

REPORT ON VALUATION OF
LANDS, PROPERTY AND RIGHTS
OF
KEY SYSTEM TRANSIT LINES

AS SOUGHT TO BE ACQUIRED BY
ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

IN THE MATTER OF
CALIFORNIA PUBLIC UTILITIES COMMISSION
APPLICATION No. 40084

MAY 1960

REPORT No. 49-606

ARTHUR C. JENKINS & ASSOCIATES • CONSULTING ENGINEERS
SAN FRANCISCO, CALIFORNIA

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May 2, 1960

Mr. John R. Worthington, General Manager
Alameda-Contra Costa Transit District
Oakland 12, California

Dear Mr. Worthington:

Submitted herewith is a report on valuation of properties used by Key System Transit Lines in performance of its passenger transit operations, together with recommendations as to acquisition procedure, purchase price determination and form of purchase agreement.

In brief, it is concluded that:

1. Best interests of the public would be served by adopting an expedited acquisition procedure through direct negotiation of a reasonable purchase price rather than continue with prolonged condemnation action.
2. Properties to be acquired should be expanded to include the 294 gasoline powered buses and their spare parts.
3. With reasonable allowance for intangible value of a going concern operation, it would appear that a purchase price can be justified in the range of from \$7,000,000 to \$8,000,000
4. The form of purchase agreement as proposed herein should be adopted and negotiated at the earliest possible date.
5. Rights, privileges and benefits of Key System employees should be preserved by inclusion in the Purchase Agreement of adequate provisions to ensure continuation of a retirement program equal to or better than that now provided.

I concur in your opinion that a reasonable range of purchase price would be between the above limits, and it is urged that negotiations be not only continued but vigorously pressed forward toward an early conclusion.

Respectfully submitted,



FOREWORD

Mention is made herein from time to time of other reports prepared in connection with these valuation proceedings. For brief reference, they are as follows:

1. Appraisal of Land and Structures
By Ralph F. Clark, M.A.I.
Exh. No. 1, Cal. P.U.C. Appl. 40084, 12/17/59
2. Inventory and Appraisal of Key System Properties
By T.J. Canty, Senior Transp'n Engineer, Cal. P.U.C.
Exh. No. 11, Cal. P.U.C. Appl. 40084, 12/17/59
3. Valuation of Materials & Supplies and Minor Items
Excluding Gasoline Buses - By Arthur C. Jenkins
Exh. No. 16 for ident., Cal. P.U.C. Appl. 40084, 3/17/60
4. Valuation of Materials & Supplies and Minor Items
Including Gasoline Buses - By Arthur C. Jenkins
Not submitted as exhibit
5. Draft of Purchase Agreement between Alameda-Contra Costa
Transit District and Key System Transit Lines

In developing the data upon which this report is based, employees and officials of the Company were most helpful and fully cooperative. Particularly, it is desired to acknowledge the capable assistance rendered by Stanley M. Lanham, Engineering Consultant, and Earl J. Wilson, Controller, both of whom spent much time in joint conference discussions on purchase price negotiations and valuation theory.

Mention should also be made of the cooperation extended by engineers of the Public Utilities Commission

To members of my own staff, acknowledgment is due Robert L. Davidson, Engineering Assistant, for technical analysis, inventory and computations, and to Claire A. Strosz for composition and form of the report.

Arthur C. Jenkins

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REPORT ON VALUATION OF
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PART ONE
SUMMARY OF CONCLUSIONS

A. PREFACE

At request of the District, negotiations have been conducted with representatives of Key System Transit Lines on several joint studies involving proceedings before the State Public Utilities Commission and matters of mutual interest between the Transit District and the Company, relative to elements of value as pertaining to the various classifications of properties anticipated for acquisition by the District.

The first objective was to develop a valuation of those items of property that were excluded from the inventory and appraisal made by the Public Utilities Commission staff, and the second was to proceed with interim negotiations with representatives of Key System in an effort to arrive at a meeting of minds as to a reasonable value for the entire transit properties.

The first objective was completed and results submitted to the District in two report volumes covering valuation of materials and supplies, spare parts, fuel, printed material, bus stop signs and benches, and numerous other items referred to as Minor Items of Property. One volume excluded gasoline buses and supplies, and the other included them.

The volume excluding gasoline buses was presented as Exhibit No. 16 for identification at the Public Utilities Commission hearing held in San Francisco on March 17, 1960, the last date on which public hearings have been held. Both prior to and subsequent to that date, informal negotiations have been under way with respect to valuation of System-wide Properties.

At conclusion of the hearing on March 17, 1960, the Commission set the date for next hearing in the matter as May 10, 1960, at which time it was expected that Key System would present its affirmative showing of value through testimony of witnesses and technical exhibits.

On April 1, 1960, a partial draft of the report contained herein was submitted, based upon developments as of that date, and on April 20, 1960, an advance report on Key System purchase price was submitted providing

a condensed analysis of valuation and purchase price findings. This present report covers the same area of analysis but contains a greater scope of supporting detail.

B. BASIC CONSIDERATIONS

In negotiations with Company representatives, views have been exchanged and theories discussed with respect to the many and varied elements involved in the determination of a just and reasonable price to be paid for the operating properties of Key System Transit Lines.

It is apparent that Key System is dissatisfied with the valuation findings thus far introduced on major items of property, and if the condemnation proceedings should continue to a conclusion, a hotly-contested case would be inevitable.

Obviously, it would be the desire of the Company to seek the highest possible value for the properties to be acquired by the District. Likewise, it would be incumbent upon the District to contest any showing of the Company that would produce values for the various elements of property that might appear excessive.

Over past years there have been many condemnation proceedings processed before the State Public Utilities Commission, and the background of experience in connection with those cases provides a fairly reliable basis for predicting the probable course of action that might be followed if this present proceeding were to be continued to a conclusion.

Once a position is officially established of record by either party, there is seldom an inclination to retreat. To the contrary, experience has demonstrated that after the sides have been chosen, opposing witnesses selected and divergent points of view established, the full gamut of legal procedure can be expected. This would require a long period of time for hearings before the Commission, an appreciable time for the Commission to review the bulk of evidence and issue its decision, and then a prolonged chain of legal action through the courts on appeal. This pattern has been well established and there is little reason to expect that it would not be repeated in this case.

The atmosphere is ideal both financially and technically so far as the Company is concerned, for engaging in an all-out legal contest in an effort to establish the highest possible value of its properties, rights and operations, both as to tangible and intangible values.

Despite the aspects of the case that appear to be favorable to the Transit District's position, the Company could, if it should so elect, constitute a formidable adversary in defense of its rights, taking full advantage of all legal recourse that might conceivably delay final acquisition of its properties by the Transit District for a period of two years or more. This would obviously be to the disadvantage of the District, even though its ultimate acquisition of the properties would be inevitable.

It is apparent that the will of the Legislature as expressed through passing of the Transit District Law, and of the people through voting

the bond issue, was that the public should enjoy the benefits accruing from public ownership of the transit system. The obvious objective, then, is for the Transit District to commence operation of a publicly-owned transit system at the earliest possible time, in compliance with the intent of the Law and desire of the public.

Even though the financial considerations involved in this objective are of major importance, it does not necessarily follow that fixing of a purchase price through full prosecution of legal processes should be a mandatory course of action, if by doing so the long range interests of the public in the aggregate are to suffer. Expedited acquisition at a reasonable price through negotiation, would be more in keeping with the underlying objective of public ownership and operation.

