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Decision No. 75282

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 eliminate its token rate of fare and increase its school ticket rate of fare.	Application No. 50590 (Filed October 7, 1968)
In the Matter of the Application of SAN JOSE CITY LINES, INC. for authority to increase certain rates of fare.	Application No. 43664 (Petition for Modification, filed December 19, 1968)

George E. Thomas, Donahue, Gallagher, Thomas and Woods, for San Jose City Lines, Inc., applicant.
Charles J. Astrue and Kenji Tomita, for the Commission staff.

OPINION

San Jose City Lines, Inc. operates as a passenger stage corporation within and between the Cities of San Jose and Santa Clara and areas adjacent thereto. In Application No. 50590 it seeks authority to increase its fares. Adult fares were last increased pursuant to Decision No. 73037, dated September 6, 1967, in Application No. 49571, which authorized a single zone fare of 25 cents cash or a token fare of 19 cents (5 tokens for 95 cents). Applicant also maintains an additional fare of 5 cents for two-zone service, and a school ticket rate of 20 tickets for $2.00. Applicant proposes to increase its basic adult fare by eliminating the token fare of 19 cents, permitting the single zone cash fare of 25 cents to apply. Applicant also seeks to increase its school ticket fare to 20 tickets for $2.50.

Public hearing in Application No. 50590 was held before Examiner Mallory at San Jose on December 5, 1968. The matter was submitted subject to the filing of a late-filed exhibit by the Commission staff, which has been received. Evidence was presented by representatives of applicant and the Commission staff. There were no protests.

Bus Purchases

The Commission staff, in its presentation herein, raised the issue of the purchase of new buses as required of applicant pursuant to Decision No. 73836. That decision ordered the purchase of five new buses by applicant on or before January 1, 1969 as part of a continuing bus replacement program.1/ The staff recommended different levels of fares depending upon whether or not five new buses are purchased on or before July 1, 1969.

Applicant indicated at the hearing herein that it had in preparation, and soon would file, a supplemental application seeking authority to postpone the purchase of any new buses for a one-year period. It requested, and the staff concurred, that the evidence adduced in Application No. 50590 should be used to indicate applicant's financial position, cash flow, and revenue needs, as such may apply to the question of the purchase of new bus equipment.

1/ Decision No. 62960, dated December 19, 1961, as modified by Decision No. 71899, dated January 24, 1967, and Decision No. 73836, dated March 12, 1968 in Application No. 43664. The latter decision requires the purchase of new buses according to the following schedule:

No. of Buses	Shall Be Acquired Prior To
5	January 1, 1969
5	January 1, 1970
5	January 1, 1971
4	January 1, 1972

Since 1961 the company has purchased 18 new buses, five in June 1962, eight in December 1964 and five in October 1967, in compliance with Decisions Nos. 62960 and 71899.

A Petition for Modification in Application No. 43664 was filed December 19, 1968. That petition seeks modification of the order issued in Decisions Nos. 62960, dated December 19, 1961, as modified by Decision No. 73836, dated March 12, 1968, in that application, which established the schedule for the acquisition of new bus equipment by applicant.[2/]

Fare Increases

Applicant's vice president presented in evidence Exhibit 1 which contains estimated results of operation under present and proposed fares for the year 1969. This study includes an estimated rate base, and estimates of traffic under the various types of fares for the test year.

The witness estimated that total passengers for the test year would be 4,112,595 under present fares, and 3,978,736 under proposed fares. The exhibit contains a comparison of full fare passengers (basic adult fare and token fare passengers) for the first ten months of 1967 and 1968. This comparison showed that the number of passengers had decreased, on the average, by 11.91 percent from 1967 to 1968. In the development of his estimate of the number of adult passengers under present fares for the test year, the witness estimated that the decline in passengers would continue, but only at the rate of one-third of the actual decline in the compared

2/ Applicant requests that Decision No. 62960, as amended, be further modified by extending each of the above dates for acquisition of new buses one year forward, as follows:

No. of Buses	Shall Be Acquired Prior To
5	January 1, 1970
5	January 1, 1971
5	January 1, 1972
4	January 1, 1973

ten-month periods in 1967 and 1968. The estimates of passengers under proposed fares was developed by using a diminution factor of 1/4 of the percent of increase in fares (3.28% for adult fares) applied against the passenger estimate for the test year under present fares.

