

ORIGINAL

Decision No. 75236

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
BLUE & WHITE BUS COMPANY of WATTS,
INC., a California Corporation, for
an order granting permission to
increase fares.

Application No. 50490

(Filed August 15, 1968)

Dr. Thomas W. Matthew, Herbert B.
Atkinson, and Bernard R. Panfel,
for Blue & White Bus Company,
applicant.

Kenneth R. Moore, for Brotherhood
of Railroad Trainmen, interested
party.

R. W. Russell (by K. D. Walpert),
for Department of Public Utilities
& Transportation, City of Los
Angeles, interested party.

Paul W. Tilley, for Veterans of
World War I, Inc., Watts Barracks
1224, interested party.

Janice E. Kerr, Counsel, for the
Commission's staff.

O P I N I O N

Applicant operates a common carrier passenger stage service in and about the Watts area of the City of Los Angeles. By this application it seeks authority to increase its fares on five days' notice to the Commission and to the public.

Public hearings on the application were held before Examiner Abernathy at Los Angeles on September 25 and 26 and on October 28 and 29, 1968.

Applicant's present fares are 15 cents a ride for adults and for children six years old or older. Children younger than six years of age are carried free when accompanied by a fare-paying passenger.^{1/} A special fare of 8½ cents a ride (based upon the purchase of a 40-ride coupon book for \$3.40) applies for the transportation of students of less than 21 years of age going to or from school. Transfers between applicant's lines are permitted without charge.

Applicant proposes to increase its 15-cent fare to 20 cents a ride. It also proposes to increase its school fare to 11½ cents per ride by increasing the price of its 40-ride coupon books to \$4.50 per book. No change is proposed in the present free-transfer privileges between lines.

Evidence in support of the sought fare increases was submitted by applicant through its president, its general manager, and its accountant. These witnesses testified to the effect that applicant's present operations were formerly conducted by Atkinson Transportation Co. and South Los Angeles Transportation Company; that on or about January 26, 1968, applicant acquired, with some exceptions, the operations and properties of said companies pursuant to Commission authorization, and has been engaged in providing its present services since that time; that applicant's objectives in acquiring the operations of Atkinson Transportation Co. and of South Los Angeles Transportation Company were, and are, to render transportation at the lowest possible cost to the low-income persons

^{1/} Not more than two children per fare-paying passenger are transported without charge.

that largely comprise the population of Watts and the areas adjacent thereto; that the present level of applicant's fares was established more than six years ago; that during this time applicant's operating costs, and those of its predecessor companies have increased sharply; that applicant is incurring substantial losses under present fares; that an immediate increase in fares is imperative if applicant is to continue in business; that the sought fare increases are the minimum necessary to the continuance of the operations, and that the additional revenues which the increased fares would produce are needed particularly to enable applicant to make needed repairs of its buses and to meet increases in labor costs which have become effective or to which applicant is committed.

Regarding the condition of the buses, the witnesses testified that because of inadequate revenues during the past several years applicant (and/or its predecessor companies) has not been able to maintain the buses in proper repair, and that extensive mechanical work and refurbishing are needed to restore the buses to reasonable operable condition. With respect to applicant's labor costs, the witnesses testified that the wages which applicant has been paying its drivers and mechanics have been at lower rates than the wage rates observed by other bus companies in the Los Angeles area; that applicant has had to grant wage increases to its employees, and that it is committed to the granting of further increases in January, 1969.^{2/}

^{2/} A representative of the labor union to which applicant's employees belong testified that applicant has not paid an increase in wages and supplemental benefits due under the current wage agreement which became effective as of July 1, 1968; that applicant has shown that it does not have the funds to make such payment; that nevertheless the nonpayment cannot continue indefinitely, and that the union's recourse will be either court action or strike.