C. NEGOTIATED PRICE POSSIBLE

After lengthy and exhaustive analysis of the present status of this proceeding and extended negotiations with representatives of the Company on elements of value, it appears that the Transit District should assume the initiative in proposing a purchase price to the Company, and suggesting a form of agreement that would cover the multitude of transactions necessary to bring about the final transfer of ownership from the Company to the District, in the shortest possible period of time. Based upon discussions with Company representatives, there is reason to believe that such a proposal would meet with favorable reception, and that the chances are very good that a mutually agreeable settlement could be negotiated.

D. CONTROLLING ASPECTS

For this plan to be successful, however, the subject of purchase price must be approached with reason, both on behalf of the District and the Company. Full consideration must be given not only to the monetary advantage in amount of just compensation that might be attained by prolonged legal procedure, but also to the disadvantages and probable financial losses that would be suffered by both parties as a result.

If each side should take its logical position in legal battle array before the Commission - one demanding the highest price and the other urging the lowest, there would be little prospect of either enjoying the full measure of benefit desired. It is reasonable to expect that the final decision would fall somewhere between those two extremes.

If an intermediate value is a foregone conclusion under continued legal procedure, then there should be an area of common ground that can be attained through a reasonable meeting of minds without following the lengthy course of court action. Whatever the negotiated amount may be as developed on a mutually agreeable basis, it will unquestionably be criticized by the more vocal proponents of the optimum position on each side. This same degree of dissatisfaction would prevail in the event that a final just compensation figure should be established by the Commission and the courts. District proponents would feel that the finding was too high, and the Company would contend that it was too low. There would be criticism from both sides, but the figure would be final.

E. RANGE OF VALUATION ESTIMATES

In negotiations with engineering and financial representatives of the Company on matters of value which have been highly technical and extensive in their scope, it is clear that if these proceedings should continue before the Public Utilities Commission, the Company would demand and submit extensive evidence in support of a purchase price in the vicinity of from \$8,500,000 to more than \$10,000,000.

From the District's point of view, values have been developed that range from \$3,600,000 to \$6,200,000. It is estimated that the staff of the State Public Utilities Commission might produce a value ranging from \$6,500,000 to \$7,000,000. These District and Commission staff estimates contain no allowances for intangible values such as going concern, earning potential and severance damage.

Computations contained in this report are premised upon reasonable application of sound theories based upon many years of experience in such cases. Obviously it has not been intended in representing the Transit District, to develop a valuation formula that would be overly generous to the Company. Similarly, technical representatives of the Company have been equally careful in establishing their valuation formula so as to protect to the fullest measure the financial interests of the Company.

Despite the full confidence that each party may have in its ability to defend the position assumed, it appears logical that with such a wide range of difference, the finding of a disinterested agency such as the Commission staff, would fall somewhere between those extremes.

F. FORM OF PURCHASE AGREEMENT

A suggested form of purchase agreement has been submitted in accordance with the outline contained in the appendix as Exhibit Y hereof. This form has been substantially patterned after the agreements that were drawn up to cover acquisition of transit properties by the Los Angeles Metropolitan Transit Authority from the Metropolitan Coach Lines and the Los Angeles Transit Lines, in the Los Angeles metropolitan area. The suggested form of purchase agreement should adequately cover the interests of both the District and the Company, and pave the way for an early settlement.

Based upon the work done thus far, the status of proceedings before the State Public Utilities Commission, negotiations with Company representatives and the mass of technical data assembled, it is concluded that the best interests of the Transit District and the general public, as well as the Company, will be served by entering into a purchase agreement with Key System at a purchase price that will fall as nearly as can be predicted in the vicinity of the just compensation that would be established in the ultimate if legal proceedings should be pursued to finality.

After computing values for these properties under several methods, a review has been made of the entire process in order to develop values that might be representative of what could be anticipated as the ultimate findings of the Public Utilities Commission after all evidence has been

introduced. As a result of this process, it appears that a just and reasonable purchase price for the properties, including the entire bus fleet and including all reasonable intangible values and net earning benefits, would fall somewhere within the range of \$7,000,000 to \$8,000,000.

G. CONCLUSIONS

Based upon a careful analysis of evidence thus far submitted in the proceedings before the Commission, the extensive independent valuation studies that have been conducted for use in negotiations with the Company and reasonable recognition of the Company's contentions as to intangible values, the following conclusions are offered:

1. It would be to the best interests of both the District and the Company to develop at the earliest possible time, an agreed purchase price covering all properties of the Company, including gasoline buses, based upon negotiations rather than to proceed to a final determination through legal procedures.
2. Two years have already passed since the District filed its application with the Commission requesting that just compensation for Key System properties be established. If the Company in an antagonistic attitude should pursue all available sources of relief through appeals to the Commission and the courts, it is conceivable that another two years might pass before final adjudication.
3. Although the Commission's staff has proceeded in good faith and has prepared what it considers to be a fair and reasonable valuation of the tangible properties involved, it would appear that the Company's contentions as to intangibles have some merit, and that an appreciably higher compensation might ultimately be awarded than that indicated by the evidence thus far introduced.
4. Although the Company's demand for intangible values appears much higher than can be justified, it no doubt could make a showing that would result in a material allowance for severance damage, going concern and functional value.
5. A reasonable value in an agreed purchase price to cover gasoline buses would probably be little or no greater than the cost of severance damages that would be incurred by exclusion of the gasoline buses.
6. In considering the proper course of action, public interest should be paramount, and obviously the greatest public benefit would be derived from a quick settlement rather than prolonged litigation.
7. To carry this proceeding through to a conclusion on a vigorously contested basis would be very costly, not only to the Company but also to the District.
8. The Company would lose by reason of the high cost of legal fees and technical services, as well as the inevitable reduction in value of properties resulting from accrued depreciation with passage of time, and would be confronted with problems of labor negotiation and public ill will.

9. The increment of increase in value of the properties for which the Company would be fighting might well be more than offset by the losses incurred in the prolonged process.
10. The District, although being assured of ultimately acquiring the properties, would be confronted with similar high costs of legal fees and technical services, as well as the uncompensated cost of maintaining a nonfunctional organization during the interim.
11. The District would be losing the financial benefits of the relatively high net earnings of the property during a period of two years, representing an aggregate loss estimated to be between \$3,500,000 and \$4,000,000. This would probably be greater than the difference in price that would be the subject of extended litigation.
12. As a result of negotiations that have been conducted thus far with representatives of the Company, it appears that there is highly favorable prospect of lifting these negotiations to the top level of management of the Company and the District, and arriving at a fair price.

H. RECOMMENDATIONS

Based upon considerations contained herein, it is recommended that:

1. The District enter into official negotiations with the Company in an effort to arrive at an agreed purchase price including gasoline buses and their spare parts, at the earliest date.
2. A form of purchase agreement be immediately developed that will make provision for:
 - a. Inclusion of the purchase price when agreed upon.
 - b. Adjustment of purchase price with passage of time in event of unforeseen delays.
 - c. Description of land, structures, properties, facilities and rights to be acquired.
 - d. Establishing details of closing the transaction on date of closing.
 - e. Extension of closing date in the event of unforeseen delays.
 - f. Acquisition of contracts, agreements and leases.
 - g. Assumption of obligation for continuation of rights and privileges of employees with respect to a pension plan equal to or better than that presently in effect.
 - h. Whatever else may be necessary in protection of the interests of both the District and the Company as to accounting audits, legal matters and other considerations.

