

ORIGINAL

Decision No. 87031

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application )  
of California Sightseeing Tours, )  
Inc., for authority to increase )  
certain rates. )

Application No. 55722  
(Filed June 6, 1975;  
amended June 18, 1976  
and July 16, 1976)

Christopher Ashworth, Attorney  
at Law, for applicant.  
Milton J. DeBarr, Jr., for the  
Commission staff.

O P I N I O N

California Sightseeing Tours, Inc. (Cal-Site)<sup>1/</sup> is engaged, among other things, as a passenger stage corporation in the transportation of school children between homes and 18 schools in the Palos Verdes area of Los Angeles County.<sup>2/</sup> Authority to perform the pupil transportation involved was granted by Decision No. 82794 (1974). Applicant seeks authority herein to increase its school bus rates by approximately 20 percent. Applicant is a wholly owned subsidiary of Educational and Recreational Services, Inc. (E&RS), which itself is owned by ARA Services, Inc.

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<sup>1/</sup> The name of the applicant in the caption to the original application was revised in the amendment filed June 18, 1976. In the original application the caption read as follows: "In the matter of the application of Educational and Recreational Services, Inc., d.b.a. California Sightseeing Tours, Inc., for authority to increase certain rates."

<sup>2/</sup> Cal-Site also conducts various other passenger stage operations in the State, as well as charter-party carrier and contract school bus services.

Public hearing was held at Los Angeles on October 5, 1976 before Examiner Norman Haley. The matter was submitted November 1, 1976, the due date for receipt of late-filed Exhibit 3.

Applicant's present rates, as authorized by Decision No. 32794 and set forth in Cal-Site's Local Passenger Tariff No. 2, are as follows:

	<u>Monthly Rate</u>
First Child	\$ 9.90
Second Child	8.65
Third Child	7.65
Family Maximum	26.20

Applicant proposes to charge rates on an annual basis. The following table shows present rates converted to an annual basis (using 10 school months) and proposed increased rates:

	<u>Annual Basis</u>			
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>	<u>Percent Increase</u>
One Child	\$ 99.00	\$118.80	\$19.80	20%
Two Children	186.00	223.20	37.20	20%
Three or More	262.50	315.00	52.50	20%

Southern California Rapid Transit District (SCRTD) recently has established service in the area.<sup>3/</sup> Set forth below is a comparison of the round-trip rates of SCRTD and the present and proposed rates of Cal-Site converted to a daily basis (using 177 days in a school year):

	<u>Daily Basis</u> <u>(Round-Trip Rates)</u>		
	<u>SCRTD</u> <u>(Each Child)</u>	<u>Cal-Site</u> <u>(Present)</u>	<u>Cal-Site</u> <u>(Proposed)</u>
1 Child	\$.70	\$.56	\$.66
2 Children	.70	.55	.62
3 Children	.70	.49	.58
4 Children	.70	.37	.44
5 Children	.70	.29	.35

Applicant contends that its Palos Verdes school bus operations produce a net operating loss; that since Decision No. 82794 was issued in 1974 expenses have risen continuously; and that in order to provide and maintain the equipment required for the common carrier school bus operations and to provide an adequate level of service to the school children in the area, the requested rate increases are necessary. Applicant alleges that even with the requested increase it will still have a loss due to declining patronage and spiraling costs.

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<sup>3/</sup> A letter dated August 18, 1976 was received by the Commission from the general manager of SCRTD regarding this application. The last two paragraphs read as follows:

"Applicant provides school bus service within the area of Los Angeles County known as the Palos Verdes Peninsula. The approximate 25% proposed rate increase will still permit students to ride to and from school at a cost just slightly less than on District service.

"It is the determination of our staff that District service is available if the proposed increase in cost is felt to be beyond the merit of service provided by this private carrier. The District has no objections to this application for an increase in fares."

A representative of the Commission's Finance & Accounts Division testified concerning Exhibit 1 which is a 36-page financial report relative to the operations involved. According to the witness, the regulated common carrier Palos Verdes school bus operations of applicant are performed as part of the company's Harbor City Division. Exhibit 1 shows that the Harbor City Division provides school bus service under contract with the Los Angeles School Board, in addition to the per capita school bus operations here involved.