Estimates were submitted by applicant's general manager to show the financial results of applicant's operations, assuming that the sought increased fares are authorized and were assessed throughout the year ending with September, 1969. Said estimates are set forth in the table below:

Table No. 1

Estimated Results of Operations
Under Proposed Fares
Year Ending September 30, 1969

| | |
|---|---------------|
| Revenues | |
| Passenger | \$468,900 |
| School Ticket | 31,500 |
| Advertising | 11,200 |
| Other | <u>47,900</u> |
| Total Revenues | \$559,500 |
| Operating Expenses | |
| Maintenance and Garage | 88,410 |
| Transportation | 295,380 |
| Traffic and Advertising | 2,100 |
| Insurance and Safety | 46,450 |
| Administrative and General | 43,040 |
| Depreciation | 26,300 |
| Taxes | 39,300 |
| Operating Rents | <u>3,600</u> |
| Total Operating Expenses | \$544,580 |
| Net Operating Revenues | \$ 14,920 |
| Other Expenses | <u>10,200</u> |
| Net Income before Provision for Income Taxes | \$ 4,720 |

Other financial data were presented by applicant's accountant in the form of an income and expense statement covering applicant's operations from January 26 to August 31, 1968, inclusive, and a balance sheet as of August 31, 1968. These statements are reproduced as Appendices "A" and "B" attached hereto, and by this reference made a part hereof.

Evidence relating to the financial aspects of applicant's operations was also submitted by an accountant and by a transportation engineer of the Commission's staff. The accountant reported that he had found from examination of applicant's records and those of the predecessor companies, Atkinson Transportation Co. and South Los Angeles Transportation Company, that the properties which applicant had acquired from said companies had been purchased for a price of \$200,000; that the involved properties were listed on the books of account of the predecessor companies at a depreciated value of \$51,290; and that in accounting for the difference of \$148,710 by which the purchase price exceeded the depreciated value applicant had entered the properties on its books at increased values which aggregated the \$200,000 purchase price. The accountant said that this method of accounting is contrary to the Commission's Uniform System of Accounts, and has the effect of providing a basis for applicant to charge its patrons further depreciation on properties for which the patrons have fully compensated either applicant or the predecessor companies by the fares which they have hitherto paid for prior usage of the properties. The accountant recommended that applicant's records be adjusted by revaluing the properties to conform to the depreciated values shown on the books of the predecessor companies and by an entry of a charge of \$148,710 to "Other Intangible Property", said amount to be subsequently amortized over a 10-year period by appropriate charges to a non-operating expense account.

The evidence which was presented by the Commission engineer dealt mainly with forecasts which he had developed to show applicant's financial operating results for the coming year (a) if the present fares are maintained; (b) if the proposed fares are established, and (c) if alternative fares which he recommended are adopted. The engineer's estimates of applicant's operating results under present and proposed fares are set forth in the following table:

Table No. 2

Estimated Results of Operations
Under Present and Proposed Fares
Year Ending December 31, 1969

| | <u>Present Fares</u> | <u>Proposed Fares</u> |
|----------------------------|--------------------------|---------------------------|
| Revenues | | |
| Passenger | \$402,100 | \$491,600 |
| School Ticket | 11,400 | 22,600 |
| Advertising | 12,000 | 12,000 |
| Other | <u>50,500</u> | <u>50,500</u> |
| Total Revenues | \$476,000 | \$576,700 |
| Operating Expenses | | |
| Maintenance and Garage | \$ 85,200 | \$ 85,200 |
| Transportation | 266,000 | 266,000 |
| Traffic and Advertising | 4,100 | 4,100 |
| Insurance and Safety | 34,800 | 32,900 |
| Administrative and General | 35,300 | 35,300 |
| Depreciation | 7,500 | 7,500 |
| Operating Taxes | 26,400 | 27,000 |
| Operating Rents | <u>3,600</u> | <u>3,600</u> |
| Total Operating Expenses | \$462,900 | \$461,600 |
| Net Operating Revenues | \$ 13,100 | \$115,100 |
| Provision for Income Taxes | \$ 100 | \$ 41,100 |
| Net Income | \$ 13,000 | \$ 74,000 |
| Rate Base | \$ 57,600 | \$ 57,600 |
| Operating Ratio | 97.27% | 87.17% |
| Rate of Return | 22.6% | 128.5% |

The engineer concluded from his estimate of applicant's earnings under the proposed fares that said earnings would be excessive. He recommended that lesser fare increases be authorized to the extent that with the establishment of the 20-cent cash fare, applicant be required to establish an alternative token fare of 16-2/3 cents based on the sale of tokens at the rate of three for 50 cents. He also recommended that with the granting of the fare increases, applicant be required to purchase and place in service five new buses before December 31, 1969. In Table No. 3 below are set forth the engineer's estimates of applicant's financial operating results under the alternative fare structure which he proposed. Said estimates also reflect an assumption by the engineer that concurrently with the establishment of the alternative fare structure which he recommended applicant will have replaced five of its older buses by new buses.

