

Decision No. 86338**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
NORTHGATE TRANSIT, INC., to increase fares
to help offset the increased fuel costs,
labor costs and the general inflationary
spiral of all products purchased; in
addition the astronomical increase in
our insurance rates from \$22,244.00 in
1972 to \$63,717.00 in 1976.

Application No. 56301
(Filed February 27, 1976)

John A. Putkey, Attorney at Law, for Northgate
Transit Co., Inc., applicant.
Albert E. Polonsky, City Attorney, for the City
of Daly City, protestant.
Hanson, Bridgett and Marcus, by Bruce McDonough,
Attorney at Law, for San Mateo County Transit
District, interested party.
Elmer Sjostrom, Attorney at Law, Marc E. Gottlieb,
and A. L. Gielegem, for the Commission staff.

O P I N I O NStatement of Facts

There barely exists on the peninsula just south of San Francisco an anachronism known as Northgate Transit Co., Inc. (Northgate). In an era when urban mass transit is largely characterized by publicly owned and subsidized systems, this last vestige of private enterprise precariously continues to provide public transportation in Daly City as well as in parts of South San Francisco, Pacifica, Colma, and unincorporated territory in San Mateo County.

Incorporated in 1955 as a California corporation, Northgate was first certificated as a passenger stage corporation to provide service between Daly City and Broadmoor Village by Decision No. 52272 dated November 22, 1955 in Application No. 37180. The initial operation was essentially a jitney operation by a group of individuals

who owned and operated vehicles, mostly 8-passenger limousines, leased to Northgate under an arrangement whereby the owner-drivers retained all but one cent of the fares, but were responsible for the expense of operating and maintaining their own vehicles.^{1/} By subsequent certifications continuing as late as 1974, authority was granted to extend service locally to Westlake and Stonestown shopping areas, Serramonte Shopping Center, Westlake Terrace, Skyline College, and South San Francisco, and buses replaced the limousines. Despite notification to Daly City, South San Francisco, Pacifica, Colma, and the county of San Mateo, no protests to these authority extensions were received.

In early 1974, Northgate requested Commission approval for a 5-cent increase in its basic fare and its student fare--the first adjustment, apart from a weekend fare adjustment in 1971, in eleven years. By Decision No. 82875 dated May 15, 1974 in Application No. 54768, this increase was approved, bringing the fares to 30-cents basic fare, 20-cents student fare, and leaving the weekend fare at 35 cents. Despite notice, only one protest was received, and that after the decision was signed. In that decision the Commission, reflecting that Northgate received no operating subsidies from any public source and that Pacifica and Daly City were among the few California urban communities receiving local public transit at no cost to their taxpayers, stated that "...if Northgate were structured as are most other transit systems, with carrier-owned equipment and employee drivers, the system would operate at a substantial deficit..."

^{1/} Interestingly enough, in 1955 the City Manager of Daly City favored granting authority to Northgate, it being his opinion that the proposed unique operation was sufficiently flexible to succeed, whereas a larger and more conventional type of transit operation would not.

Although Northgate has never issued stock, over the years its affairs have been handled by a "Board of Directors", a group comprised of a coalition or core of founder owner-drivers, which group changes in part from time to time as the interests of different individuals coalesce or dissipate. In more recent years the board has employed a general manager to handle day-to-day operations. In 1973 its general manager (also a Northgate co-founder), vice-president, and secretary treasurer had the misfortune to meet a carload of teenagers head on. Severely injured, for a considerable period thereafter, he was unable to exercise control. While under the direction of a general manager hired to replace him, Northgate's community relations, operating efficiency, and employee morale deteriorated substantially. Northgate thereafter was beset by a host of problems, not the least of which was a major labor dispute. On November 18, 1974, as the result of this dispute with Northgate's management, 90 percent of the owner-drivers refused to submit to the control and management of Northgate and affiliated themselves as Daly City Transit System (DCTS). DCTS possessed no Commission passenger stage authority but nonetheless proceeded to operate in competition over many of Northgate's routes. This exodus of owner-drivers left Northgate a shambles. Despite this, Northgate attempted to continue operations, using hastily assembled equipment and new drivers. Service was irregular as acts of sabotage hampered Northgate's efforts to restore some semblance of regular service. Public ire mounted as service declined, and Northgate sought and obtained injunctive relief. On April 10, 1975 Northgate's insurance was cancelled, and Northgate ceased operations at the direction of the Commission until May when insurance again was obtained. It was also discovered that Northgate's corporate authority had been suspended by the California Secretary of State since 1971 by reason of its failure to pay state franchise taxes under Revenue and Taxation Code Section 23301; a matter immediately corrected by Northgate.^{2/}