PART TWO

PROCEDURAL ANALYSIS

A. DISTRICT RESOLUTION NO. 52

By Resolution No. 52, adopted by the Board of Directors of the Alameda-Contra Costa Transit District on May 12, 1958, the District expressed its intention of acquiring under eminent domain proceedings, the bus transportation system of Key System Transit Lines, including the lands, properties and rights necessary to performance of a public transportation system, and directed its Attorney to file a petition with the Public Utilities Commission of the State of California for an order fixing the just compensation to be paid by the District to the Company for the properties to be acquired.

B. P.U.C. APPLICATION NO. 40084

In compliance with Resolution No. 52, the District filed Application No. 40084, with the California Public Utilities Commission on May 14, 1958, pursuant to provisions of the Public Utilities Code, requesting the Commission to initiate action to fix the just compensation to be paid by the District for the lands, properties and rights of Key System, as described in Exhibit A of Application No. 40084 and in Exhibit 1 of Resolution No. 52. Resolution No. 52, together with said Exhibit 1, were attached to the application as Exhibit B.

C. POINTS AND AUTHORITIES OF RESPONDENT

In accordance with procedural rights, Key System filed an Answer and Memorandum of Points and Authorities, to the application of the District. A District reply was prepared under date of July 7, 1958, and filed with the Commission, answering the various allegations and contentions of the Company, as to jurisdiction in eminent domain proceedings and the elements involved in a "just compensation" determination.

Among other things, Respondents contended that consideration should be given to "good will" and "going concern," in fixing just compensation. It was the District's position, in reply, that such assets did not exist, but that under provisions of the Code, the Commission may if it should see fit to do so, include an amount to cover such assets, if any should be found to exist.

It was further claimed by the Company that there should be included in just compensation, an allowance for severance damages because of the District's request that gasoline buses not be included among the properties to be acquired.

D. VALUATION AND APPRAISAL INITIATED

After receiving Respondent's Answer and the District's Reply, the Commission, after due process, proceeded to conduct an inventory and appraisal of the lands and properties of Key System Transit Lines and its affiliated company, Bay Area Public Service Corporation, which latter company owns substantially all of the physical properties used by Key System Transit Lines in its passenger operations.

Members of the Commission's engineering staff were assigned to the work, and results of their findings were contained in Exhibits Nos. 1 and 11 submitted in evidence at public hearing of the Commission on December 17, 1959.

E. CORPORATE IDENTITY OF KEY SYSTEM TRANSIT LINES

Key System Transit Lines is a corporation under the laws of the State of California, performing a local and interurban passenger transit operation by motor bus in the counties of Alameda, Contra Costa and San Francisco.

Key System owns only a relatively small amount of properties. Land, buildings and buses, together with other items of property that are used by Key System in its transit operations, are owned by its affiliated company, Bay Area Public Service Corporation.

Both Key System and Public Service Corporation are wholly owned by a third company, Railway Equipment and Realty Company. All three have a common address at 1106 Broadway, Oakland, California

Controlling common stock ownership of Railway Equipment and Realty Company is owned by National City Lines, a country-wide transit corporation with home office in Chicago. Officers and directors of the three local corporations are shown on Exhibit Q attached hereto.

Mention is made of this intercompany relationship, as it has an important bearing upon certain aspects of developing a negotiated purchase price as discussed at greater length in a later part of this report.

For purpose of convenience in presenting this report, reference will be made to Key System and Bay Area Public Service Corporation jointly, as the "Company" or as "Key System."

F. STATUS OF OFFICIAL PROCEEDINGS

1. General

In most cases of condemnation proceedings initiated through the Public Utilities Commission, the first step is for the engineering staff of the Commission to make a field inventory of the physical properties to be appraised and then to apply unit prices for materials and labor of installation, together with appropriate indirect costs relating to materials and labor, and general overhead costs.

All of these items in the aggregate, make up the appraisal of tangible properties on the basis of whatever formula is applied. In recent years, the basic formula has been Reproduction Cost New. In the past, the formula of Historical Reproduction Cost has been used, and in final determination the Commission has considered both of those formulae and also Original Cost and Book Cost.

In fixing "just compensation," the Commission gives consideration to all elements of value that are reasonably pertinent to establishing a fair value. This may include all of the above references to tangible properties and also the various elements that constitute intangible properties, such as "good will," "going concern" and "severance damage."

In arriving at its finding as to just compensation, the Commission must base its decision upon the evidence as presented to it in public hearing through oral and written testimony of competent witnesses and presentations of legal counsel. In other words, the burden of proof falls upon the parties to the proceeding, if there is disagreement with valuation findings of the Commission's staff.

In a condemnation proceeding, there are two principal parties - the Petitioner and Claimant or Owner. The technical staff of the Commission acts as a disinterested party in developing and submitting to the Commission an unbiased set of findings on inventory and appraisal of the properties involved.

It is incumbent upon both principal parties to take whatever part in the proceedings they deem necessary to protect their respective interests, and to challenge findings of the Commission's staff on points of differing opinion.

It is customary for both the Petitioner and the Claimant to participate with the Commission staff in conducting the field inventory of physical properties, so that when completed, all parties will be in agreement as to facts. In the process of pricing the inventory and computing accrued depreciation, there is usually divergence of opinion.

Petitioner, as a prospective purchaser, favors a low price and conversely, Claimant wishes to obtain the highest possible amount in return for relinquishing the properties. In the absence of such pecuniary influences, the Commission's staff follows an intermediate course that will do justice to both parties.

2. Status of Evidence

As indicated above, Application No. 40084 was filed with the Commission by the District on May 14, 1958, and that date therefore becomes the financial datum point in establishing valuation of the properties by the Commission's staff.

To date, the staff has completed its field inventory, priced the inventory and submitted two reports in evidence as Exhibits Nos. 1 and 11, at public hearings on December 17, 1959. Subsequent hearings were held for cross-examination of Commission witnesses, the last date of hearing being on March 14, 1958. On that date, Exhibit No. 16 was submitted by a District witness, showing valuation of Minor Property Items, including Materials & Supplies and other miscellaneous items.

The next date of hearing has been set for May 10, 1960, at which time Key System is expected to present evidence in support of its contention that valuation amounts should be higher than as estimated by the Commission's staff for tangible properties, and that substantial allowance should be made for intangible values and severance damage.

As presently scheduled, that hearing date will be only four days less than two years since the proceeding was initiated.

3. Nature of Evidence to Date

Valuation estimates have now been prepared covering all of the properties included in the application as sought to be acquired by the District. Valuation of land, structures, buses, service equipment, shop and garage equipment, office furniture and equipment, and miscellaneous items has been submitted by Commission staff witnesses in Exhibits Nos. 1 and 11. These values were as of May 14, 1958. Valuation of materials and supplies, spare bus parts and assemblies, printed material, small tools and jigs, bus fuel and lubricating oil, bus stop signs and benches, and other miscellaneous small items has been made and presented in evidence as Exhibit No. 16, submitted by the District's witness, as of October 31, 1959.

4. Remaining Evidence to be Submitted

Remaining evidence that would normally be developed and presented to the Commission for consideration in fixing a final order of just compensation, would include the following:

By Key System

- a. Oral testimony and exhibits by expert witnesses and company officers and employees, to show that values of tangible properties as estimated by Commission staff witnesses are too low.
- b. Oral testimony and exhibits in support of substantial allowances for going concern value, severance damage; increased service lives for buses, service equipment, structures and shop equipment; higher salvage value; and increased overhead cost allowance.

