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Decision No. 79906

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE GRAY LINE, INC., for an order authorizing an increase in sightseeing fares and sightseeing tour pickup and return service fare.

Application No. 52625 (Filed May 19, 1971)

W. L. McCracken, Attorney at Law, for The Gray Line, Inc., applicant.
William E. Lee, for Franciscan Lines, Inc., interested party.
Leonard Snaider, Attorney at Law, Milton J. DeBarr, A. L. Gieleghem, and Sean A. Mahon, for the Commission staff.

FINAL OPINION

The Gray Line, Inc. (Gray Line) is a passenger stage corporation engaged in providing round trip sight-seeing tours and other transportation in the San Francisco Bay Area, pursuant to operating authority granted by this Commission. In this application it seeks increases in its sight-seeing pickup fares of approximately 15 percent.

Interim Decision No. 78845, dated June 22, 1971, authorized Gray Line to increase its sight-seeing fares by 5 percent, pending hearing.

A duly noticed public hearing was held and the matter submitted before Examiner Mallory at San Francisco on December 9, 1971. Evidence was presented by two witnesses appearing for applicant and a witness appearing for the Commission's Finance and Accounts Division. No evidence was presented by the Commission's Transportation Division.

The Commission staff position is that the present interim fares should be made permanent and that no further increase should be granted. The staff urges that applicant will achieve a reasonable profit margin under interim fare levels, in line with that recommended by the staff witness; that interim fares cover applicant's increased operating expenses incurred in 1971, and any additional increase in fares is to improve applicant's profitability; and that a further increase for such purpose is contrary to the intent of the National Economic Stabilization Plan and price guidelines issued thereunder. The staff also challenges the failure of applicant to include certain revenues earned from booking and collecting services performed for independent limousine operators in its operating statements, inasmuch as expenses attributable to performing such service are included in related expenses.

Applicant is a wholly owned subsidiary of The Greyhound Corporation.[1/] The assistant to the comptroller of Greyhound Lines, Inc. (West Division) testified that he is familiar with the books and records of applicant and had prepared the financial exhibits prepared in support of the relief sought herein. The witness stated that the exhibits covering the year ended December 31, 1970, attached to the application and referred to in Interim Decision No. 78845 herein, were prepared from the books and records of applicant. Because of comments contained in said decision and after staff review of applicant's books, the witness made certain adjustments to said financial data. The witness stated that operating expenses were revised by reducing legal expense by approximately $87,000 and increasing equipment rents by $1,500. Operating revenues were increased by approximately $40,000 to include net revenues from the sale of postcards. The Commission staff agrees with these adjustments.

The operating results for the year ended December 31, 1970, after the foregoing adjustments, were further adjusted to reflect the 5 percent interim increase in sight-seeing fares, and known increases and reductions in operating expenses. The principal increases in

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1/ Greyhound Lines, Inc., is also a wholly owned subsidiary of The Greyhound Corporation.

expenses result from higher wages, fringe benefits, payroll expenses of drivers, office, maintenance and station employees; rents; and workmen's compensation insurance occurring during the year 1971.[2/]

The following table sets forth 1970 revenue and expense data, with the rate-making adjustments described above, as summarized from applicant's exhibits:

TABLE 1

THE GRAY LINE, INC.

Operating Statement Giving Effect to Known Increases in Revenues and Expenses

(Source: Exhibit 1, Appendix A-2)

	1970 Adjusted	(a) Rate Year at Present Fares and Known Increases in Expenses
Revenues		
Sight-seeing - Regular	$2,012,418	$2,071,322 (b)
Sight-seeing - Charter	386,020	386,020
Charters - Other	460,007	460,007
Race Track	29,585	29,585
Other	82,512	82,512
Total	$2,970,542	$3,029,446
Operating Expenses	$2,769,069	$2,895,527
Operating Income	$ 201,473	$ 133,919
Provision for Income Taxes		
State	$ 10,099	$ 12,394
Federal	53,700	62,446
Total	$ 63,799	$ 74,840
Net Operating Income	$ 137,674	$ 59,079
Operating Ratio (after taxes)	95.4%	98.1%

(a) Operating results adjusted for the 12 months ending 2/29/72.

