ( <u>277,110</u> )
Rate Base	\$2,400,200	\$2,509,280
Operating Ratio	107.2%	106.2%
Rate of Return	-	-

( ) Indicates loss.

TABLE NO. 2

Estimated Results of Operation Under Proposed Fares  
Year Ending with August 31, 1966

	<u>Applicant</u>	<u>Commission Engineer</u>
<u>Revenues</u>		
Passenger	\$4,372,300	\$4,197,570
Charter and Contract	225,000	233,250
Advertising and Other	40,100	45,840
Grant in Aid - City of San Diego	84,000	84,000
Total Revenues	<u>\$4,721,400</u>	<u>\$4,560,660</u>
<u>Expenses</u>		
Maintenance	\$ 679,200	\$ 671,770
Transportation	2,576,500	2,632,760
Traffic and Advertising	113,700	111,340
Insurance and Safety	228,000	218,560
Administration	505,300	448,170
Operating Rents	17,900	22,150
Operating Taxes	446,200	434,430
Depreciation	369,200	227,680
Total Expenses	<u>\$4,936,000</u>	<u>\$4,766,910</u>
Net Operating Revenues	\$ <u>(214,600)</u>	\$ <u>(206,250)</u>
Income Taxes	<u>100</u>	<u>100</u>
Net Income	\$ <u>(214,700)</u>	\$ <u>(206,350)</u>
Rate Base	\$2,400,200	\$2,509,280
Operating Ratio	104.3%	104.5%
Rate of Return	-	-

⊖ Indicates loss.

In addition to the data in the foregoing tables, figures were presented by applicant's president and by the Commission engineer to show partial operating results of the transportation of students for which the increased fares would apply. Applicant's president stated that about 40 percent of the students are transported in regular service which is part of the company's

scheduled service over prescribed routes. The remainder of the students are transported in special services operated directly to and from the schools involved. Applicant's president undertook to show the revenues, expenses and net operating results which apply to the special services. He said that he had not undertaken to develop corresponding data for the transportation of students in regular service because of difficulties in making the numerous cost allocations and cost determinations involved. The figures of the Commission engineer purportedly compare the revenues from all of the school services with the out-of-pocket costs of the special services. The figures of applicant's president are summarized in Table No. 3 below; those of the Commission engineer are summarized in Table No. 4.

TABLE NO. 3

<u>Special School Services</u>		
<u>Estimated Revenues, Expenses and Operating Results</u>		
<u>Under Present and Proposed Fares</u>		
<u>Year Ending August 31, 1966</u>		
	<u>Present</u>	<u>Proposed</u>
	<u>Fares</u>	<u>Fares</u>
<u>Revenues</u> .....	\$223,200	\$279,000
<u>Expenses</u>		
Drivers' wages and guarantees	276,500	242,000
Other direct costs .....	149,500	143,000
Indirect costs .....	48,200	46,000
Total .....	474,200	431,000
<u>Loss</u> .....	251,000	152,000

TABLE NO. 4

Estimated Revenues from Total School Services;  
Also Out-of-Pocket Expenses, Special School Service,  
Under Present and Proposed Fares  
Year Ending August 31, 1966

	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenues	\$360,000	\$420,000
Out-of-pocket expenses	<u>271,150</u>	<u>257,790</u>
Excess of revenues over out-of-pocket expenses	88,850	162,210

In general, those of applicant's patrons who presented evidence in this matter opposed the increases in student fares on the grounds that the increased fares would be more than they could afford to pay. As alternatives some of the witnesses suggested that subsidies be granted to applicant in order to maintain present fares or to achieve fare reductions.

Discussion

In the presentation of the revenue and expense data which apply to its total operations, and which are summarized in Tables Nos. 1 and 2, above, applicant placed much reliance upon the indicated operating losses to justify the increases sought. As will be discussed, however, it is evident the losses are overstated both as a result of an understatement of revenues and an overstatement of certain expenses.

Applicant's revenue estimates were made on the basis that the volume of its traffic is declining at the rate of about 14 percent annually. This figure was developed mainly by extension of a 12-month moving average of applicant's traffic graph over the past several years. Applicant contended the trend and volume of traffic for the rate year (the year ending August 31, 1966) which is under consideration herein was thus established.