- c. Evidence to support contention that increased costs be taken into consideration in bringing the May 14, 1958, valuation forward to date of closing, as a countermeasure to reducing the total amount by reason of increased depreciation accrual.

By District

- a. Oral testimony and exhibits by expert witnesses to show that in some respects the basis of valuation as used by the Commission staff results in excessive amounts.
- b. Evidence to urge that other elements of value be considered by the Commission in addition to reproduction cost new, including among other things:

- (1) Original cost and historical reproduction cost,
- (2) Failure to maintain a normal turnover of investment in buses,
- (3) Inherent differences between valuation of a transit property and valuation of other public utilities properties where major investment is in relatively long-life facilities of fixed rather than mobile nature,
- (4) Merit of using a declining available service mileage of buses for depreciation instead of the straight line method,
- (5) Improper use of salvage value when computing depreciation,
- (6) Variation in service life of buses dependent upon earning status of operation,
- (7) Questionable practice of including as elements of value in the purchase price, consumable items already charged to operating expense,
- (8) Stockholders equity,
- (9) Rate of return,
- (10) Other elements related to value,
- (11) Absence of "good will" as an intangible value,
- (12) Limited application of the theory of "going concern value" for a transit property,
- (13) Element of risk in transit properties,
- (14) Obligation of transit utility to public and effect of changes in wage rates upon net earnings,
- (15) Effects of obsolescence as a factor in reducing value of buses,

- (16) Questionable theory of applying escalator increases to valuation findings in projecting to date of closing,
- (17) Numerous other contentions urging reduction in aggregate valuation of properties.

G. PROLONGED TERMINATION

In addition to the time that would be consumed in preparing material for the above showings, presentation before the Commission, cross-examination of witnesses, preparation and presentation of briefs by attorneys, and exercise of legal procedural rights before the Commission, there would then follow a series of actions in the courts, all of which might conservatively extend the conclusion of the case and acquisition of the properties by the District, another two years, or a full period of four years from date of filing the application.

H. RESULTS OF PROCEDURAL DELAY

During the interim, it is highly questionable that Key System would undertake a program of bus renewal. Consequently, when the final date of acquisition should arrive, the District would take over a fleet of buses that would be four years older than on date of filing.

This would necessitate an accelerated bus replacement program, placing a greater strain upon the District's financial status, and at the same time, the public would be forced to use older buses for a longer period of time.

Favorable earnings of the property would be lost to the District during the interim period and enjoyed by the Company without adequate plow-back. This would be a real loss to the District, and in part at least, a questionable gain to the Company. Extended depreciation accruals in computing the final purchase price would probably more than offset the net profit gain of the Company during the interim period.

As a consequence, both the Company and the District would face great chance of adverse financial consequences from a prolonged procedural delay.

PART THREE

FORM OF PURCHASE AGREEMENT

A. GENERAL

To effect a transition from private ownership to public ownership, whether accomplished by continued condemnation proceedings or by negotiated purchase price, requires a closing document that will specify all of the essential conditions as to properties to be acquired by the District, price to be paid, items of property to be excluded from the sale, assets not to be acquired, disposition of current assets such as cash working funds and prepaid items, date of agreement, conditions of closing, provision for extension of time and many other legal and practical aspects.

For Key System Transit Lines and its affiliated companies, Bay Area Public Service Corporation and Railway Equipment and Realty Company, to make required corporate adjustments, there are many problems of accounting for tax purposes, closing of books for transfer, compliance with rules, regulations and laws of State and Federal agencies, approval of stockholders, corporate dissolution, authorization from the State Public Utilities Commission, and numerous other procedures.

Provision must be made for transfer of many operational contracts and the union agreement to the District. Working funds must be available on a continuous basis and adjustments must be made in value of properties in the event of prolonged delay in consummating the transaction.

All of those many considerations must be provided for in a form of purchase agreement that meets with approval of both the Company and the District. An appreciable amount of time will be required in negotiating the terms of such an agreement so that in the end, its provisions will protect the interests of both parties.

B. OUTLINE OF AGREEMENT

To accomplish the above objectives and provide a workable document that will comply with the Transit District Law and constitute a practical working formula for processing the purchase transaction, a suggested form of agreement has been drawn up and an outline of its content is attached hereto as Exhibit Y. This outline is a condensed index to the complete draft of a proposed agreement which has been previously prepared and submitted for consideration as a separate document.

After development of the first draft of the purchase agreement, it was discussed in detail with legal, accounting and engineering representatives of Key System and management of the District, so as to prepare it for final editing and sanction by the General Manager of the District and the President of the Company. That final analysis is presently in progress.

It should be repeated, that this document would be required regardless of whether the final purchase resulted from continuation of condemnation proceedings or through negotiation.

C. FORM OF AGREEMENT

Inasmuch as the District would be the moving party in offering a proposal to the Company, the document has been drawn up as a letter agreement rather than as a standard form agreement.

In this manner, the District would assume the initiative in proposing to purchase the properties of Key System and Bay Area Public Service Corporation at a mutually agreeable price and in accordance with provisions of control that will protect the District's interests, and at the same time adequately meet requirements of the Company to the extent to which they can be anticipated. No doubt, the Company will propose changes in those provisions that will better serve its specific needs, and after complete review, the document will be brought into final form for signature and insertion of the agreed purchase price.

D. INVENTORY CONTROL

There are many thousands of individual items of property involved in this purchase. Some are large and fixed in place, such as land, buildings and improvements. Others are large but mobile, such as buses, trucks and service vehicles. In addition, there are a multitude of smaller items that are portable and in some cases of appreciable individual value, that might be subject to misappropriation for personal use.

Complete inventories have been made of all items of property, both large and small, at various dates, for purpose of pricing out to establish a basis for valuation and in turn an aggregate purchase price.

Between the date that such inventories were made and the date of closing the purchase transaction, there will be changes in the inventory quantities. Some will be used up, worn out, or otherwise disposed of, and others will be acquired to meet current needs and added to the existing inventories.

Most of such exchanges will be in the category of Materials & Supplies. In contemplation of the loss of its facilities, the Company cannot be expected to make any more than essential replacements of larger items of property.

In negotiating an agreed purchase price in aggregate amount as payment for the properties as defined in the various physical inventories, there

must be a reasonable degree of assurance that all of those properties, large and small, will be actually passed into custody of the District at date of closing.

This could, of course, be accomplished by conducting another complete inventory immediately after date of closing, to verify the existence of the properties purchased, as to identity and quantity. To meet practical requirements, this would not be necessary with respect to fixed facilities. As to large mobile items, an inventory should be made to determine any changes in quantity between date of signing the agreement and date of closing.

As to larger items of office furniture and equipment and shop tools and jigs, a closing inventory might be justified but would not be essential, providing advance precautionary measures be taken to prevent pilferage and theft of items that might have personal-use value.

To accomplish this, the Company could be requested to place its employees on notice that they are to become employees of the District upon date of closing, and that heads of offices and departments will be held responsible within reasonable limits, for preserving the inventory of properties assigned to their custody. Each head of office or department could be charged with the responsibility of checking the office inventories after District acquisition.

E. AUDIT CONTROL

To account for fiscal differences resulting from changes in identity and quantity of properties and adjustments in the purchase price, as provided for in the purchase agreement, a firm of certified public accountants should be retained to make an audit of the accounting records as of the date of closing.