Revenues for the test year were developed using the estimated passenger counts described above. Expenses for the test year were developed by adjusting actual expenses for the year ended August 31, 1968 for known changes in expenses. The principal changes in operating expenses were upward adjustments in labor-related payroll costs for drivers, maintenance and other employees; and reduced expenses for fuel taxes.[3/]

The following table depicts applicant's estimates of revenues, expenses, rate base, rate of return and operating ratio for the test year 1969, under present and proposed fares:

3/ The State fuel tax was reduced from 7 cents to 1 cent per gallon, pursuant to legislation recently enacted. The Federal fuel tax remains the same in 1969 as it was in 1967 and 1968.

TABLE 1

SAN JOSE CITY LINES, INC.
FORECAST OF OPERATIONS FOR CALENDAR YEAR 1969

	Forecast Present Fares	Forecast Proposed Fares
Operating Revenue		
Passenger Revenue	$ 890,425	$ 975,600
Special Bus Revenue	33,000	33,000
Advertising Revenue	20,000	20,000
Total Operating Revenue	943,425	1,028,600
Operating Expenses		
Equipment Maintenance and Garage Expense	156,825	156,825
Transportation Expense	593,875	593,875
Traffic, Solicitation and Advertising	4,000	4,000
Insurance and Safety	56,825	59,825
Administrative and General Exp.	72,800	72,800
Depreciation	43,400	43,400
Operating Taxes and Licenses	69,175	69,525
Total Operating Expense, Depreciation and Taxes	996,900	1,000,250
Net Income from Operations	(53,475)	28,350
Other Income	525	525
Net Income before State and Federal Income Tax	(52,950)	28,875
Provision for State and Federal Income Tax	100	5,550
Estimated Net Income or Loss	(53,050)	23,325
Estimated Mileage	1,647,045	1,647,045
Operating Ratio before Income Taxes	105.61%	97.19%
Operating Ratio after Income Taxes	105.62%	97.73%
Rate of Return on Rate Base of $418,733	-	5.57%

(Red Figure)

Exhibit 2 was jointly prepared and presented by a transportation engineer and a financial examiner from the Commission's Transportation Division and Finance and Accounts Division, respectively. Exhibit 2 contains actual results of operations for an historical year ending August 31, 1968 and estimated results of operation for the rate year 1969.

Revenues in Exhibit 2 for the historical year are those experienced by applicant. The historical year expenses are those experienced by applicant with the exception that bus depreciation schedules adopted in Decision No. 68503 dated January 19, 1965 in Application No. 46727 were applied. This has the effect of lengthening the depreciation lives of the bus equipment in use. The results of operations as developed by the Commission staff for the year ending August 31, 1968, adjusted for depreciation expense changes described above, indicate that applicant's operating ratio was 98.6 percent (after taxes) and its rate of return was 3.2 percent.

Revenues for the rate year under present fares were developed by trending passenger statistics for the period 1963 through the first 8 months of 1968. In estimating revenues under increased fares, dimunition factors of 25 percent of the percent of fare increases were used for adult fares, and 10 percent of the percent of increase for student fares. For the rate year, historical year expenses were adjusted to give effect to known increases in labor costs. Estimates of number of employees and bus miles were developed based on passenger trends. Expenses for repairs and service materials, fuel and oil, and tires were treated as dependent variables of bus miles. Workmen's Compensation Insurance, employees' welfare and Social Security taxes were treated as dependent variables of labor expenses. Public liability and property damage insurance was treated as dependent variables of both bus miles and passengers. Historical bus depreciation schedules used in prior proceedings were further adjusted to give effect to the remaining life of current buses. Fuel taxes were reduced to give effect to the recent reduction in

State fuel taxes. Federal and State income taxes were developed using a normalized investment tax credit applicable to equipment purchases.