Applicant's procedure of estimating future traffic assumes in effect that the direction or slope of the traffic which was charted is attributable to only one factor, namely, trend. Other factors, however, which have affected the volume of applicant's traffic during the periods covered by the moving average are diminution -- the loss of traffic as a result of fare increases -- and losses of traffic as a result of reductions in service. In contrast to trend, which indicates the direction of movement over a relatively long period, diminution through fare increases or service changes or curtailment are invariably of short durational effect. Hence, the designation of losses of traffic which are due to fare increases and service changes as losses due to trend is not valid. Because of this overstatement of losses from trend, applicant's estimate of traffic for the rate year understates the traffic that it may reasonably expect to carry. On the present record, the extent of the precise corrections that should be made in applicant's traffic and revenue estimates cannot be determined.<sup>2</sup>

In the matter of expenses, there are several items such as depreciation, dues and donations where applicant's estimates are overstated, as they do not conform to procedures which we have previously found to be reasonable.

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<sup>2</sup> The Commission engineer's estimate of applicant's revenues for the rate year was developed by substantially the same procedure as that followed by applicant. The infirmities here pointed out in the applicant's showing of estimated revenues apply equally to the revenue estimates of the engineer.



Adjustment of applicant's estimates in Table No. 3 above with respect to said items results in the figures shown in the following table:

TABLE NO. 5

Special School Services  
 Estimated Revenues, Expenses and Operating Results (Revised)  
 Under Present and Proposed Fares  
 Year Ending August 31, 1966

	<u>Present Fares</u>	<u>Proposed Fares</u>
Revenues . . . . .	\$223,200	\$279,000
Expenses . . . . .	461,215	418,143
Loss . . . . .	238,015	139,143

We hereby find the figures in Table No. 5 (which make no allowance for dues and donations) to be reasonably representative of applicant's operating results from its special school services. The figures of the Commission engineer were developed in terms of average cost and do not provide a basis for definite conclusions concerning the results of the school services.

It is clear from Table No. 5 that under present fares applicant's revenues from its special school services will not be sufficient to return the cost of the services provided, and that even under the sought fares, applicant will continue to experience losses from the special services. These losses should be considered in connection with the fares which applicant assesses for the transportation of students in its regular services. The special and the regular services are complementary. As applied to the transportation of students in applicant's regular services the predicted losses from special services of \$238,015 under present fares, and of \$139,143 under the proposed fares, are the equivalent of 23.4 cents and 18.2 cents per student transported in the regular services, respectively. Since these amounts are in addition to the cost which applicant incurs in the transportation of students in its regular services, it is evident that applicant's present 15-cent fare falls substantially short of returning the costs which apply.

We hereby find that applicant's proposed fare of 25 cents per one-way ride for the transportation of students either in the regular services or in the special services, or in a combination of both, has been justified. In view of the losses which apply under applicant's present fares we find that the establishment of the increased fare on less than statutory notice is justified. Applicant will be authorized to establish the increased fare on one day's notice to the Commission and the public. The order herein will be made effective as of the date hereof.

The fare increase authority herein granted will not extend to the increases which applicant seeks to make in its fares for children other than students. In general, the children's fares which applicant assesses at present are approximately one-half of the adult fares. These fares apply for the transportation of children who are five years old or older, but less than 12 years. Children who are 12 years old or older are subject to the fares for adults. Under its proposals, applicant is undertaking to change its long established basis for children's fares. Where, for example, the present children's fares are 15 cents per ride between points within one or two zones, or 45 cents for a 7-zone ride, applicant proposes to assess a uniform fare of 25 cents. The cash fares that would continue to apply for children of 12 years of age or older would range from 30 to 80 cents. We find that the proposed fares would be unduly discriminatory in relation to those which applicant maintains for the transportation of children 12 years old or older. Authority to establish said fares will be denied.

ORDER

IT IS ORDERED that:

1. San Diego Transit System is authorized to amend Item No. 20-C of Section 2 of its Local and Joint Passenger Tariff No. 3, Cal. P.U.C. No. 7, to establish a fare of twenty five cents cash or token (tokens, four for one dollar) for the transportation of students in accordance with the provisions of Rule 4 of said tariff.

2. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than one day after the effective date hereof on not less than one day's 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, Application No. 47690 is denied.

This order shall become effective as of the date hereof.

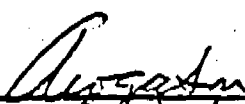
Dated at San Francisco, California, this 8<sup>th</sup> day of SEPTEMBER, 1965.

*I concur with the findings and order, but disagree with the disallowance of dues and donations.*  
*Paul E. Mitchell*

*Fredrick B. Holdhoff*  
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President  
*George E. Hoover*  
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I do not concur in the findings and order.



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Commissioner