(b) Includes annualized effect of 5% interim increase authorized April 24, 1970, assuming static traffic for all passenger service.

2/ The operating data do not reflect known increases in labor costs for 1972.

The foregoing data, adjusted to give effect to the balance of the increase in sight-seeing fares sought herein, and the corresponding adjustment in commission expense are summarized below:

TABLE 2

THE GRAY LINE, INC.

Pro Forma Operating Statement Giving Effect to Proposed Rate Increase

(Source: Exhibit 1, Appendix A-4)

Operating Revenues	$3,340,144
Operating Expenses	2,921,315[(a)]
Operating Income	418,829
Provision for Income Taxes	234,063
Net Operating Income	184,766
Operating Ratio (after taxes)	94.5%

(a) Includes an increase in Station Expense of $25,788 for commissions as a function of increase in revenues.

The witness testified that he developed additional financial data for a later period than that represented in the above tables, because of the comparative remoteness of the historical period used in the test year. The witness developed actual operating results for the fiscal year ended September 30, 1971. Said data were adjusted to reduce legal expense, increase operating rents and to include postcard revenues, in the same manner as the adjustments made in the operating results for the 1970 test year. Said data were further adjusted to eliminate the effect of the interim increase from operating revenues, and to include the effect for a full year of wages and related increases effective March 1, 1971. Operating revenues were further adjusted to reflect the sought 15 percent increase in sight-seeing fares, and operating expenses were adjusted for the related increase in commission expenses. The following table contains these data:

TABLE 3

THE GRAY LINE, INC.

Operating Statement for the Year Ending 9/30/71
Adjusted for Known Increases in Expenses & Revenues
Projected for Proposed Rate Increases

	10/1/70 to 9/30/71 (a)	Adjusted Year (b)	Projected Rate Year (c)
Operating Revenues			
Regular Sight-seeing	$1,807,996	$1,776,750	$2,043,262
Charter Sight-seeing	369,174	369,174	369,174
Charter	445,988	445,988	445,988
Race Track	20,332	20,332	20,332
Other Income	68,729	68,729	68,729
Total Operating Revenues	$2,712,219	$2,680,973	$2,947,485
Operating Expenses			
Maintenance	$ 171,625	$ 173,826	$ 173,826
Transportation	1,154,694	1,166,886	1,166,886
Station	210,202	215,943	238,063
Traffic & Advertising	197,094	198,912	198,912
Insurance & Safety	118,767	119,340	119,340
Admin. & General	384,918	394,967	394,967
Depreciation	117,096	117,096	117,096
Oper. Taxes & Licenses	139,576	139,901	139,901
Operating Rents (net)	93,303	93,303	93,303
Total Operating Expenses	$2,587,275	$2,620,174	$2,642,294
Operating Income	$ 124,944	$ 60,799	$ 305,191
Provision for Income Taxes			
State	$ 11,564	$ 5,627	$ 28,245
Federal	58,261	28,350	142,310
Total	$ 69,825	$ 33,977	$ 170,555
Net Operating Income	$ 55,119	$ 26,822	$ 134,636
Operating Ratio	98.0%	99.0%	95.4%

(a) Book records adjusted to eliminate approximately $87,000 of legal expenses, to increase operating rents by $1,500 and to show federal income taxes as if Gray Line was a separate company.

(b) Adjusted to eliminate effect of interim fare increase ($31,246) and to reflect for a full year the known increases in operating expenses ($32,899).

(c) Adjusted to reflect 15 percent increase in sight-seeing revenues ($266,512) and increase in related commission expense ($22,120); a portion of the 15 percent increase was granted earlier as explained in (b) above.