^{2/} The Franchise Tax Board on November 27, 1974 issued a Certificate of Revivor, reinstating Northgate.

As a result of the crescendo of public protest over the situation, in April 1975 Daly City filed a formal complaint (Case No. 9907 filed April 28, 1975) with the Commission asking cancellation of Northgate's passenger stage certification for failure by Northgate to (1) maintain continuous insurance coverage, (2) properly maintain and repair its vehicles, (3) provide an adequate number of vehicles to service its routes, (4) maintain records, (5) properly train its personnel, (6) maintain schedules, (7) service all its routes, and (8) render reasonable and adequate service to the public. The city of South San Francisco intervened to ask cancellation of Northgate's authority to operate certain routes in South San Francisco because Northgate had ceased those particular operations. On March 25, 1975, Northgate's directors had voted to "accept the resignation" of its general manager, but it took until August 8, 1975 and a court order to get him out of the office.

Recognizing that the relatively recent general dissatisfaction with Northgate's service could well have been caused principally by the labor dispute and mass exodus of drivers, this Commission, pursuant to Section 1032 of the Public Utilities Code,^{2/} determined to give Northgate an opportunity to rehabilitate its service, and by Decision No. 85347 dated January 13, 1976 in Application No. 55352 and Case No. 9907, cancelled Northgate's certificate of public convenience and necessity, and in lieu thereof issued a probationary certificate pending subsequent hearings after an interval to ascertain whether Northgate has been able to reestablish service satisfactory to the Commission.

^{2/} Public Utilities Code Section 1032 in pertinent part, provides that the Commission may issue a certificate "... for the partial exercise only of the privilege sought, and may attach to the exercise of the rights granted by the certificate such terms and conditions as, in its judgment, the public convenience and necessity require". The section also serves to restrict issuance of additional certification to instances "...when the existing passenger stage corporation...will not provide such service to the satisfaction of the Commission".

Since mid-1975 Northgate has been operating under a new general manager who for two years previously had driven a bus for the company. Most of the dissident owner-drivers involved in the labor dispute returned to Northgate by mid-1975, and at present Northgate is operating on all authorized routes, utilizing twelve buses with an additional seven on standby. Northgate continues its unique method of unsubsidized operation with the owner-drivers retaining all fares but each responsible for the maintenance and expenses of his bus.^{4/} An owner-driver presently pays \$50 a week to Northgate for a route and \$400 a month for insurance coverage supplied under Northgate's blanket policy.

By this application Northgate seeks a 5-cent increase to each of its three fares (weekend and holiday, adult-week day, and school fares) with no change to the 10-cent zone fare. Noting that it has had no fare increase since a similar 5-cent increase was approved in April 1974, Northgate cites increased costs of operations, notably a substantial increase in insurance premium, and argues that Northgate and its drivers are deprived of a just and reasonable return on capital and labor devoted to the business. The application is opposed by Daly City and the city of Pacifica, although only Daly City made an appearance. In conformity with the requirements of Section 730.3 of the Public Utilities Code, the Commission notified those state and local public agencies and corporations operating public transit systems within the territories serviced by Northgate. Two responded.

^{4/} It is noteworthy that the Commission records reveal that in January 1976, the Motor Carrier Safety Section of the California Department of Highway Patrol awarded Northgate a "B" maintenance rating (which is a good report), and in February 1976 the rating was "Fair". This is the last report on record.