It was stated by the staff financial witness that all of the financial and operating data for the Harbor City Division is viewed by Cal-Site on a divisional basis only. Neither the general ledger of Cal-Site nor the general ledger of E&RS reflect separately the results of the Cal-Site certificated school bus operations. Operating revenues of Cal-Site and most of its operating expenses are recorded in the general ledger of E&RS. Operating properties used in the Cal-Site certificated operation are recorded on an intermingled basis in the general ledgers of both Cal-Site and E&RS. The general ledger of Cal-Site does not reflect a complete recording of all other balance sheet items. It was stated that for these reasons it was necessary that all financial statements in Exhibit 1 be prepared on a basis consolidating the certificated and noncertificated school bus operations of Cal-Site and E&RS in the Harbor City Division.

The last table in Exhibit 1 (Table I) is a comparative operating statement of school bus operations of the Harbor City Division for three 12-month periods. For the most recent 12-month period, which ended April 30, 1976, the table shows school board contract revenues of \$409,920, and Palos Verdes per capita school bus revenues of \$532,376, for a total of \$942,296. The operating ratio, which reflects consolidated expenses of the combined operations, was calculated at 83.6 percent. The staff witness was of the opinion that applicant has highly efficient management, but since it has failed to keep accounting records sufficient to reflect the results of operation of the regulated school bus service, no increase in the per capita fares should be authorized. He recommended that applicant be ordered to design its general ledger accounting procedures so as to segregate the operating results of the regulated school bus operation. He admitted on cross-examination that the regulated operation should stand on its own and should not operate at a loss, even though the parent corporation may show a profit.

Applicant called the comptroller of the western area of the transportation group of ARA Services, Inc. Among other things, the comptroller is the custodian of the records of applicant. According to this witness the Harbor City Division is a medium-sized division of ARA Services, Inc. operating 73 buses in the general area involved. He testified that three separate types of bus services are performed. Cal-Site performs the per capita school bus service; E&RS provides regular student transportation under contract with the Los Angeles School Board; and E&RS transports students under contract with the Los Angeles School Board to and from the Southern California Regional Occupational Center (SCROC). This is a high school vocational training center

operated by the Los Angeles School Board. In the past, revenue from the Los Angeles School Board contracts, including SCROC, was contained in the same account. SCROC revenue assertedly could be distinguished from billing records. Now there is a separate revenue account for the SCROC contract. The comptroller stated that records for the Harbor City Division contain all expenses applicable to the SCROC contract. They are part of the expenses attributable to service performed for the Los Angeles School Board.

Exhibits D-1, D-2, and D-3 appended to the application are three methods employed by Cal-Site to reflect results of operation of its regulated school bus service for the four-month period, January 1 to April 30, 1976. The three methods each show a loss. Exhibits D-1, D-2, and D-3, as corrected on oral testimony, show that for the four months ending April 30, 1976, Cal-Site's regulated school bus operation produced revenue of \$142,084. The witness annualized that revenue figure to \$338,000, using 177 days in a school year. This compares to \$532,376 shown in Table I of staff Exhibit 1 for the Harbor City Division per capita income for the year ended April 30, 1976. The comptroller contended that the revenue from the SCROC contract had been included erroneously in the staff revenue figure. He did not disagree with any of the other portions of Exhibit 1.

The comptroller was of the opinion that of the three expense allocation methods in Exhibits D-1, D-2, and D-3, the one in Exhibit D-2 most accurately reflects the expenses of the regulated school bus operation. Using the corrected revenue figure of \$142,084, and corrected operating and depreciation expense of \$163,263, the regulated school bus operation shows a net operating loss of \$21,179 before taking into account non-operating expenses such as interest. These computations were

based on the assumption that because Cal-Site uses 34 of the 73 buses<sup>4/</sup> located at the Harbor City facility for its Palos Verdes operations, 34/73, or 46.6 percent of the operating expenses of the Harbor City facility should be allocated to Cal-Site. As exceptions, shop labor and materials and parts were allocated 75 percent to Cal-Site because the regulated school bus operation uses larger Crown school buses in stop-and-go service over hilly terrain. This operation assertedly generates a disproportionate use of shop labor and material and parts. These expenses and allocations are discussed further below.

