ORIGINAL

Decision 93656 OCT 20 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GREAT AMERICAN STAGELINE, INC. to make an increase in the one-way passenger fares between Ventura, Oxnard, Camarillo, Thousand Oaks, Westlake Village, Woodland Hills, and Los Angeles International Airport; and miscellaneous rules and regulations changes in it's /sic/ current passenger tariff, CAL PUC No. 5.	Application 59603 (Filed April 18, 1980)

James S. Hebert, for applicant.
Ralph E. Douglas, for the Commission staff.

OPINION

Applicant, Great American Stageline, Inc., presently operates as a passenger stage corporation (PSC-962) transporting passengers and their baggage between Ventura, Oxnard, Camarillo, Thousand Oaks, Westlake Village, and Woodland Hills, on the one hand, and the Los Angeles International Airport, on the other hand. Applicant also operates as a Class A charter-party carrier of passengers (TCP-219A).

In the application as filed applicant sought authority to increase its individual one-way fares in its passenger stage operations by $1, for a net increase of approximately 12%, as follows:

Passenger Fares
(One-Way)

Between Los Angeles International Airport and:	Present Fares	Fares Applicable to: 1) Adults and children 12 years old and older 2) Unaccompanied children 8 years old thru 12 years old Proposed Fares
1. Woodland Hills	$ 5.00	$ 6.00
2. Westlake Village	8.00	9.00
3. Thousand Oaks	8.00	9.00
4. Camarillo	10.00	11.00
5. Oxnard	11.00	12.00
6. Ventura	12.00	13.00

However, in conjunction with late-filed Exhibit 7 applicant proposed, in the alternative, to retain the present fares for Woodland Hills and Westlake Village and to increase the fares for the other points by $1. This later proposal levels out the fares on a fare per mile basis as shown below.

Alternative Proposal

City	Miles	Fare	Fare/Mile
Ventura	69	$13.00	$.188
Oxnard	64	12.00	.188
Camarillo	55	11.00	.200
Thousand Oaks	43	9.00	.209
Westlake Village	38	8.00	.210
Woodland Hills	26	5.00	.192

A public hearing on this application was held before Administrative Law Judge Main on April 15, 1981 at Los Angeles. Notice of the hearing was posted in applicant's buses from April 5, 1981 to the date of the hearing. In accordance with Public Utilities (PU) Code Sections 730.3 and 730.5, the state and local agencies operating or planning public transit systems were notified and asked for comments regarding the proposed fare increase. None of applicant's riders attended the hearing or otherwise communicated with the Commission. Of state and local agencies, only the Southern California Rapid Transit District (RTD) responded. Its response was that if applicant's fare increase deflected ridership to RTD, seats are available on the RTD lines to absorb the additional ridership.

Service, Growth, and Associated Company

Applicant strives to provide good service to an increasing ridership. Since its start in 1975,1/ applicant's business has continued to grow rapidly. In November 1980 scheduled round trips were increased from 8 to 12 per day. In March 1981 two new buses were purchased, increasing the fleet to six buses consisting of:

Three MCI 1980 MC-9 buses each with a passenger seating capacity of 51;

One MCI 1980 MC-9 bus with a passenger seating capacity of 51 and a restroom; and

Two MCI 1981 MC-9 buses each with a seating capacity of 47 and restrooms.

1/ It was then known as Air Crew Transit, Inc. The name was changed to Great American Stageline, Inc. in 1976.

Providing service of this quality taxes the limited resources of applicant's founders and sole stockholders, James S. Hebert and Reginald T. Charlson. They are also applicant's principal officers.

With their wives, these officers have formed C&H Investments, Inc. (C&H), a tax-option (Subchapter S) corporation. C&H leases to applicant the site used for bus garaging and maintenance, the office building, office equipment and bus repair and maintenance equipment, and the buses.

Applicant's present fares were authorized by Decision 90572 dated July 17, 1979. In that year applicant's buses carried 77,312 passengers and traveled 369,065 miles in its passenger stage operation; in 1980 the comparable figures were 94,556 passengers and 482,020 miles; and in 1981 estimated the projections are for 113,955 passengers and 657,000 bus miles. In charter operations its buses traveled 23,250 miles and 30,371 miles in 1979 and 1980, respectively, and are estimated to travel 102,000 miles in 1981.