F. PROPERTY VALUE ADJUSTMENTS

1. Major Items of Property

As indicated heretofore, property values as contained herein, are based upon valuations, as summarized in the appendix. Those values, as related to major items of property other than land, are generally computed on a formula of estimated reproduction cost new less accrued depreciation.

Under this method, the arithmetical value of an item of property decreases with passage of time in proportion to the declining remaining service life. It becomes apparent, therefore, that in establishing a purchase price for the properties as of a certain date, provision should be made for decreasing the purchase price to account for such lessening of worth, and also to cover comparative deferred maintenance of buses that might be experienced as an economy measure.

To avoid the complications of adjustments for a short time period, the purchase price should be agreed to as of a specific date and held

at that figure for a length of time sufficient to permit completion of all essential closing details. A period of six months should be ample for this purpose.

In the event that the date of closing is not reached until after six months, then a formula should be applied to the purchase price that will carry the accrued depreciation process into effect on a month to month basis, in accordance with the service lives adopted by engineers of the State Public Utilities Commission in preparing Exhibits Nos. 1 and 11, and as used in Exhibit No. 16, all as submitted in evidence in Application No. 40084.

2. Minor Items of Property

Those items of minor property contained in Exhibit No. 16 in Application No. 40084, as summarized on Exhibit N herein, are of such nature as to justify different treatment in accounting for change of value with passage of time.

There are generally five categories of such properties. They are capital account items known as Materials & Supplies; capital account items such as bus stop signs and benches; expense account items of used spare parts and used assemblies; fleet maintenance items of new stock; and miscellaneous items of printed matter, ticket stock and stationery.

Of these five groups, only Materials & Supplies is subject to accounting control. All other items have been charged out to expense or grouped in a capital account where current control is difficult.

To make provision for price adjustment with passage of time beyond the six months limit would be difficult for all such items except Materials & Supplies. Due to the nature of the materials and parts involved, it would appear that the risk of substantial loss to either party would be small if no adjustment should be prescribed except in Materials & Supplies, unless a period of twelve months or more should elapse before date of closing.

As to Materials & Supplies, an adjustment should be made on a month to month basis from date of purchase agreement to date of closing. The process would simply involve the difference in the capital account Materials & Supplies, between the date of purchase agreement and the date of closing, regardless of the length of time involved. If the amount on date of closing should be greater than on date of purchase agreement, the difference would be added to the purchase price, and if the amount on date of closing should be less, then the difference would be deducted from purchase price.

PART FOUR

EMPLOYEE PENSION PLAN

A. PENSION PLAN ANALYSIS

1. Union Provisions

In the agreement between Key System Transit Lines and Division 192 of the Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America (AFL-CIO), signed June 9, 1958, and remaining in effect to and including May 31, 1960, Section 10 of Part 1, provides with respect to the Pension Plan:

"21. The agreement reached between the Company and the Association relative to all former employees who are on pension shall remain the same. This paragraph applies only, provided, it does not conflict with any State or Federal law.

"22. All employees covered by this contract are placed under the Pension Plan dated January 1, 1913, as presently administered.

"23. Full time union officials shall continue to accumulate credits for their retirement based on salary received from the Association. "

Under Part 2, Section 36, paragraph 129. (b), with respect to Operating Department employees, and Part 3, Section 40, paragraph 152. (b), with respect to Maintenance Department employees, it is further provided:

"Company - Special Contributions.

In addition to the basic wage as listed in 129(a) above," (and 152(a) above) . . . "the Company will make a special monthly contribution to Local Division 192 in an amount equivalent to one-half cent per hour for each member of Division 192 to be used by it for the purpose of augmenting pensions of members of Local Division 192. "

2. General Application

The Pension Plan applies to all Key System employees including those not covered by the union agreement, and the basic formula is used for all employees in computing pension plan benefits.

3. Pension Benefits Formula

Computation of pension benefits is based on the average monthly salary over a period of ten consecutive years of highest salary during employment. Normally this would be the last ten years of employment immediately preceding retirement.

Eligibility for normal retirement is reached at age 65 after 20 years of service, and disability pension eligibility at age 60 after 25 years of service.

Computation of benefits is based on one and one-half per cent of the total years of service, times the first \$50 of the average monthly salary during the highest consecutive ten-year period, plus one per cent of the total years of service, times the remainder of the average monthly salary after deducting the first \$50.

If the resultant amount is greater than one-half the Federal Social Security benefits received by the pensioner, then the Company pays the pensioner the difference.

4. Example of Computation

Service Tenure	30 years
Age of pensioner at retirement	65 years
Average annual salary during highest consecutive 10 years	\$3,600
Average monthly salary	\$ 300

Computation:

1 1/2% of 30 years =	0.45	
1 % of 30 years	=	0.30
0.45 x \$ 50	=	\$22.50
0.30 x 250	=	<u>75.00</u>
Average 10 yr. salary	\$300	
Monthly Pension Benefit		97.50
Less 1/2 Federal Social Security benefit (assume max. \$116)		<u>58.00</u>
Net Company Pension Benefit		\$39.50

5. Pension Data Analysis

For purpose of verifying the method of computation and the basic data contained in the pension roster, personal inspection was made of the most recently available pension roll of the Company which applied to the first half of the month of April 1960.

This original record consisted of nine pages of I. B. M. tabulating machine data, showing for each pensioner the pension roll identifying number of the pensioner, the pensioner's full name, the gross amount of pension payment due for the period, deductions from the gross amount to cover personal deductions, the actual net amount paid to the pensioner and the voucher number by which payment was made.

During the test period, there were 288 pensioners on the roll, receiving total gross pension benefits in amount of \$7,385.29 for the half-month period, disbursed through vouchers numbers 412919 through 413206.

The average benefit per person was \$25.64. The lowest single benefit was \$1.01, and the highest was \$154.52. On a monthly basis, these amounts would be \$51.28, \$2.02 and \$309.04, respectively.

6. Annual Pension Payments

Over a period of ten years from 1950 to and including 1959, the annual pension benefit payments made by the Company were as follows:

<u>Year</u>	<u>Average No. of Pensioners</u>	<u>Annual Amounts</u>	<u>Year</u>	<u>Average No. of Pensioners</u>	<u>Annual Amount</u>
1950	292	\$189,259	1955	279	\$ 157,213
1951	289	171,750	1956	279	160,910
1952	280	164,690	1957	280	165,758
1953	279	159,315	1958	292	178,886
1954	281	157,637	1959	296	179,403
Total for 10 years					\$1,684,821
Average Annual				285	\$ 168,482
Average Per Person Per Year					\$ 591

7. Monthly Pension Payments

During the year 1959, monthly pension payments and number of pensioners was as follows:

<u>Month</u>	<u>No. of Pensioners</u>	<u>Monthly Payments</u>	<u>Month</u>	<u>No. of Pensioners</u>	<u>Monthly Payments</u>
Jan.	297	\$14,766	Jul.	298	\$ 15,137
Feb.	296	14,880	Aug.	298	15,092
Mar.	297	14,925	Sep.	297	15,069
Apr.	295	14,698	Oct.	296	15,063
May	293	14,623	Nov.	296	15,102
Jun.	296	14,910	Dec.	297	15,138
Total for 12 Months					\$179,403
Average Monthly				296	\$ 14,950
Average Per Person Per Month					\$ 50.51

8. Prospective Future Payments

Based upon the above statistical data and current status of employment, it appears reasonable to assume that the annual payments for pension benefits during the next five years, under this plan, will be about the same as the average for the past five years. The average annual amount for the five-year period 1950-54 was \$168,530, and for the following five-year period it was \$168,434, a variation of only \$96, or less than one-tenth of one per cent.