Another approach taken by the comptroller to reflect the results of operation of the regulated school bus operation consisted of using the annualized revenue figure of \$338,000 from Exhibits D-1, D-2, and D-3, based on 177 days in a school year, and 47 percent of the expense figures in Table I of staff Exhibit 1 for total school bus operations of the Harbor City Division. On this basis total annualized expenses would be \$357,293. This would produce a net loss for the regulated school bus operation of approximately \$19,000. The witness then added approximately \$31,000 more expenses to the regulated operation because of the 75 percent allocation of expenses for shop labor and materials and parts for the Crown buses. This would produce a net loss of approximately \$50,000.

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<sup>4/</sup> The comptroller stated that approximately 11 buses are used for the SCROC contract. This would leave about 28 buses for the Los Angeles School Board contract, other than SCROC.

The comptroller introduced and explained Exhibit 2 showing revenue distribution from the E&RS general ledger for the Harbor City Division for the 23-month period from September 1974 to July 1976, inclusive. For the 12-month period ending April 30, 1976, Cal-Site revenue was \$380,834; SCROC revenue was \$173,095; and Los Angeles School Board revenue (other than SCROC) was \$404,793. The Cal-Site revenue of \$380,834 compares with \$532,376 shown in Table I of staff Exhibit 1 for the Harbor City Division per capita income for the same period. For the 12 months ending July 31, 1976, Cal-Site revenue in Exhibit 2 declined to \$360,895.

Applicant called the southwest regional general manager of E&RS to testify concerning operation, maintenance, and labor aspects of Cal-Site's regulated school bus operation. He testified that the large Crown buses are used for the regulated operation because the additional seating capacity they provide is needed. These buses are diesel-powered and cost in excess of \$50,000 new. They take 40 quarts of oil during an oil change. The larger tires that are required assertedly have increased more than tires for smaller buses. More shop labor is required because of the added size of the buses and the large diesel engines. To replace a diesel engine costs about \$9,000. Diesel fuel injectors require frequent replacement because of stop-and-go operation. The Crown buses use substantially more clutch and brake parts, again because of stop-and-go operation in the hilly terrain. In contrast, the conventional buses used for the Los Angeles School Board contracts are gasoline-powered, have a seating capacity of 24 passengers, cost about \$12,000 new, take 8 quarts of oil, use smaller tires, experience engine replacement costs of about \$1,200, and incur generally lower cleaning and maintenance costs.



The regional manager was of the opinion that the allocation of 75 percent of expenses for shop labor and materials and parts to the buses used for the regulated school bus service was fair. He questioned the 47 percent allocation factor for other expenses as being too low. He asserted that drivers on the large Crown buses used in the regulated service are paid more than drivers of the smaller buses. The Crown buses are operated about 90 miles a day in school service, including deadhead miles, whereas the conventional buses are operated about 70 miles a day. The regional manager stated that approximately 65 to 70 percent of the use of the large Crown buses is for school operations. The remaining use is by E&RS for charters.

In Exhibit 3 Cal-Site computed operating ratio for the regulated school bus operations for 12 months ended April 30, 1976. Expense figures in Table I of staff Exhibit 1 for total school bus operations were allocated to the regulated service as indicated above, i.e., 46.6 percent, except for shop labor and materials and expense which were allocated at 75 percent. Net operating expenses after charter adjustment were recalculated to be \$388,169. Using revenue in Exhibit 2 of \$380,834 for 12 months ended April 30, 1976, there would be a net carrier operating loss of \$7,335 for an operating ratio of 102. If the lower revenue of \$360,890 for 12 months ended July 30, 1976 was utilized, there would be a net carrier operating loss of \$27,279 for an operating ratio of 108.

Applicant forecasts a future ridership decline of 15 percent and increased expenses. It asserts that the principal reasons for ridership decline are changes in school hours which have made bus scheduling difficult; the fact that many parents do not desire to have their children wait after school for a bus; competition with the recently established service of SCRID in the area

which can be expected to divert substantial traffic from the regulated school bus operation; and competition with private automobiles of high school students and parents. Applicant contends that in an affluent area such as the Palos Verdes Peninsula an improving economy tends to increase car ownership among high school students.