Operating Results

A comparison of applicant's operating results for test year 1981 under present fares, proposed fares, and alternative proposed fares as estimated by applicant and the staff, together with our adopted results under applicant's alternative proposed fares, is presented in Table 1.

Table 1

GREAT AMERICAN STAGELINE, INC.

Results of Operations
Year 1981 Estimated

Item	Present Fares		Proposed Fares		Alternate Proposed Fares		
	Applicant	Staff	Applicant	Staff	Applicant	Staff	Adopted
Operating Revenue							
Pass. Stage Revenue	$ 958,362	$ 958,362	$1,072,316	$1,072,316	$1,035,850	$1,035,850	$1,035,850
Charter Revenue	180,000	180,000	180,000	180,000	180,000	180,000	180,000
Tot. Oper. Rev.	$1,138,362	$1,138,362	$1,252,316	$1,252,316	$1,215,850	$1,215,850	$1,215,850
Operating Expenses							
Equip. Maint. Exp.	96,000	96,000	96,000	96,000	96,000	96,000	96,000
Transportation Exp.	388,080	388,080	388,080	388,080	388,080	388,080	388,080
Station Expense	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Traf. & Advert. Exp.	35,600	35,600	35,600	35,600	35,600	35,600	35,600
Insurance Expense	71,000	71,000	71,000	71,000	71,000	71,000	71,000
Admin. & Gen. Exp.	135,747	123,080	135,747	123,080	135,747	123,080	123,080
Depreciation Exp.	3,720	88,420	3,720	88,420	3,720	88,420	88,420
Oper. Taxes & Lic.	98,350	98,350	104,171	104,171	102,073	102,073	102,073
Operating Rents	239,379	-	239,379	-	239,379	-	-
Adjustments	3,200	25,167	3,200	25,167	3,200	25,167	49,167
Tot. Oper. Exp.	$1,081,876	$ 936,497	$1,087,697	$ 942,318	$1,085,599	$ 940,220	$ 964,220
Taxes on Income	14,992	200	62,171	250	46,353	200	200
Tot. Oper. Exp. & Tax.	$1,096,868	$ 936,697	$1,149,868	$ 942,568	$1,131,952	$ 940,420	$ 964,420
Net Oper. Revenue	41,494	201,665	102,448	309,748	83,898	275,430	251,430
Rate Base Incl. Adj.	-	1,166,466	-	1,166,466	-	1,166,466	1,166,466
Rate of Return	-	17.3%	-	26.6%	-	23.6%	21.6%
Operating Ratios							
Before Income Taxes	95.0%	82.3%	86.9%	75.2%	89.3%	77.3%	79.3%
After Income Taxes	96.4%	82.3%	91.8%	75.3%	93.1%	77.3%	79.3%

Applicant and the staff used different approaches in developing applicant's operating results. Applicant's estimates reflect the leasing of the buses and the land, the building, and the facilities. The staff's estimates reflect ownership of the vehicles and the real and other property.

In its initial presentation (Exhibit 1) applicant estimated operating rents of $388,500 using the 1980 lease payments to C&H for buses ($208,500), building and facilities ($156,000), and cars ($24,000). In Exhibit 7, which is the source for Table 1, applicant lowered its estimate of operating rents to $239,379 using "an uninterested third party lease" approach in which lease payments would be $130,779 (basis: $16.50 per month per $1,000 of bus cost) for buses, $84,600 for building and facilities, and $24,000 for cars.

Because applicant and C&H are under common control, the staff eliminated the lease payments by applicant to C&H in order to treat the buses, building, and other property as though owned by applicant. Consistent with this treatment, the staff developed a rate base upon which to compute rates of return.

Apart from operating rents and depreciation expense where their estimates are entirely different because of the "leasing" versus "rate base" approaches used and a caveat on management salaries, applicant and the staff are in agreement on the level of operating expenses before income taxes. They are also in agreement on the level of operating revenues.