The following table sets forth the staff's estimates (as set forth in Exhibit 3) of operating results for the rate year 1969, under present and proposed fares, developed in the manner described above. The estimates contained in this table are based on the use of present equipment.

TABLE 2

SAN JOSE CITY LINES, INC.
COMMISSION STAFF ESTIMATES OF RESULTS OF OPERATION UNDER PRESENT AND PROPOSED FARES FOR FORECAST YEAR 1969

	Present Fares	Proposed Fares
Total Passengers	4,151,500	4,023,600
Total Bus Miles	1,647,000	1,647,000
Passenger Revenue	$899,800	$ 988,200
Charter Revenue	33,000	33,000
Other Revenue	19,700	19,700
Total Revenues	952,500	1,040,900
Total Expenses	986,200	984,900
Operating Income	(33,700)	56,000
Income Taxes	100	10,600
Net Income	(33,800)	45,400
Operating Ratio (%)	103.5	95.6
Rate of Return (%)	-	11.5
Rate Base	396,200	396,200

(Red Figure)

The Commission staff proposed an alternate structure, in the event that the Commission should authorize the deferment of bus purchases beyond July 1, 1969. Said alternate fare structure would provide an operating ratio of 97.8 percent and a rate of return of 5.7 percent. The staff witnesses testified that, as a minimum, a rate of return of 6.5 percent is necessary for the operations conducted by applicant. The alternate fare proposal falls short of this rate of return.

Bus Purchases

The Commission staff witnesses pointed out that applicant was directed by the Commission to purchase five new buses on or before January 1, 1969, as part of a continuing bus replacement program. The staff engineer testified that applicant had taken no steps leading to the purchase of the equipment; therefore, applicant could not acquire the five buses in question before January 1, 1969, as required by the Commission order. It was the staff recommendation that applicant be authorized to defer purchase of the five buses in question to July 1, 1969.

The staff engineer testified that 45 buses are necessary for adequate service to the public. Applicant operates a greater number of buses; but the age of its 45 newest buses indicates that buses older than 17 years will continue to be operated in applicant's peak service period. In prior proceedings the Commission required replacement of buses when they reached that age.

The staff financial examiner testified that any new buses acquired by applicant would have to be financed, as applicant has no resources which it could use to purchase five buses outright. The witness estimated that applicant could acquire five buses at an approximate cost of $140,000 payable over seven years at an interest rate of 8 percent. Based on this estimate, the witness testified that applicant's cash flow requirement before interest charges would be $91,000 per annum in order to cover payments on its equipment obligations and other debt.

Applicant's witness testified that applicant does not presently have available sufficient cash to enable it to purchase additional new motor coaches; that applicant has approached its bank for the extension of further credit; and that its bank has advised applicant to delay seeking additional credit until its financial condition and earnings are such that it can be clearly demonstrated that applicant will be able to service an additional equipment obligation.

The staff engineer also developed estimates of operating results for the forecast year on the basis of the acquisition of five new buses on or before July 1, 1969. These estimates showed that applicant would have an operating ratio (after taxes) of 95.7 percent and a rate of return of 8.4 percent under proposed fares.

Discussion

The estimates furnished by both applicant and the staff show that operations will be conducted at a loss during the forecast year. It is clear that applicant is in need of an immediate increase in fares.