Table No. 3

Estimated Results of Operations
Under Alternate Fares
Year Ending December 31, 1969

| | |
|----------------------------|---------------|
| Revenues | |
| Passenger | \$458,400 |
| School Ticket | 16,200 |
| Advertising | 12,000 |
| Other | <u>50,500</u> |
| Total Revenues | \$537,100 |
| Operating Expenses | |
| Maintenance and Garage | \$ 93,800 |
| Transportation | 266,000 |
| Traffic and Advertising | 4,100 |
| Insurance and Safety | 33,900 |
| Administrative and General | 35,600 |
| Depreciation | 15,200 |
| Operating Taxes | 28,100 |
| Operating Rents | <u>3,600</u> |
| Total Operating Expenses | \$480,300 |
| Net Operating Revenues | \$ 56,800 |
| Provision for Income Taxes | \$ 4,900 |
| Net Income | \$ 51,900 |
| Rate Base | \$200,800 |
| Operating Ratio | 90.3% |
| Rate of Return | 25.8% |

Responding in part to the bus purchase recommendations of the Commission engineer, and otherwise presenting data relative to certain expenses which were not included in the expense estimates of applicant's general manager in Table No. 1 above, applicant submitted evidence through an expert in bus maintenance and repair work concerning acquisition costs of serviceable used buses. He stated that used buses which would provide three to five years of good service with reasonable maintenance are available for about \$5,000 per bus. Regarding the condition of applicant's present fleet, he said that a considerable amount of needed maintenance has been deferred heretofore, and that to restore the buses to reasonable operating condition would entail expenditures of \$3,000 to \$5,000 a bus. In other respects he said that applicant is deficient in shop machinery and equipment necessary to an adequate maintenance program; that it should have additional buses as spare buses to enable it to meet emergencies such as breakdowns and to permit repair and maintenance work to be done without disruption of schedules, and that the wage costs that applicant should expect to pay to attract a mechanic who is competent to maintain applicant's fleet adequately are \$1,000 a month or more.

Other evidence which was presented in this matter consisted of testimony by several of applicant's patrons or representatives of said patrons. In general, these witnesses testified concerning the transportation needs of the Watts area. With respect to the fare increases which applicant seeks they supported the increases as needed for the preservation of applicant's operations.

In a closing statement applicant's general manager urged that the full amount of the sought fare increases be authorized. He asserted in effect that the revenue and expense estimates of the Commission engineer do not present an accurate representation of applicant's financial situation in that the estimates do not take into account a prevailing downtrend in applicant's traffic and thereby overstate applicant's revenues for the future, both under present and proposed fares; moreover, they understate applicant's expenses, particularly in regard to insurance. Regarding the engineer's recommendation that applicant be required to buy five new buses, the manager stated that applicant does not have the funds to make such purchases, and that it has been unable to buy needed buses as used equipment for the same reason.^{3/}

In a closing statement for the Commission's staff, staff counsel urged the adoption of the recommendations of the Commission accountant concerning disposition of the amount of \$148,710 of applicant's investment by charges to nonoperating expense. The alternative otherwise -- the amortization of that amount by charges to depreciation expense -- assertedly would result in the same people paying for the buses twice.

A representative for the City of Los Angeles stated that the City supports the recommendations of the Commission's staff.

^{3/} In a companion statement, applicant's accountant particularly urged that applicant be permitted to capitalize the full amount of its investment in its operations. He said that adoption of the recommendation of the Commission accountant that \$148,710 of applicant's investment be ultimately charged to a nonoperating expense account instead of to depreciation expense would prohibit applicant's recovery of that amount of its costs. In conclusion the accountant urged that the Commission take into account what applicant is trying to accomplish in serving the Watts community, and that the Commission allow applicant sufficient earnings to develop into an efficient operation.

Discussion

The record in this matter is abundantly clear that a fundamental concern of our findings and conclusions herein must be the preservation of applicant's services to the public.

Applicant is in critical financial condition. It is operating under heavy debt. The servicing of this debt has drained its resources to the extent that as of August 31, 1968, its current liabilities were more than twice its current assets and more than twice its monthly revenues. It reports that as of that same date its equity was represented by a deficit of \$6,358.