A duly noticed public hearing was held June 8, 9, and 10, 1976 in San Francisco before Examiner John B. Weiss. At the conclusion of this 3-day hearing the matter was submitted subject to receipt of briefs July 1, 1976.

Discussion

It is very evident that Northgate exists, and that for all its very real problems, does provide the only carrier service in the area it serves. Northgate transports over one million passengers a year, and, absent a present viable alternative, it is an absolutely essential public service.^{5/} Despite juicy headlines derived from loose talk that paid scant attention to its consequences, nobody is getting rich from it. Quite possibly Northgate is an impudent relic from another era when any individual or group of individuals who perceived a need could step in and in bootstrap fashion provide a service to fill that void. In this fare increase application, however, we are not concerned with the question whether Northgate should be continued as a certificated carrier; that issue will be determined this fall in other proceedings before this Commission.^{6/} Nor can we, pending resolution of that longer range problem, stand by and disregard

^{5/} San Mateo Transit District, appearing as an interested party taking no position on the application, plans to consolidate bus operations in San Mateo County under a single public management entity over the period 1976-1980. Toward that end, the District is presently performing an appraisal of the assets of Northgate with the knowledge and cooperation of Northgate. The District is hopeful of negotiating acquisition of all of Northgate's operations. 80 percent of the funding for all capital equipment to be purchased will come from federal grants. This year the District as yet has received no federal funds. Thus any acquisition of Northgate by the District necessarily rests in the indefinite future. The only visible other alternative, Daly City Transit System, the applicant in Application No. 55352, presently set aside pending further hearings this fall, is purely embryonic at this time.

^{6/} By Decision No. 85347 dated January 13, 1976 the submission in Application No. 55352 was set aside and the application reopened for the purpose of receiving evidence on the improvement in Northgate's service between August 6, 1975 and July 13, 1976. These hearings will be scheduled this fall.

an urgent application for a fare increase based on an amply demonstrated need by this financially beset carrier while that carrier rushes pell-mell down the financial drain. To ignore the immediate financial need would only serve to injure the interest of the very passenger public we are here to protect, and would also be deleterious to the cause of public transit, and encourage the use of private automobiles in contravention of San Mateo County's avowed public transit policy. Regulation is not so infertile a principle that it cannot recognize the urgent need to maintain a carrier's viability pending resolution of these other issues.

We recognize the fact that the unusual organization and operational setup of Northgate, complicated further by the managerial changes over the past several years, make it difficult to obtain precise or conventional figures on operations or rate base. But in this instance, as regards Northgate itself, it is unnecessary to concern ourselves with conventional delineations, with questions of historical cost, additions, depreciation, and expenses, all matters leading to the rate of return. Here, while the application is couched in terms of the necessity for a fare increase to benefit both Northgate and the owner-drivers, at the hearing it quickly became evident that the fruits of such an increase in fares, if granted, were intended for and would go to the owner-drivers alone, with only residual collateral benefits to Northgate. For example, enhancing the ability of the owner-drivers to regularly pay the weekly route fee and the monthly insurance coverage charge would benefit Northgate in that then Northgate would have revenue to pay its own bills. The new general-manager testified that Northgate was behind in paying his salary because some of the owner-drivers had insufficient income from their fare collections to regularly pay Northgate. And without these payments Northgate has little or no income. Under the particular facts of this application

it must always be remembered that Northgate's owner-drivers are in essence independent contractors. They retain all the fares they collect as their income, pay their own expenses, and file their own internal revenue and state franchise tax board business returns. The fares are their money.^{7/} The owner-drivers are required to inform Northgate, either orally or in writing, of the weekly revenue they collect so that Northgate can include this data in summary form in Northgate's annual reports to the Commission. But Northgate has no direct financial interest in the fares collected nor are they funneled through Northgate. It is also generally recognized that the owner-drivers for reasons of their own generally hedge or underreport fare revenue when submitting that weekly information to Northgate. Therefore the fare revenue reported in turn by Northgate is concededly understated and unreliable.