B. NATURE OF EXISTING PENSION PLAN

1. General Theory

Throughout the wide extent of private industry and public agencies, there are many forms of pension plans. Basically, they can be divided into two general classes. These are the funded plans and the current earnings plans.

In the funded plans, contributions are made into a pension reserve fund where the accumulated deposits plus interest constitute the aggregate resources from which future pension payments are to be made. Periodic deposit increments are based upon actuarial life expectancy tables.

- ✓ In the current earnings plan, no pension reserve fund is maintained and identified as such. Under this method current payments as determined by the pension plan formula, are made on a current basis as direct charges against operating expense accounts with current revenue as the sources of payment rather than a pension reserve fund.

As to the initial source of money from which pension payments are made, both plans are essentially identical. In each case the original source is from revenue earned from the sale of service. The only fundamental difference is that under the funded plan, interest is earned on the accumulated deposits, thereby relieving current earnings from operations. The same employee benefits formula would be adaptable to either method.

2. Continuation Guarantee

From the point of view of the individual employee and pensioner, there would be no difference between the two types of plan as to the prospective benefits or current pension payments, so long as the established plan should be the same and continue in operation.

The only area of apprehension would be as to the guarantee that the plan would continue in effect. This contingency goes not to the basic type of pension system but to the specific provisions of the pension plan agreement as to period of continuance, right of employer to terminate, and availability of resources to guarantee continuation of payments.

- ✓ No written pension plan document has been observed other than the union agreement, which makes any guarantee as to perpetuation of the pension plan or provides for changes in the benefits computation formula. Verbal information from the Company indicates that the plan was initiated in 1913 and that its continuation in existence or cancellation is subject to Company policy and terms of the current labor agreement which expires on May 31, 1960. There has been no indication, however, of intention on behalf of the Company to make any change in the plan.

3. Dependability of Resources

- ✓ As indicated above, Key System has adopted the current earnings method of processing its pension plan rather than the funded method. Payments are made bimonthly to pensioners on the pension roll, in amounts computed by the formula heretofore described. The source of funds for such payments is from current earnings of the transit operation. No pension reserve fund is maintained as such, and therefore there is no accumulation of periodic increments on an actuarial basis.

Continuation of benefit payments to pensioners and assurance of future payments to presently working employees, are, first, dependent upon preservation of the plan, and, secondly, upon continued availability of revenue from which to obtain the required money.

A long established utility such as Key System, under State regulation as to passenger fares, has good prospect of continuing to earn sufficient funds to support the present pension plan in the future. No less degree of assurance exists with respect to operation of the system under District ownership.

4. Adequacy of Pension Plan

As to basic process of administering the existing pension plan on a current earnings method as compared with a funded method, the present system is inherently sound. Availability of funds for continued pension payments appears to be reasonably assured within limitations of the basic economic status of the Country. The only major weakness from the employee's point of view, is the absence of a guarantee of perpetuity.

With the existing pension plan formula, this condition as to lack of guarantee would be fundamentally no different even if there had been an accumulated pension reserve fund. Disposition of the proceeds of such a fund would be dependent upon terms of the underlying pension plan agreement.

C. PENSION PLAN AND TRANSIT DISTRICT LAW

1. Specific Provisions

In the Transit District Law, specific reference is made to the pension plan obligations of the existing utility as related to the purchase price of its properties when acquired by a transit district. Such reference is contained in Sections 25054, 25055 and 25056.

In Section 25054, it is provided that whenever any district acquires facilities from a public utility that maintains a pension plan:

" . . . members and beneficiaries of such pension plan shall continue to have the rights, privileges, benefits, obligations and status with respect to such established system; provided, however, that the outstanding obligations and liabilities of such public utility by reason of such pension plan have been considered and taken into account and allowance made for in the purchase price of such public utility. "

In Section 25055, it is provided that:

"The persons entitled to pension benefits as provided for in Section 25054 and the benefits which are provided shall be specified in the agreement or order by which any public utility is acquired by the district. "

In Section 25056, it is provided:

"All persons receiving pension benefits from such acquired public utility and all persons entitled to pension benefits under the pension plan of such acquired public utility may become members or receive pensions under the retirement system established by the district by mutual agreement of such persons and the district. "

2. Interpretation of Law

Obviously these provisions were incorporated in the law to safeguard the interests of employees presently included in the existing company pension plan, those becoming eligible prior to acquisition by the District, and those already receiving pension benefits under the plan as well as those becoming eligible for benefits during the interim. Although the intent of the provisions is clear, the language of the law presents some degree of difficulty in its implementation.

Section 25054, as applied to the pension plan of Key System, makes reference to outstanding obligations and liabilities of the company with respect to the pension plan and requires that those obligations and liabilities be considered and taken into account, and that allowance be made for them in the purchase price to be paid by the District for the properties of Key System.

3. Pension Obligations and Liabilities

As indicated heretofore, it appears that the only "obligation" and "liability" of Key System with respect to pensions relate to the legal commitments of record which in turn are indefinite as to prospect of future application. It would seem that the author of Section 25054 had this point in mind as being a threat to the employees of Key System that the pension plan might cease to exist upon dissolution of the company, thereby leaving the workers with no retirement protection.

If the protection envisioned by the Section can be assured to company employees as a continuing benefit after District acquisition, then the intent of the Law in this respect would appear to have been fulfilled.

In appraising the monetary value of any outstanding obligations and liabilities of Key System with respect to the pension plan, available information does not indicate the existence of such beyond the date of termination of the present union agreement.

If the definition of "obligations and liabilities" should be expanded hypothetically to encompass the difference in current fiscal status when comparing a funded plan with a current earnings plan, as to availability of accumulated funds that are obligated to future pension payments and therefore constitute a liability, then a monetary value might be computed.

Such a monetary value would simply be the amount of accumulated funds that would be on deposit in a pension reserve as of any specified date. If such a fund has been created, then upon acquisition of Key System properties and operations by the District, the normal procedure would be for the District to assume the responsibility for administering the reserve fund, without interruption, either by continuing the existing pension plan or, to the extent permissible, adapting the pension reserve fund as acquired, to a new pension plan formula.

In any event, the monies contained in the fund would be dedicated to a specific purpose, namely, payment of pension benefits, and those funds could therefore not be used for any other purpose. They would not constitute an asset upon acquisition by the District. To the contrary, the fund would represent a liability for accounting purposes.

4. Purchase Price Allowance

Therefore, in the absence of such a fund in the first place, and, secondly, the failure of such a fund either in fact or hypothesis to constitute a purchasable asset, and further, in view of the lack of any retroactive obligations to create a reserve fund solely for purpose of transfer to the District by the Company, there exists no company obligation or liability as related to the purchase price as such. ✓

Purchase price is ordinarily defined as the monetary consideration paid to a seller by a purchaser in exchange of ownership of tangible or intangible properties. It can apply to a single item such as an automobile or to a going concern such as an operating transit system, involving many items of tangible and intangible properties and assets.

When applied to transfer of ownership of a composite transit property as is the case in this analysis, the final purchase price consists of the aggregate dollars paid for the complete system of properties and rights constituting the operating entity, in functional condition as a going concern.

Those elements making up the purchase price are usually defined as the physical properties, operating rights, intangible values, if any, and the balance of assets against liabilities as may exist and be agreed to, as shown on the balance sheet, in addition to those other specified elements.