In support of its "leasing" approach applicant argues that the staff's electing to treat operating property owned by an associated company as though it were owned by the utility is appropriate for an established company that has attained a stable operating level but not for a relatively new company such as applicant that has been forced to expand to stay in business. If applicant/C&H had elected leasing as opposed to buying the land, building, and equipment, the lease payments would have been allowable operating expenses. It is applicant's position that the proposed fare increase can be evaluated from this point of view.

The staff witness recommends that no fare increase be granted. His estimate for 1981 at present fares is an 82.3% operating ratio, both before and after income taxes, and a 17.3% rate of return. In his view these results indicate that a fare increase is not needed. The staff witness, however, did not offer either a study or oral testimony determinative in any way of either the fair rate of return or the reasonable operating ratio for this applicant.

In ratemaking applicant and C&H should be viewed as one corporation. Our adopted operating results are set forth in the last column of Table 1. They depart from the staff estimate, at the alternative proposed rates, in that the allowance for management salaries is increased from $36,000 to $60,000 per year.

Financing, Operating Ratio, and Rate of Return

Although it required probing which barely stayed within the limits of the record in this proceeding, we have pieced together an approximation of applicant/C&H's composite capital structure, cost of debt, interest coverage, and related items. The four 1980 and the two 1981 buses were acquired by C&H at a cost of $783,000 under seven-year lease-purchase agreements with total monthly payments of $16,114, or $193,370 per year, plus an additional 10% of the purchase price due and payable at the end of seven years. The effective annual interest rate compounded monthly equating a present worth of $783,000 to 83 monthly payments of $16,114 and one payment in the 84th month of $94,414 is virtually 20% (i.e., 19.88%). The site used for bus garaging and maintenance and the office building owned by C&H and leased to applicant are subject to a $270,000 first trust deed with interest at the prime rate plus 3% and a $151,000 note with interest also at the prime rate plus 3%.

A composite balance sheet of applicant and C&H as of March 31, 1981 shows total assets of $1,289,275, total liabilities of $1,301,780, and negative equity or net worth of $12,055. The liabilities include $146,522 in notes held by stockholders. More than one-half of the funds furnished under those notes were raised by the two principals through second trust deeds on their homes. In developing below a composite capital structure for these two corporations, the notes held by stockholders will be treated as equity.

From the composite balance sheet, the loans against the real property and improvements, the lease-purchase agreements on the buses, and the adopted operating results shown in Table 1, a composite capital structure, a set of capital ratios, a cost of debt, a return on equity, and an interest coverage for the two corporations can be developed as follows:

Composite Capital Structure

Debt		Interest Rate
Trust Deed	$ 270,000	23%
Security Pacific National Bank Note	151,000	23%
Lease-Purchase Buses	619,000	20%
Other	115,000	20%
	$1,155,000	21.09%

Equity	
Stockholder Notes	$147,000
Less: Negative Net Worth	12,000
	$135,000

Return on Equity and Interest Coverage

Capital Component		Capital Ratios	Cost Factors	Weighted Cost Totals
Debt	$1,155,000	89.5	21.09	18.9
Equity	135,000	10.5	25.71*	2.7
Totals	$1,290,000	100.0		21.6**

Interest Coverage: 1.14 times before income taxes

*Earnings rate on equity.
**Rate of return in Table 1 under adopted results.

By traditional yardsticks, the return on equity appears inordinately high and the interest coverage inordinately low. The following examples, in which the composite capital ratios and cost of debt are held constant, illustrate volatility of earnings on equity and interest coverages which do not become excessive when a 180% return of equity is reached: If return on equity is reduced to zero, rate of return reduces to 18.9% and interest coverage to 1.0 times both before and after taxes; if interest coverage after taxes is increased to 2.0 times, rate of return increases to 37.8% and return on equity to 180%.

According to applicant's president:

> "This company continues to operate through good cash flow and perseverance. A major problem with the economy or the equipment could easily cause the service to be severely decreased in order to sell equipment and service the debt. If fare increases continue to take in excess of one year to obtain in order to show a low profitability then the above two actions will definitely have to be taken to remain in service to the public."