It was against this backdrop of unreliable operational data that the staff, after receipt of the application, sent its own personnel to visit Northgate to verify and gain information, utilizing the pro forma balance sheet which accompanied the application. The staff was unable to verify much beyond certain office expenses, a salary payment to the general manager, and the insurance costs. At the hearing the financial staff's chief witness asserted that the application was deficient under Rule 23 of the Commission's Rules of

^{7/} Unhappily, the word "defalcation" was loosely used in testimony describing the difference between what the drivers receive as fares and what they report to Northgate as having been received.

Practice and Procedure in that it lacked a balance sheet. But the witness proceeded, using the annual report for calendar year 1975 from Northgate--which report had been filed late on May 3, 1976. After considerable step-by-step analysis the annual report proved to be of little value. Although purporting to consolidate Northgate operations with those of the owner-drivers, it merely served to point up the complete confusion of the preparer, and was replete with error. In short, the traditional approach to the issues of reasonableness of rates could not be rationally followed, and the Finance and Accounts Division of the Commission staff stated for that reason it could not recommend granting any increase at this time.^{8/} On the other hand, the Transportation Division of the Commission staff, recognizing incipient signs of potential disintegration arising out of financial distress, recognizing the public need today for continuation of this vital passenger bus service; and recognizing that the service probably will be taken over in the not distant future by the San Mateo County Transit District, recommended granting the requested fare increases. In visits to Northgate the staff had been able to verify some benchmark expenses--in particular the \$39,000 increase in insurance premiums--and by its traffic study on Northgate the staff had obtained what it considered to be reliable data on passenger count, mileage, and fare revenue.

^{8/} The Finance and Accounts witness testified that because Northgate's records were insufficient and not in conformity with Commission Regulations and practice, and certain financial conditions set forth in Decision No. 85347 dated January 13, 1976 in Application No. 55352 and Case No. 9907 do not appear to have been fully met, F&A could not determine whether a fare increase was justified, and accordingly recommended denial of the application.

upon which to base valid projections. Using its professional expertise in this regard, and drawing upon its fund of information on industry standard costs for equipment maintenance, depreciation allowances, and transportation costs (fuel and oil), the Transportation staff prepared a credible preliminary Results of Operations Study to support its recommendation.

Unusual situations demand innovative approaches. We agree with the approach taken by the Transportation Division, the only practical one under all the circumstances of this case. Unless it can be shown from the evidence at hand that in some way the Northgate corporate entity is earning some excessive return above its proper expenses, we need not consider further Northgate's corporate condition at this time. In light of the thrust of Northgate's application, summarized in its closing brief that "The Northgate drivers are entitled to receive fair compensation for their efforts", we need only consider here the financial condition of the owner-drivers on whose behalf this application is made. Adjusting the staff figures to reflect the 12-driver positions testified as operational,⁹ we derive the following Northgate corporate cash flow analysis:

⁹/ Northgate's general manager testified that the company has a total of 12 buses in operation to service the routes (transcript page 38, lines 15-17), and that an average of 12 driver-owners pay the \$50 route fee each week (transcript page 419, lines 4-16).

Cash Flow - NorthgateIncome

| | |
|--------------------------------------|-----------------|
| Driver Route Payments: | |
| \$50/wk. x 52 wks./yr. x 12 drivers | \$31,200 |
| Driver Insurance Payments: | |
| \$400/mo. x 12 mos./yr. x 12 drivers | 57,600 |
| Total Income | <u>\$88,800</u> |

Expenses

| | |
|-------------------------------------|------------------|
| Traffic Schedules | \$ 319 |
| Insurance | 64,048 |
| Officers (Geo. Ferris) | 12,000 |
| Office Employees (Manager's Salary) | 11,400 |
| Legal | 2,950 |
| Office Supplies | 1,417 |
| Communications | 1,300 |
| Accounting | 900 |
| Oper. Taxes and Licenses | 309 |
| Rents | 8,400 |
| Taxes | 2,700 |
| Other | 50 |
| Total Expenses | <u>\$105,793</u> |