In transferring ownership of an operating transit system, the transition between owners must be accomplished at a predetermined time without cessation of service to the public, without disruption of services performed by the employees, and with instantaneous transfer of liabilities between the parties in accordance with terms of agreement previously subscribed to by both parties.

- ✓ Usually the value of physical properties and operating rights constitute the major part of the purchase price. In addition to the compensation for those assets, the agreement must provide for transfer of other assets that are necessary to a going concern which might include working cash, accounts receivable, and prepaid items in the nature of insurance, rents and taxes, to the extent that such are applicable.

To preserve the going concern status during transition of ownership, there are usually liabilities of short and long term nature that must be considered in composing the purchase agreement. These items ordinarily are shown on the liabilities side of the balance sheet and may consist of equipment purchase obligations, accounts payable, accrued payroll, unredeemed tokens and other items such as reserves.

Included in this latter classification might be an Employees' Pension Reserve, if one existed.

5. Intangible Value of Pension Plan

It has been established above that there is no direct and specific relationship between the company's pension plan and the purchase price of physical assets. It may be assumed, however, that a relationship does exist between such pension plan and intangible values.

Payment of pension benefits under the plan is dependent upon availability of net earnings from the operation and the magnitude of such net earnings constitutes an element of intangible assets in the category of going concern value.

In developing a purchase price, whether through negotiation or legal action, there must be an allowance to cover the value of intangible assets and it is this classification that establishes a relationship between purchase price and the pension plan.

6. Compliance with Section 25055

To comply with provisions of Section 25055, it is necessary to incorporate in the purchase agreement by exhibit or reference or both, a specification as to those persons entitled to benefits as provided for in Section 25054 and the benefits which are provided.

It should be included in the agreement that those persons eligible for pension benefits on the Date of Closing shall be identified by the pension roll of the company which will be turned over to the District on Date of Closing, together with the necessary records to show the amount of benefits applicable to each employee.

It is not practical to attach a list of persons to the agreement as the volume is great and the membership is in a state of current change from day to day. An exhibit showing the computation formula and the nature of the plan should meet the requirements of the Law on this subject.

7. Compliance with Section 25056

To meet requirements of this section of the Law, it should be provided in the purchase agreement that the payroll roster in complete form will be turned over to the District at date of closing, and that those persons listed thereon who may so elect, shall be transferred to the retirement system of the District.

8. Purchase Agreement Pension Provisions

The mechanics of transferring the intangible pension plan obligation of the Company to the District, could best be accomplished by incorporating a specific provision in the purchase agreement that would make final consummation of the purchase transaction contingent upon the District assuming the existing pension plan obligations and liabilities and after transfer of ownership, to either continue the present

plan or institute another of equal or superior benefits to the personnel involved.

Such a purchase price agreement provision might be substantially in part as follows:

- a. In consideration of the provisions of Sections 25054, 25055 and 25056 as contained in Part 1, Division 10 of the Public Utilities Code, it is agreed that the purchase price as established by the provisions of this agreement has been computed after considering and taking into account the outstanding obligations and liabilities of the Company, by reason of the pension plan as it shall exist on Date of Closing.
- b. Upon transfer of properties, rights and operations of Company to the District, all rights, benefits, privileges and conditions to which past, present and future employees are entitled under provisions of Company's pension plan, shall be assumed as an obligation of the District and shall be continued or bettered by the District after acquisition of properties and operation of Company.

Those persons in the employ of the Company on Date of Closing and those prior employees already retired and receiving pension benefits on that date, shall be continued in the pension plan status as prescribed by the pension plan, as outlined on Exhibit _____, attached to and made a part hereof, and as identified by the payroll records and pension roster of the Company at Date of Closing, both of which records shall be delivered to the District upon date of closing, including the names of all persons presently employed who are entitled to pension benefits and names of all persons presently receiving pension benefits together with the amount of benefits which each such person is receiving and the basis upon which such benefits are computed.

- c. All persons receiving benefits from the pension plan of the Company as acquired by the District, and all persons entitled to pension benefits under that pension plan, or pursuant to this agreement, may become members or receive pensions under the retirement system to be established by the District.

9. Conclusions on Pension Plan

To assure minimum disruption of procedures, no interruption in pension benefit payments and continuation of employee status under the present pension plan pending development of a final plan, the District should at date of closing, take over the present pension plan together with all present and potential beneficiaries as contemplated by those sections of the Law discussed above.

A personal inspection has been made of the Company's pension plan system as related to the provisions of those sections, and it is concluded that the procedure suggested under Section C. 8., above, will meet the requirements of the Law and preserve to the Company's employees the degree of retirement protection contemplated by the Law.

The procedure outlined herein above will ensure that:

- a. Members and beneficiaries of the existing pension plan shall continue to have the rights, privileges, benefits, obligations and status with respect to the established pension plan system.
- ✓ b. The outstanding obligations and liabilities of Key System by reason of the pension plan will have been considered and taken into account and allowance made for in the purchase price as an element of intangible assets in the category of going concern value.
- c. Those persons entitled to pension benefits and the benefits to which they are entitled will have been specified and identified.
- d. Those persons on the present pension plan desiring to enter the District's retirement program after acquisition, may do so, with continuation of benefits and privileges equal to or better than those now enjoyed.

PART FIVE

TRANSIT DISTRICT VALUATION FACTORS

A. BASIC CONSIDERATIONS

1. Elements of Trading

In developing the amount of purchase price to be realized from the sale of an operating commercial enterprise between private parties on the open market without governmental regulatory control, the monetary consideration may fall within a fairly wide range, depending upon the attitude of the parties and their trading capabilities. Two parties are involved, and each may be anxious or reluctant to press the transaction.

The degree of desire or reluctance on behalf of the owner and the prospective buyer may be influenced by many considerations, both personal and financial. Important among these factors would be the prospective net earnings capability of the operation and the relative skill of the parties in driving a hard bargain.

If, in case no. 1, the property shows good current earnings and prospect of highly favorable future net income, the owner would ordinarily be less desirous of selling than if the reverse were true. In this event, the initiative would shift to the prospective purchaser and the final price would reach the upper limit, assuming equal trading skill on both sides.

Case no. 2 might be one where current earnings offer a favorable inducement, but the owner, through close insight, is aware of a probable decline in net earnings not known to the buyer. In this case, the owner might feign reluctance but actually be anxious. In this event, the price might be somewhat lower than the upper limit, but still high due to anxiety of the buyer in his ignorance of probable future conditions.

Another set of conditions might be present in case no. 3, where although present earnings show favorable results, both parties are aware of probable future decline in net earning capacity. In this case, the owner might be anxious to sell and the buyer being apprehensive of the future, might be reluctant. This would tend to bring the purchase price down to the lower limit.

Obviously, an informed and experienced commercial operator would not normally be interested in acquiring a property with low net earnings

prospect, unless he could foresee a means by which the financial status could be improved.

2. Public Ownership Aspect

The same principles discussed above would generally apply if the prospective purchaser were a public agency, such as the Alameda-Contra Costa Transit District. The fundamental difference would be the shifting of weight from purely monetary values to the more intangible values of public benefit.

In the first place, for such a transaction to be initiated, there would have been a policy decision in existence, establishing the premise that public ownership had greater advantage than private ownership. Otherwise there would be no point in public acquisition.