Applicant's financial witness also presented data to show that the increases sought herein conform to the intent of the National Economic Stabilization Program. Specifically, the witness showed that the pre-tax profit margin under proposed fares of 9.58 percent is less than the profit margins earned by applicant in 1968 and 1969, of 20.28 and 11.39 percent, respectively. The pre-tax profit margin in 1970 was 4.77 percent and in the fiscal year ended September 30, 1971 was 3.77 percent.

A financial examiner employed in the Commission's Finance and Accounts Division presented in evidence a report containing his recommendation as to a reasonable operating ratio for applicant under the permanent fare structure to be authorized in this proceeding. The report (Exhibit 2) states as follows:

> "In evaluating the operating results of The Gray Line, Inc. and other bus lines operating in California, the staff has placed emphasis on the relationship of profit margins before income taxes to investment turnover. The two components and their product, return on investment, are useful guides which have been considered together with other factors in determining a reasonable earnings level for the applicant.
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> "As a consequence of its study, the staff has concluded that fares which would provide a profit margin after income taxes in the range of 2.80% to 3.00% would be reasonable for The Gray Line, Inc."4/

Included in Exhibit 2 as Table 5 is a table entitled "Return on Investment Analysis (Before Income Taxes) Ten Bus Companies, 1966-1970". The table compares profit margins, investment turnover, and return on investment <u>before income taxes</u> for The Gray Line, Inc. and nine other bus companies, only two of which are engaged in sight-seeing operations in California.3/ The witness did not audit the book bases

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3/ Three carriers are engaged in providing airport limousine service; others are engaged in providing local or long-haul bus service or operate outside of California.

4/ Profit margins can be translated into operating ratios, for reference, by obtaining the complement of the former.

for these data but confined his analysis to the figures set forth in annual reports filed with the Commission without adjustment.

Discussion

Applicant's request for increased fares is for two purposes: to obtain sufficient revenues to offset increased costs of operation and to improve its operating ratio. The record shows that increased revenues in the amount of $126,000 will offset the increased expenses measured in applicant's exhibits. The balance, in the amount of $184,000, is for the purpose of improving applicant's operating ratio (Tr. 12). Table 1 shows that applicant's proposal will result in an operating income (before taxes) of $305,191. Applicant presented data (Exhibit 1, Appendix A-6) to show that it enjoyed pre-tax operating income substantially above that sought herein in 1968 and slightly above that sought herein in 1969. In 1970 its pre-tax operating income was $141,697, before adjustments.

The principal issue to be determined herein is a reasonable operating ratio (a profit margin) for applicant under permanent fares to be authorized herein. As heretofore indicated, the staff recommends that an operating ratio less favorable than sought by applicant will be reasonable and justified. In arriving at his conclusion, the staff witness analyzed data relating to ten bus operators. Seven of the companies compared in said analysis perform services materially different from the type of service performed by applicant and, therefore, would not be indicative of reasonable earnings for the type of service performed by applicant.

The Commission recently has considered the fares of The Gray Line Tours Co., based on in-depth studies by its staff, and following an examiner's proposed report (Decision No. 77573, dated April 15, 1969, 69 Cal. P.U.C. 445). Said carrier performs extensive sight-seeing operations in Southern California, similar to the operations conducted by applicant in Northern California. That decision indicates that an important criterion used therein to determine reasonable earnings is that "sight-seeing tours are discretionary, related to entertainment, and therefore are affected by the general economic climate" (at page 460). The decision also states that because of this factor, a greater risk to stockholders exists than that ordinarily encountered by other transportation companies. That decision adopted as reasonable an operating ratio of 95.0 percent for that carrier (at page 463), pointing out that in Gray Line, Inc., 60 Cal. P.U.C. 51 (1962) the Commission had authorized an operating ratio of 94.7 percent for sight-seeing operations of that carrier (page 464). In the circumstances, we find that an operating ratio of 95 percent (after taxes) is reasonable for the purposes of this proceeding, and fares reflective thereof should be authorized as permanent fares.