This cashflow study clearly evidences that Northgate's income does not equal its expenses. It is approximately \$16,993 short. However, Northgate's general manager testified that the weekly route income paid by the drivers suffices to meet Northgate's operational and yard maintenance and "stuff such as that".^{10/} We are aware of the latitude in these figures and that some advertising revenue may be forthcoming when the new 50-50 split arrangement becomes operational for advertising, but it is very evident that rate of return computations would be academic

^{10/} Transcript page 54, lines 27-30; page 55, line 1. In addition, the co-founder, co-owner, vice-president and secretary-treasurer of Northgate testified: "For the second time in 21 years the company has shown a profit." (Transcript page 251, lines 14-15.)

at best. Satisfied that Northgate itself is earning no excessive rate of return, we accordingly turn our attention to the financial condition of the owner-driver, the intended beneficiary of any increase granted.

As noted earlier, each owner-driver, out of the fare revenues he collects, must maintain his own bus, provide fuel, oil, and tires, and pay Northgate the route and insurance fees. The amount remaining after provision for these items is his net income. There is controversy, confusion, and concealment regarding the mileage covered, the number of passengers carried, and the revenue obtained. However, in March 1976 the Commission staff sampled operations of the carrier and from that sample projected 800,000 passenger bus miles run annually by Northgate, 1,309,000 passengers carried, and fare revenues of \$394,000. We adopt the staff projection. Since the last fare increase in 1974, the cost of insurance (in effect apportioned over the driver positions by the monthly insurance charge made by Northgate) increased from \$24,642 a year to \$64,048 a year, and the route fee increased from \$25 a week to \$50 a week. The staff estimates a patronage drop of 54,000 annually to 1,255,000 passenger fares if the requested increase is allowed, and a net annual increase in revenue of \$45,000 to \$439,000. Each driver position, and the testimony was that there are twelve, operates 12 hours a day, 6 days per week. Application of this data, together with certain standard industry cost figures per bus mile, results in the following comparative Estimated Results of Operation--at present fare levels and with the requested increase:

Northgate Owner-Drivers
Estimated Results of Operations

| | <u>At Present Fare</u> | <u>With Fare Increase</u> |
|------------------------------|----------------------------|-------------------------------|
| <u>Income</u> | | |
| Total Passenger Fares | \$394,000 | \$439,000 |
| <u>Expenses</u> | | |
| Equipment Maintenance | 41,900 | 41,900 |
| Fuel and Oil | 78,800 | 78,800 |
| Insurance (400 x 12 x 12) | 57,600 | 57,600 |
| Route Fee (50 x 52 x 12) | 31,200 | 31,200 |
| Depreciation* | 12,000 | 12,000 |
| Total Expenses | \$221,500 | \$221,500 |
| Net Income to Owner-Drivers | \$172,500 | \$217,500 |
| Driver Positions | 12 | 12 |
| Net Wage per Driver Position | \$ 14,375 | \$ 18,125 |
| Net Hourly Wage** | \$ 3.84 | \$ 4.84 |

*The Examiner reduced the staff's allowance for depreciation by 1/3.

**12 hours/day x 6 days/week x 52 weeks/year = 3,744 hours/year.

From the foregoing estimated results of operations, it can readily be seen that at present fare levels, the Northgate owner-drivers net an approximate hourly wage of \$3.84 per hour. (This hourly rate, were it adjusted to reflect conventional overtime standards applicable to similar hourly paid workers, would actually result in a rate substantially less than \$3.84 per hour.) With approval of the requested fare increases, the net hourly wage would be increased to approximately \$4.84 per hour. (Again, this hourly rate would be substantially less were it adjusted to reflect conventional overtime pay standards.) It must further be noted that there are no fringe benefits at Northgate in addition to the hourly wage derived from the fare revenue.