The staff and applicant differ as to traffic and revenue estimates and as to certain expenses. The number of passengers and resulting passenger revenues as estimated by applicant give greater consideration to the more recent experience of applicant, and, therefore, appear more likely to occur. For the purposes of this proceeding we adopt the number of passengers and passenger revenues as estimated by applicant. The operating expenses estimated by the staff and its method of determining income taxes appear reasonable and are adopted for the purposes of this proceeding. Minor changes in the staff's estimates of expenses and income taxes are required because of the revenue estimates adopted herein.[4/] The following table depicts the adopted revenues, expenses, rate base, operating ratio and rate of return for the forecast year under present and proposed fares. The data in the table are predicated on the use of the 45 newest units of existing bus equipment in the test year.

TABLE 3

SAN JOSE CITY LINES, INC.
ADOPTED RESULTS OF OPERATIONS
FOR FORECAST YEAR

	Present Fares	Proposed Fares
Operating Revenues	$943,425	$1,028,600
Operating Expenses	980,500	979,200
Operating Income	(37,075)	49,500
Income Taxes	100	7,000
Net Income	(37,175)	42,500
Operating Ratio (%)	103.94	95.87
Rate of Return (%)	-	10.78
Rate Base	394,300	394,300
Cash Flow	-	81,500

(Red Figure)

In a prior fare increase proceeding (Decision No. 68503, *supra*) the fares authorized therein were designed to provide an operating ratio after taxes of 96.1 percent and a rate of return of 9.85 percent. The operating ratio and rate of return set forth in Table 3, above, are comparable to those found reasonable in the prior proceeding.

4/ The revision of revenues and expenses also changes the cash flow applicant will realize in the forecast year.

Applicant's cash flow (Table 3) will be $81,500 per annum under proposed fares. Said cash flow is less than the $91,000 needed to provide for the acquisition of five new motor coaches in the forecast year.

Findings and Conclusions

The Commission finds that:

1. The estimated results of operation set forth in Table 3 of the preceding opinion are reasonable and are adopted for the purpose of this proceeding.

2. Based on Table 3, applicant will operate at a loss during the forecast year at present fare levels.

3. Applicant is in urgent need of an immediate increase in fares.

4. The increased fares proposed herein will result in an operating ratio of 95.87 percent (after taxes) and a rate of return of 10.78 percent for the forecast year 1969, predicated upon the continued use of existing bus equipment. Said operating results will be reasonable.

5. The increased fares proposed in Application No. 50590 are justified.

6. The alternate fare structure proposed by the Commission staff to apply in the event that applicant is not required to purchase five new buses before January 1, 1970, will result in less than reasonable earnings for applicant's operations and should not be adopted herein.

7. As of October 31, 1968, applicant did not have sufficient financial resources to purchase the five buses directed to be acquired on or before January 1, 1969.

8. Applicant will not have sufficient financial resources to purchase five new motor coaches on or before July 1, 1969, as recommended by the Commission staff.

9. Applicant should not be required to purchase five new buses at this time.

10. The schedule of buses to be acquired as set forth in Decision No. 73836 should be modified so as to defer said acquisitions for a period of one year.

The Commission concludes that Application No. 50590 and the petition filed December 19, 1968 in Application No. 43664 should be granted. Inasmuch as the record demonstrates the need for an immediate fare adjustment, applicant will be authorized to establish the increased fares on five days' notice.

O R D E R

IT IS ORDERED that:

1. San Jose City Lines, Inc. is authorized to establish the increased passenger fares proposed in Application No. 50590. 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.

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

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 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.

4. The requirements of ordering paragraph 6 of Decision No. 62960, as amended, in Application No. 43664 are modified as follows:

"6. San Jose City Lines, Inc. shall acquire nineteen new motor buses in replacement of older buses prior to January 1, 1973, and the number of buses acquired and the dates of acquisition shall be not less in number or in time than specified in the following schedule:

No. of Buses	Shall Be Acquired Prior To
5	January 1, 1970
5	January 1, 1971
5	January 1, 1972
4	January 1, 1973."

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

Dated at San Francisco, California, this 4th day of FEBRUARY, 1969.

William Symons Jr.
President

[signatures]

Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.