The staff pointed out that applicant had excluded revenues from services performed for limousine operators from operating revenues but had included in operating expenses the costs of personnel required to perform such service. The record does not indicate the dollar amount of expenses that relate to services performed in connection with limousine operations. Therefore, in line with prior Commission decisions, we find that non-utility revenues from services performed for limousine operators should be included in applicant's operating revenue inasmuch as the corresponding expenses cannot be eliminated from operating expenses. Table 3 should be adjusted accordingly.

Applicant developed income taxes in Table 3 by eliminating the effect of non-operating revenues and expenses and the extraordinary expenses reflected in applicant's rate-making adjustments. The effect of this method of income tax calculation is to provide taxes for the rate year which are different in amount than will be accrued on applicant's books. The Commission has consistently held that in proceedings of this kind income taxes should reflect, as nearly as possible, taxes at the accruable actual liability therefor under the methods of tax calculation authorized under Federal and State laws (Greyhound Lines, Inc., 64 Cal. P.U.C. 641, 653). Therefore, income tax calculations used herein should reflect the totality of applicant's operations. The record shows that the effective tax rate for the latest full year period (1970), as recorded on applicant's books, was approximately 25 percent (Tr.27). We find that such tax rate, adjusted upward by 0.6 percent to reflect the increased state franchise taxes to take effect in 1972, will be reasonable for the purposes of this proceeding.

The projected rate-year data in Table 3, adjusted to give effect to (a) inclusion of non-operating revenues for limousine services of $28,000, and (b) income taxes calculated in the manner described above, are set forth in Column A, below. The data in Column A, revised to reflect an operating ratio (after taxes) of 95.0 percent, are set forth in Column B.

TABLE 4

THE GRAY LINE, INC.

Table 3, Adjusted

	Projected Rate Year Table 3, Adjusted (Col. A)	Col. A Adjusted to 95.0% Oper. Ratio (Col. B)
Revenues		
Regular Sight-seeing	$2,043,262	$1,898,000
Other Operating Revenues	904,223	904,223
Non-Operating - Limousine	28,000	28,000
Total	$2,975,485	$2,830,223
Operating Expenses	$2,642,294	$2,642,100
Operating Income	$ 333,191	$ 188,123
Provision for Income Taxes	$ 85,297	$ 48,159
Net Operating Income	$ 247,894	$ 139,964
Operating Ratio	91.6%	95.0%

The revenue from sight-seeing of $1,898,000, set forth in Column B, represents an increase of 6.8 percent over pre-interim fares.

Findings and Conclusions

The Commission further finds:

1. Based on the information contained in the application and in a staff report, the Commission found in Decision No. 78845 that an interim increase of 5 percent in sight-seeing revenues was justified, pending further review. Applicant seeks a permanent increase of 15 percent.

2. Additional evidence adduced by applicant shows that applicant is in need of annual revenues of approximately $126,000 to offset wage increases and other increases in expenses occurring in 1971. The balance of applicant's request is to improve its earnings.

3. An operating ratio (after taxes) of 95 percent is reasonable for applicant's operations and will not provide excessive earnings.

4. The reasonable test-year operating revenues, expenses and income taxes are those set forth in Table 4. Column B thereof depicts test-year operating results which produce an operating ratio (after taxes) of 95 percent. The increased sight-seeing revenue necessary to produce such operating ratio (including the 5 percent interim increase) is 6.8 percent. Increases in sight-seeing fares in this amount are justified.

5. The increases authorized herein will not contribute to inflationary expectations; there are no gains in productivity which could offset said increases; the increases are the minimum fares which are necessary to assure continued and adequate service; the operating ratio allowed herein is not higher than previously authorized to applicant (60 Cal. P.U.C. 51), and said operating ratio is necessary to assure continued adequate service and is the minimum needed to attract capital. Therefore, the increases authorized are consistent with the purposes of the National Economic Stabilization Program.

The Commission concludes that the application should be granted to the extent provided by the order which follows.