The question remains, would the granting of the requested fare increases which would increase the approximate net hourly wage to \$4.84 result in an unreasonable hourly wage for the owner-drivers? The answer, we believe, unquestionably is "no"! The Grant Coordinator and Legal Advisor to the San Mateo County Transit District testified that the District has notified existing operators in San Mateo County that the District is soliciting and accepting applications from the drivers of these operators at wage rates ranging from \$4.18 to \$5.43 per hour, based on the experience of the driver. Relating these offered wages to the Northgate drivers, she testified that because of their experience most of Northgate's drivers would be offered the top wage, that is \$5.43 per hour, were they to accept employment with the District. Additionally, the District has a health benefit plan for which the District pays 75 percent of the premium. (For example, under the Kaiser plan for a family of 4, the District pays \$51.03; the driver \$17.01.) The District also offers a family dental insurance plan. When viewed against this pay and fringe benefit package, and considering that the San Mateo County Transit District would be the probable successor to Northgate if the District carries out its long-range program, it can scarcely be seriously contended that the Northgate owner-drivers would be unreasonably over-paid at \$4.84 per hour!^{11/}

It is fundamental that a transportation utility is entitled to a reasonable return. Such companies are needed for the public good and must be kept viable. It is not expected that a profit in the conduct of the business should be insured by the Commission, but rather that, rendering reasonable service, the enterprise may be

^{11/} Under provisions of Section 13-C of the Urban Mass Transportation Act of 1964, where the Secretary of Labor must find that employees of private local operators will not be adversely affected by any grants, it appears that the District would have to offer employment to Northgate's drivers were it to displace Northgate.

allowed to earn sufficient revenue to the end that a fair return may be anticipated as the result of its operations. A rate which is too low to bring in a reasonable return is said to be "confiscatory", and a taking of property without due process. (Smyth v Ames (1898) 169 US 466, 526.) It is argued, and evidence was introduced to show, that the service rendered by Northgate today is at times substandard and inadequate.^{12/} But rates cannot be determined on consideration of relative service conditions alone, although the quality of service rendered necessarily must have a bearing upon the compensation to be paid for the service. Other factors, such as the adequacy of operating revenues from existing rates, operating expenses, and the practical considerations under which the company is operating, must be considered (Brainard et al. v Southern California Telephone Company (1923) 24 CRC 14, 17.) Under existing conditions, while the applicant is attempting to rehabilitate a completely debilitated operation, some riders may in fact be receiving less than satisfactory service. In no way do we condone this, but realistically the Commission must look to the overall good of all the public involved. We must consider the inevitable consequences of continued inadequate revenues to this unsubsidized operation. We cannot refrain from authorizing reasonable rates so urgently needed to continue viability merely because certain individuals and public groups, including municipalities, assert that the increase should not be granted. Over one million rides a year are at stake. We cannot find that the fares proposed are on their face unreasonable for a company which receives no operating subsidy whatsoever. Appended to the brief of the San Mateo County Transit

^{12/} Two public witnesses presented statements against the proposed increase, discussing service problems, questioning safety, and alleging insufficient and aged equipment on their routes. A board member of the Westlake Subdivision Improvement Association reported some 25-30 complaints in the 10 days before the hearing had been received from its members relating to the level of service, scheduling and equipment, and opposing a fare increase.

District filed in this proceeding was a copy of the District's Short Range Objectives--Transit Improvement Program, 1976-1980. Among the goals set forth therein was the objective of the District earning at least 40 percent of its revenue from its fareboxes by 1980.^{13/} It is apparent that there is a relationship between the farebox revenue and the District's operational revenue needs but no testimony was obtainable from the District witness in this regard. Such of the relationship as can be inferred filtered through the witness's testimony and the immediately succeeding statements in the District's Short Range Objectives Statement of the amounts of state and federal financial assistance (showing a "reasonable expectation of \$55.8 million in State and Federal funds" 1976-1980). It is obvious that the District will heavily subsidize bus operations. We can certainly well understand the preference of residents and municipal authorities for the well publicized lower level of fares which would assertedly be effective should the San Mateo County Transit District at some time in the perhaps not distant future take over and succeed to Northgate's routes. But in the meantime we must sustain Northgate's ability to continue to provide the basic transportation needs of the members of the general public who utilize its service each year^{14/} to the extent of over one million rides.