Applicant's financial needs have been further augmented by the wage increases it must pay, and the related benefits it must grant, if it is to avoid an interruption of its operations by strike.

From an operational standpoint applicant has been handicapped by the advanced age of its buses, by the bus breakdowns which it has been experiencing, and by present substantial maintenance requirements of its buses apart from any maintenance to offset that hitherto deferred.

Insofar as applicant's patrons are concerned, at stake are fares which the evidence shows are among the lowest in the State. In comparison with the 20-cent fare which applicant proposes to assess, the Southern California Rapid Transit District assesses a fare of 30 cents a ride for transportation in the same general area served by applicant; it also assesses a charge of 5 cents for transfers between lines.

The presentations of applicant and of the Commission's engineer show quite divergent pictures of applicant's needs for increased revenues. It appears that except for depreciation expense and materials-and-supplies expense the estimates of applicant's general manager are the more probable representation of applicant's revenues and expenses for the period covered thereby than are the estimates of the Commission engineer. The latter estimates, it appears, overstate applicant's probable revenues and in certain respects do not properly represent the applicable expenses. Subject to modification of the expense estimates for depreciation and materials and supplies, we adopt the estimates of the general manager as reasonable.

The general manager's estimates of depreciation expense and materials and supplies expense were arrived at on the basis of valuations assigned to the properties involved in connection with allocation of the \$200,000 cost to applicant of the assets acquired from Atkinson Transportation Co. and South Los Angeles Transportation Company. As was pointed out by the Commission accountant, said \$200,000 cost is substantially higher than the valuations which were carried on the books of the latter companies for the same properties. Consequently, the procedure followed by applicant's manager would result in a redepreciation of previously depreciated properties.^{4/} We have long followed the rule in California in connection with public utility properties that no allowance will be made in operating expenses for future depreciation

^{4/} Insofar as materials and supplies expense is concerned, the procedure would result in charges to operating expenses for overvaluations placed on materials and supplies.

of property, which has been fully depreciated.^{5/} On this record we do not perceive any compelling reason for a departure from this rule at this time.

The record does not include sufficient data to permit ready adjustment of the expense estimates of applicant's general manager to exclude therefrom the specific over-allowances for depreciation expense and materials-and-supplies expense. However, it appears that the adjustment may be reasonably approximated, and that such approximation would be \$24,000. Adjustment, accordingly, of applicant's operating expense figures which are shown in Table No. 1 above would result in a total operating expense figure of \$520,580. The resultant net operating revenues would become \$38,920. The corresponding operating ratio, before provision for income taxes, would be 93 percent. If provision were also made in the expense figures for some of the costs of reducing the deferred maintenance of applicant's buses in conformity with the needs of the operations, the operating results would be even less favorable than indicated. Clearly, applicant would not realize excessive revenues from establishment of the increased fares which it seeks. Said fare increases should be authorized.

^{5/} See Mare Island Ferry, 44 C.R.C. 802, 807; Southern California Freight Lines, 45 C.R.C. 233, 239; Vallejo Electric Light & Power Co., 45 C.R.C. 254, 264; California Street Cable Railroad Co., 45 C.R.C. 384, 394; San Diego Electric Railway Company, 47 Cal. P.U.C. 721, 724; Pacific Greyhound Lines. et al., 50 Cal. P.U.C. 650, 667; Charles B. Holbrook (Holbrook Transit Co.), 51 Cal. P.U.C. 1; Chico Transit Lines, 59 Cal. P.U.C. 744.
See also San Diego Electric Railway Company, 47 Cal. P.U.C. 721, 724, and San Diego Electric Railway Co., 48 Cal. P.U.C. 309, 313, for provision for fully depreciated properties in rate base.

In authorizing the increased fares, we shall not adopt the recommendation of the Commission engineer that applicant be required to replace five of its older buses by new buses before December 31, 1969. In view of the advanced age of much of applicant's fleet, some of the older buses undoubtedly should be replaced. However, whether the recommended replacements should be by new or used buses, or whether the replacement program should be temporarily deferred in favor of substantially reducing the deferred maintenance which has accrued for applicant's fleet in general, are matters which appear to be within the area of discretion of applicant's management. We should not intrude into said area in this respect at this juncture.