FINAL ORDER

IT IS ORDERED that:

1. The Gray Line, Inc., a corporation, is authorized to establish the increased fares specifically set forth in the column headed "Final Fares" in Appendix A hereof, in lieu of the interim fares authorized in Appendix A of Decision No. 78845.

2. Tariff publications authorized as a result of the order herein 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 the public.

3. Appendix B attached to this decision constitutes the certification required by the Code of Federal Regulations.

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

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

Dated at San Francisco, California, this 4th day of APRIL, 1972.

Chairman

Commissioners

APPENDIX A

PRESENT AND AUTHORIZED SIGHT-SEEING PASSENGER FARES

Tour No.	Present Fares (1)	Interim Fares (3)	Final Fares
1-A	$ 4.00	$ 4.20	$ 4.25
1-B	4.50	4.75	4.80
1-C	5.25	5.50	5.60
1-D	4.20	4.40	4.50
1-E	4.75	5.00	5.10
1-F	5.25	5.50	5.60
2-A	2.75	2.90	2.95
2-B	4.30	4.50	4.60
3-A	3.10	3.25	3.30
3-B	3.70	3.90	3.95
3-C	4.30	4.50	4.60
3-G	3.10	3.25	3.30
5-A	4.55	4.80	4.85
5-B	3.90	4.10	4.15
6	9.90	10.40	10.60
7	7.45	7.80	7.95
8	13.20	13.85	14.10
9	5.55	5.85	5.95
9-A	7.65	8.05	8.15
9-B	6.60	6.95	7.05
12	4.55	4.80	4.85
12-A	4.75	5.00	5.10
14	10.20	10.70	10.90
16	7.75	8.15	8.30
17	2.20	2.30	2.35
21	2.20	2.30	2.35
25	4.95	5.20	5.30
26	6.05	6.35	6.45
27	4.75	5.00	5.10
28	24.05	25.25	25.70
30	23.55	24.75	25.15

PRESENT AND PROPOSED SIGHT-SEEING TOUR PICKUP AND RETURN SERVICE FARE FROM SAN MATEO COUNTY TO SAN FRANCISCO

Present Fare (2)	Interim Fare (3)	Final Fare
$2.10	$2.20	$2.25

(1) The Gray Line, Inc., Local Passenger Tariff, No. 19, Cal. P.U.C. No. 7.
(2) The Gray Line, Inc., Local Passenger Tariff, No. 20, Cal. P.U.C. No. 8.
(3) Decision No. 78845.

APPENDIX B

DATA REGARDING INCREASE
IN SIGHT-SEEING FARES
AUTHORIZED TO
THE GRAY LINE, INC.

(1) The decision of the California Public Utilities Commission to which this Appendix is attached authorizes a 6.8 percent increase in sight-seeing fares in lieu of the interim increase of 5 percent authorized in the Commission's order dated June 22, 1971. The increase authorized by the order to which this Appendix is attached is 1.8 percent.

(2) The rate increase is expected to provide $32,413 of additional annual gross revenue based upon a test year ending February 29, 1972.

(3) Operating ratio (after income taxes) is expected to be 95.0 percent as compared with an operating ratio (after taxes) of 96.5 percent under interim fare levels.

(4) The pre-tax profit under the authorized fares is estimated to be $188,183 based on a test year ended February 29, 1972, as compared with $333,191 sought in the application, and $141,697 actually earned in 1970.

(5) Sufficient evidence was taken in the course of the proceeding to determine whether or not the criteria set forth in paragraph (d), (1) through (4) of Title 6, Chapter III, Part 300, Sect. 300.16 of the Code of Federal Regulations, as amended effective January 17, 1972, are met by the rate increase.

(6) The increase is cost-based, and does not reflect future inflationary expectations; the increase is the minimum required to assure continued, adequate and safe service and to provide for necessary expansion to meet future requirements; the increase will achieve the minimum rate of return needed to attract capital at reasonable costs and not to impair the credit of the public utility. This Appendix to the rate decision constitutes the certification required by the Code of Federal Regulations.