^{13/} San Mateo Transit District's fare schedule adopted July 1, 1976 established a basic rate of 25 cents plus a 10-cent zone fare. There was no student rate adopted although there are exceptions for passengers under 7 years of age or over 65 years of age and the handicapped.

^{14/} And when weighed against service deterioration such as would result from owner-drivers sloughing off parts or all of the less remunerative runs in order to make ends meet, the loss of an anticipated 54,000 rides as a result of a fare increase must be deemed acceptable. The sudden demise of Northgate could result in dumping thousands of people into the local roads each day with far more serious consequences to the environment than the possible loss of fares anticipated from a fare increase.

Pursuant to the requirements of Section 730.5 of the Public Utilities Code a number of state and local public agencies and corporations operating passenger transit systems in the area served by Northgate were advised of the proposed rate increase and solicited for their analysis of its possible effect on overall transportation problems. Two, the city of South San Francisco, and the San Mateo County Transit District, responded:

- (1) The city of South San Francisco made reference to Decision No. 85347 dated January 13, 1976 and asked determinations:
 - (a) That Northgate has reasonably progressed toward meeting the staff recommendations set forth in that decision, and that the progress attained projected a reasonable possibility of complete compliance before expiration of the temporary certification period.
 - (b) That this increase is required to provide the service standards set forth in that decision.
 - (c) That the increase proposed would not create financial hardship for the aged, handicapped, and low income riders.
- (2) The San Mateo County Transit District, against the backdrop of its objective of taking over all county bus transportation, asked that the Commission do nothing detrimental to "implementation of an orderly, comprehensive bus transit system by the District".

We have, as charged by the law, considered the points raised by the city of South San Francisco and the San Mateo County Transit District, and to the extent not covered elsewhere in our discussion, we make these additional comments. Northgate has made progress toward an objective of service which is acceptable to this Commission, and with reference to the recommendations contained in Decision No. 85347, it has elected to continue the owner-driver organizational format with all fares going to the owner-drivers; a general manager is functioning; overhead is reasonable; all routes authorized are being run; maintenance

generally has met Highway Patrol acceptance; replacement drivers and equipment are provided for; and buses were operating "very close to their scheduled times" when the traffic study was made by the staff. The progress attained indicates reasonable possibility of compliance--particularly if this increase is granted. The increase, while peripherally expected to enhance attainment of the service standards set as goals in Decision No. 85347, is primarily intended to offset the \$39,000 increase in insurance premium which the owner-drivers must meet. It is reasonable to anticipate that any fare increase, as with any increase in the cost of living, will result in some financial hardship to those of limited income, whether aged, handicapped, or poor. However, it must be remembered that, where deemed to be in the public interest, subsidization of transportation--or of anything else--for the senior citizen, the handicapped, or those of low income is primarily a fundamental concern and obligation of all the community, and a company in financial straits attempting to run a bus service cannot be expected to assume the community's burden. No one has offered Northgate a subsidy, and the company lacks the taxing power to underwrite subsidies to certain interest groups, however laudable the intent. Lastly, the purpose of this increase is to keep Northgate operating and one million rides from being made in private automobiles. Nothing here will prejudice negotiations between Northgate and the San Mateo County Transit District.

In the opinion of this Commission it is in the overall public interest that the fare increase be granted as requested, and as recommended by the Transportation staff in its study^{15/} and that Northgate be authorized to file a revised tariff to reflect these

^{15/} On our own motion we admit Exhibit No. 12, the staff study, into evidence. Although marked for identification and extensively examined on direct and cross, through inadvertence it was not admitted during the hearing.

increases of 5 cents each to the adult basic fare, the student fare, and the weekend fare. No increase was requested nor is any increase authorized in the zone fare. In view of the precarious financial condition of the owner-drivers, and to avoid a very real possibility of service deterioration resulting out of further delay, this order should be made effective the date it is signed.