Nevertheless, applicant should understand that a measure of the reasonableness of its fares, either as herein authorized or as may be authorized in the future, is the quality of its service. We are persuaded by the record in this matter that the quality of applicant's service, particularly in regard to the maintenance of schedules, should be improved in order to be commensurate with the fares which are established pursuant to this decision. Applicant should initiate a program to this end forthwith, and should report to the Commission concerning its actions taken pursuant thereto.^{6/} Said reports should be submitted at the end of each three months until applicant is advised otherwise by the Commission's Secretary.

^{6/} As part of its service improvement program applicant should arrange for a listing in the telephone directory or directories for the area it serves.

Findings

We find that:

1. Applicant's revenues under present fares are not sufficient to sustain its operations.
2. The increase in revenues which applicant would realize from establishment of the proposed fares will produce earnings which are not excessive in relation to applicant's needs.
3. The increases in fares which applicant seeks are justified.

Conclusions

1. The sought fare increases should be authorized.
2. Because of the financial exigencies with which applicant is confronted, applicant should be authorized to establish the increased fares on less than thirty days' notice, and the order herein should be made effective five days after the date hereof.

O R D E R

IT IS ORDERED that:

1. Applicant, Blue and White Bus Company of Watts, Inc., is authorized

- a. To increase its present cash fare of 15 cents a ride to 20 cents a ride.
- b. To increase its charge for a 40-ride school ticket book to \$4.50 per book.

Amendments to applicant's tariffs to be made as a result of this order shall be filed not earlier than the effective date of this order, and 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.

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

3. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its buses and terminals an 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.

4. In operating under the increased fares herein authorized, applicant shall initiate a program toward the improvement of the quality of its services, and shall report to the Commission concerning its actions taken pursuant thereto. The first of said reports shall be submitted three months from the date of establishment of the increased fares, and subsequent reports shall be submitted at the end of each three months' period thereafter until applicant is advised otherwise by the Commission's Secretary.

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

Dated at San Francisco, California, this 21st
day of JANUARY, 1969.

William J. Lyons, Jr.
President
Augustus
Shad B. Monistrey
William J. Lyons
Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX "A"

INCOME AND EXPENSE STATEMENT
BLUE AND WHITE BUS COMPANY OF WATTS, INC.
JANUARY 26 THROUGH AUGUST 31, 1968

| | |
|---------------------------------------|--------------|
| Operating Revenues | \$264,419 |
| Operating Expenses | |
| Equipment Maintenance and Garage | 47,543 |
| Transportation | 149,092 |
| Traffic, Solicitation and Advertising | 1,634 |
| Insurance and Safety | 20,214 |
| Administrative and General | 25,824 |
| Depreciation | 10,571 |
| Operating Taxes and Licenses | 15,501 |
| Operating Rents | <u>2,100</u> |
| Total | 272,479 |
| Operating Loss | 8,060 |
| Other Income | 5,754 |
| Other Deductions | 5,052 |
| Net Loss | 7,358 |

APPENDIX "B"

BALANCE SHEET
BLUE AND WHITE BUS COMPANY OF WATTS, INC.
AUGUST 31, 1968

ASSETS

| | | |
|--|---------------|--------------|
| <u>Current Assets</u> | | |
| Working funds | \$ 1,200 | |
| Accounts receivable | 16,141 | |
| Materials and supplies | <u>22,025</u> | \$ 39,366 |
| <u>Tangible Property</u> | | |
| Carrier operating property | \$182,594 | |
| Less depreciation | <u>10,571</u> | 172,023 |
| Intangible Property: Organization, franchises, permits | | 2,651 |
| Deferred Debits: Prepayments | | <u>5,552</u> |
| Total Assets | | \$219,592 |

LIABILITIES

| | | |
|--|------------|----------------|
| <u>Current Liabilities</u> | | |
| Notes payable (Due South Los Angeles Transportation Co.) | \$16,557 | |
| Accounts payable | 31,657 | |
| Payable to associated companies | 41,650 | |
| Cash overdraft | <u>557</u> | \$ 90,421 |
| <u>Non-Current Debt</u> | | |
| Notes payable (Due South Los Angeles Transportation Co.) | | 135,529 |
| Capital Stock | | 1,000 |
| Unappropriated Surplus | | <u>(7,358)</u> |
| Total Liabilities* | | \$219,592 |

(Red Figure)

*Exclusive of contingent liabilities of \$52,000 due Coleman Capital Corporation.