On the assumption that a 20 percent rate increase is authorized, and there is a 15 percent ridership decline, applicant forecasts revenue of \$338,450 for an operating ratio of 99.9. Applicant projects increased operating expenses of from 9 to 18 percent. With a 20 percent increase in rates; about half of the anticipated revenue decline (8 percent); and the lowest projection of increased expenses (9 percent), applicant forecasts revenue of \$420,440 and operating expenses of \$423,104, for an operating ratio of 101.

The record shows that Cal-Site's regulated school bus service in Palos Verdes Peninsula is being operated efficiently but at a loss. This is clear, although some of the functions and records of Cal-Site are commingled with those of affiliates. There is nothing in the record to show that Cal-Site's cost allocations for the regulated school bus operation are unreasonable.

We recognize that it is difficult for Cal-Site to forecast the results of a future year under circumstances where, in effect, it must get parents to sign their children up in advance for a year's transportation. This is especially apparent under circumstances where SCRTD has instituted new service (35 cents one way and 70 cents round trip) and there is substantial competition from private automobiles. We are convinced that operations under a 20 percent increase in rates, in conjunction with projected increased costs and anticipated reduced ridership, will only return Cal-Site's regulated school bus service to near a break-even point.

The changes in applicant's accounting systems suggested by the staff are reasonable and useful for knowledgeable determination by the Commission in future cases. We will require applicant to make the staff recommended changes at this time so they may be available in conjunction with any future proceeding of this nature.

The procedures of the Commission provided for reasonable opportunity for participation by all interested persons or their representatives. Copies of the application and notices of hearing were sent to Los Angeles County, to cities in the Palos Verdes area, and to the Palos Verdes Peninsula Unified School District. No member of the public appeared in opposition to the application. One written protest was received which contained data of an evidentiary nature which cannot be considered by the Commission as the data were not introduced by a competent witness and cross-examination thereon was not accorded applicant and the staff.

Findings

1. Cal-Site seeks a 20 percent increase in its per capita fares for regulated school bus service in the Palos Verdes Peninsula.

2. Cal-Site's proposed increased rates per school year would be \$118.80 for one child; \$223.20 for two children; and \$315 for three or more children from one family.

3. Applicant's statement of revenues, and its allocation of expenses of the Harbor City Division to the regulated school bus operation, is a reasonable statement and allocation for purposes of this proceeding.

4. Present fares which applicant maintains do not provide revenues sufficient to enable applicant to cover the expenses of performing the passenger common carrier operations here involved plus a reasonable profit.

5. The proposed increased rates in Finding 2, in conjunction with increased costs and anticipated reduced ridership, are estimated to increase Cal-Site's regulated school bus revenue from \$388,169 to \$420,440, or \$32,271. Increased expenses are projected to be \$423,104 for an operating ratio of 101.

6. Cal-Site's regulated school bus service competes with newly established service of SCRITD and private automobile transportation in the Palos Verdes area.

7. Cal-Site's proposed rates for one child, when converted to a daily basis, would still be less than the rates of SCRITD for round-trip transportation.

8. Cal-Site's regulated school bus operations are being managed efficiently.

9. Cal-Site's proposed increased rates in Finding 2 are justified.

The Commission concludes that the application, as amended, should be granted.

O R D E R

IT IS ORDERED that:

1. Applicant is authorized to establish the increased fares contained in Finding 2, above.

2. Applicant's tariffs shall provide provisions acceptable to the Commission for refunds or fare adjustments to those students who do not complete the full school year.

3. Tariff publications authorized to be made 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 ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

4. Applicant shall design and implement accounting procedures in its general ledger which segregate the operating results for the certificated Palos Verdes school bus operations.

5. 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 twenty days after the date hereof.

Dated San Francisco, California, this 15<sup>th</sup> day of MARCH, 1977.

Robert Baker  
 President

William J. Quinn  
 Commissioner

St. Louis  
 Commissioner

Richard D. Howell  
 Commissioners