Applicant's alternative proposed fares yield, under our adopted operating results in Table 1, a 21.6% rate of return and a 79.3% operating ratio before income taxes. Neither this rate of return nor this operating ratio is unreasonable in light of the composite capital structure and debt service requirements.

Baggage Tariff

By this application, applicant also seeks authority to revise Sections d.1. and h. of its tariff Rule 8 as follows:

Rule 8.d.1.

Now reads: "Upon payment of fare or presentation of valid transportation, for all acceptable baggage.

"Free baggage weight . . . . . . 60 pounds."

Revision: "Each full fare passenger will be entitled to the free transportation of two pieces of baggage stowed in the luggage compartment, in addition to carry-on baggage, upon payment of fare or presentation of valid transportation.

"Free number of bags . . . . . . 2."

Rule 8.h.

Now reads: "CHARGES FOR BAGGAGE OF EXCESS WEIGHT

"1. Charges will be made for weight in excess of the free allowance specified in Rule 8.d., at the excess baggage rate of one percent (1%) of adult fare for each pound of excess weight", and

"2. The minimum charge for excess weight of baggage, checked under rules herein is one dollar ($1.00)."

Revision: "CHARGES FOR EXCESS BAGGAGE

"1. Charges will be made for baggage in excess of the free allowance specified in Rule 8.d.1., at the rate of one dollar ($1.00) per piece."

Applicant asserts that the present system of charging for excess baggage is too complicated and time-consuming. The Commission staff concurs. The changes to Rule 8 proposed by applicant can alleviate those deficiencies of the present system and will, therefore, be authorized.

Findings of Fact

1. The composite capital ratios of applicant and C&H approximate 90% debt and 10% equity. The cost factor for that debt approximates 20%.

2. The capital structure set forth in the preceding finding renders inapplicable traditionally accepted levels of rate of return or operating ratios.

3. Applicant's alternative fare proposed yields a 21.6% rate of return and a 79.3% operating ratio before income taxes. This rate of return and this operating ratio are not unreasonable in light of the composite capital structure and debt service requirements.

4. The requested fare increase under applicant's alternative proposal will result in additional gross revenues of $77,500 on a test year 1981 basis.

5. The requested fare increase under applicant's alternative proposal is necessary to offset increased operating expenses and to ensure, under burdensome debt service requirements, applicant's continued operations.

6. The requested fare increase under applicant's alternative proposal tends to level out the fares between the points served on a fare per mile basis.

7. The requested fare increase under applicant's alternative proposal is justified.

8. Applicant's present system of charging for excess baggage is too complicated and time-consuming. The requested changes to Rule 8 are justified.

9. The Commission staff notified all affected corporations and government agencies operating passenger transit systems of the application and asked them to analyze the effect of the proposed rate increase on transportation in their territories. None replied that the proposed increase would adversely affect their operations.

10. In accordance with PU Code Section 730.5, this fare increase will result in an insignificant decrease in patronage. The fare increase will not affect transit system plans prepared under Chapter 2.5 of Title 7 of the Government Code.

Conclusions of Law

1. The application should be granted to the extent set forth in the ensuing order.

2. Since the fare increase is necessary to ensure applicant's continued operations, the effective date of the following order should be the date of signature.

O R D E R

IT IS ORDERED that:

1. Applicant, Great American Stageline, Inc., is authorized to establish the alternative increased rates set forth on page 2 of this decision and the revised baggage tariff set forth on page 11 of this decision. Tariffs shall be filed not earlier than the effective date of this order. They may go into effect 5 days or more after the effective date of this order on not less than 5 days' notice to the Commission and to the public.

2. The authority shall expire unless exercised within 90 days after the effective date of this order.

3. In addition to posting and filing tariffs, applicant shall post a printed explanation of its fares in its buses and terminals. The notice shall be posted at least 5 days before the effective date of the fare changes and shall remain posted for at least 30 days.

This order is effective today.

Dated OCT 20 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I certify that this decision was approved by the above Commissioners today!

Joseph E. Bodovitz