Findings

1. Northgate is a passenger stage corporation under the jurisdiction of this Commission, and at present holds probational certification to provide urban bus transportation on the peninsula south of San Francisco.
2. Northgate since 1974 has been beset by serious managerial and labor problems, including a paralyzing strike, following an incapacitating accident in 1973 to the co-founder officer who was then its general manager.
3. Northgate has since been laboring, with some success, to rehabilitate itself toward providing the kind of service acceptable to this Commission.
4. Northgate operates with no subsidy of any kind, handling at the present time over one million fares a year, and providing the general public in its territory a service critically necessary.
5. Under Northgate's mode of operation, it provides routes, managerial direction, and a blanket insurance coverage, while its independent contractor drivers furnish their own vehicles. All fares collected are the property of the owner-driver.
6. Out of his fare revenue, each owner-driver at present pays Northgate \$50 per week for a route, and \$400 per month for insurance coverage. In addition, each owner-driver pays all his transportation costs and maintains his own vehicle.

7. Largely as a consequence of a dramatic increase in the cost of insurance coverage mandated by state law, and to offset that additional cost burden which falls on its owner-drivers, Northgate has requested by this application a fare increase of 5 cents applicable to each class of service other than the zone fare.

8. An offset proceeding is designed to provide prompt relief on limited issues.

9. The insurance cost increase is extraordinary, and the proper subject of an offset proceeding.

10. Because of inadequate, incomplete, and missing records, in part resulting out of managerial problems in recent years, it is not feasible to put together a meaningful result of operations study on the consolidated Northgate operation.

11. Sufficient information is available and can be verified to show that Northgate revenues do not meet expenses.

12. In that Northgate seeks no direct corporate relief but seeks relief only for its owner-drivers, we need look only to the financial condition of the owner-drivers.

13. The Commission Transportation Division staff, utilizing its expertise and standard industry costs, as well as verified data and its traffic study, projected a reliable estimated results of operations study on the owner-driver operation.

14. As adjusted to reflect certain changed factual data, the estimated results of operations study indicates an average net wage after expenses of approximately \$3.84 per hour.

15. The increase in fares requested would result in an approximate addition of \$45,000 to the owner-drivers' gross revenue.

16. The increase of approximately \$45,000 to owner-driver gross revenue would add approximately \$1.00 per hour to the average net wage, raising it to \$4.84 per hour.

17. There are no fringe benefits provided by Northgate.

18. San Mateo County Transit District, with plans within the next five years to expand so as to embrace all urban bus operations in the county; operating on a financial revenue basis which depends upon the farebox revenue for only up to 40 percent of its operating revenue; and with 80 percent of its capital costs to be funded by federal grants, is presently seeking and offering a wage of \$5.43 per hour plus a substantial health and dental fringe package to local area drivers, including Northgate's, with experience.

19. A \$4.84 per hour wage is not an unreasonable wage to be paid urban bus drivers in this area.

20. Considering its lack of any subsidy, Northgate's proposed fare schedule compares well with the heavily subsidized San Mateo County Transit District fare schedules in effect elsewhere in San Mateo County.

21. Despite admitted inadequacies of equipment, and some deficiencies in service, it is critically important to the general public presently transported that Northgate be kept operating and viable at this time.

22. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

23. The potential loss of approximately 54,000 fares a year resulting from a fare increase is acceptable, particularly when viewed against the probable adverse environmental impacts were Northgate as a result of inadequate owner-driver revenue to disintegrate, in whole or part, forcing its riders to resort to automobiles.

24. To avoid possible service deterioration arising from the demoralizing financial situation of the Northgate owner-drivers, this order should be effective the date it is signed.

Conclusions

1. The proposed fare increase is necessary to provide an urgently required increase in the net wage level of the owner-drivers of Northgate to offset the increased costs being incurred, particularly the extraordinary rise in insurance premiums.
2. The proposed fare schedule is reasonable for an unsubsidized urban bus operation in this territory.
3. The proposed fare increase should be granted.

O R D E R

IT IS ORDERED that:

1. Northgate Transit Co., Inc. is authorized to establish the increased fares proposed in Application No. 56301. Tariff publications authorized to be made as a result of this order may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.
2. The authority 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 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.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 31st
day of AUGUST, 1976.

William J. Brown President
Leon J. Thompson
Robert Bateman Commissioners