All other things being equal in case no. 1 above, the owner would be reluctant to sell and the buyer might be anxious. If governmental regulation were involved, the outcome might be different than if the transaction were consummated on open market procedure. For purpose of this analysis, however, it will be assumed that no controls are involved, and that the transaction is subject to negotiation between parties.

As to case no. 2, the same relative positions of parties might exist as described in the example cited above. It would be the responsibility of the buyer to recognize the veiled existence of financial pitfalls.

Applying prospective public ownership to case no. 3, provides interesting differences when compared with private acquisition. If conditions effecting the industry involved are such that continued successful financial status can only be preserved by curtailment of service standards to the public, then there may well be an element of intangible value to the public agency that would offset the disadvantages of prospective lessening of net earnings.

There are certain classes of public utility operation that can provide more extensive service to the public under public ownership than under private ownership. Among these might be listed the sewage system, fire prevention, street lighting, street maintenance, education, public health, and the postal system. These are all presently in the scope of public ownership and operation.

Those utilities that have been shifting from private to public ownership during past years are water supply, electric power, toll bridges, parking facilities, housing, and passenger transit.

3. Public Ownership Motivation

The motivating force behind such shift of utilities from private to public ownership is the inherent ability under prevailing economic conditions, of providing the public with essential utility services at higher standards of quality than could be reasonably accomplished

under private ownership, due to the underlying necessity in the latter of the profit motive. There are, of course, strong forces of argument against this theory, but the fact of actual trend demonstrates the tendency.

4. Application to Key System

Key System is a typical example of the theory mentioned above, but certainly not unique in the field. Passenger transit service throughout the Country has been on a steady decline since advent of the automobile in the 1920's. For the industry to survive under private ownership, it has been necessary to adopt a rigid policy of cost curtailment so as to keep revenue and expenses in proper relationship to produce a reasonable margin of profit.

B. KEY SYSTEM FINANCIAL PROSPECT

1. Current Net Income

Key System during the past several years has undergone the last major phase of such financial balancing, by converting its operations from rail to bus. The first full year of such benefits has just been realized by the Company. During the year of 1959, an operating profit was earned in amount of \$1,428,510, as shown on Exhibit R attached hereto. After other deductions and additions to income, the net before federal income tax was \$1,371,197. Federal income tax for the year amounted to \$743,000.

2. Prospective Revenue

For the year 1959, revenue from operations amounted to \$11,371,673, including \$121,362 from charter operation, advertising and miscellaneous.

Passenger revenue amounted to \$11,250,311. This revenue is, of course, dependent upon the passenger fare structure, which in turn is subject to regulation by the State Public Utilities Commission.

In the event that investigation should be instituted into earnings of the Company by the Commission, either upon its own motion or through official complaint, there is the possibility that if net earnings are higher than considered reasonable, a reduction in rates might be ordered. This would, of course, reduce the amount of annual revenue proportionately.

With stabilization of mass transit volume which appears to have been reached, there is no reason to expect any decline in passenger traffic during the immediate future years. Therefore, under continued private operation, there would be some degree of uncertainty as to the magnitude of revenue in view of the regulatory contingency.

3. Cost of Operation

Cost of conducting the transit operation is shown on Exhibit R as \$9,943,163, which when deducted from revenue earned, leaves an Operating Income of \$1,428,510.

Of total operating expenses, transportation expense made up \$4,966,133, or 50%. Maintenance of buses and buildings amounted to \$1,502,149, or 15% of the total. Combined, those two factors of cost represented 65% of the total.

Transportation expense consists almost entirely of labor cost. Maintenance of buses is likewise mostly labor. Including all expenses, about 71% would represent cost of wages and salaries that are subject to increases as the national spiral of wage rates continues upward.

The remaining 29% of costs are such that there appears to be no prospect of reduction. Actually, those expenses will continue upward if the national trend persistently climbs.

4. Bus Maintenance

Based on operations during 1959, expenditures on bus maintenance and repair amounted to about \$1,200,000. This included only normal maintenance with no program of major bus overhaul as is practiced on other major transit properties. In Southern California, both the Los Angeles Transit Lines and Metropolitan Coach Lines had active programs under way for major rebuilding of older buses amounting to about \$4,000 each.

In view of the impending acquisition by the District of Key System properties, it is logical to expect that the Company would not launch such a program of rebuilding. Instead, the money that would be so spent goes into net income.

The significance of this, however, is that the current financial status does not completely reflect the true condition that would result if normal maintenance and repairs were to be made, as would be the case if the Company were to remain in business.

During the year of 1960, it might be expected that costs of operation and maintenance would increase by about \$500,000, with a normal program.

5. Depreciation Expense

Of total properties, the bus fleet represents by far the greatest investment and the shortest service life. Reference to Exhibit S attached shows buses (motor coaches) to represent \$9,308,529 of a total original cost investment of \$12,813,720, or 73%. Of total accrued depreciation, buses make up 84%.

This condition is significant when analyzing prospective future net earnings under continued Company operation. It will be seen by reference to Exhibits J and M attached, that no new buses have been

bought by the Company since 1958. Average age of the entire fleet will be 12.5 years, as of June 30, 1960. Out of 570 buses in total, 499 will be over 10 years of age on June 30, 1960, or 88%.

On a 10 year life for depreciation expense accounting purposes, it will be seen that the depreciation expense as shown on the income statement, will be reduced to a very small figure, resulting in a further false indication as to actual net earnings. This will have two important effects under continued private operation.

It will tend to reduce aggregate recorded operating expenses and thereby show a more favorable net earning. On the other hand, it will materially reduce the actual dollars that the Company will be able to shift into surplus reserves for ultimate distribution to stockholders when the Company is dissolved.

6. Favorable Debt Position

Reference to the liabilities side of the balance sheet of Key System as shown on Exhibit T, attached, shows no outstanding debt on equipment purchases or obligations. There are no long-term or short-term debts. There are no liabilities other than current liabilities, and the ratio of current assets to current liabilities stands at a highly favorable status of 4.38 to 1.

C. RESULTANT VALUATION FACTORS

1. General Considerations

Included in the generally accepted valuation formula are the elements of tangible property and intangible property. Value is usually placed upon the former that will reflect its loss of usefulness through deferred maintenance, depreciation due to age, and obsolescence resulting from availability of more modern design.

When applying these elements to the properties of Key System, the principal issues become those of determining fair value on tangible property consisting of fixed facilities, mobile facilities and consumable materials; and on intangible properties consisting of alleged going concern values.

If the condemnation suit should be continued, the District should explore to the ultimate all of those factors relating to condition and usability of tangible properties, and reasonable limitations upon magnitude of intangible values. In each of these categories, there is fertile field for productive effort in preparing a convincing case for presentation to the Commission, in urging a finding of just and reasonable value that would truly reflect the actual conditions existing.

2. Status of Tangible Properties

As indicated in the prior discussion, after adding the gasoline buses, 73% of total reproduction cost new investment is represented by buses,

before accrued depreciation. After applying accrued depreciation, buses constitute only 42%, even when using most optimistic values for buses.

In Commission proceedings, there has been a consistent policy that value of buses be established to reflect lessening of worth due to depreciation and obsolescence. Service lives for this purpose have not been estimated to be in excess of 15 years.

From the District's point of view, there is sound ground for arguing a lesser life than 15 years, upon the theory that any life in excess of 14 years represents a deferred obligation to the rate payer.

As to other elements of property such as service cars, shop and garage equipment, and office furniture and equipment, these facilities are admittedly doing the functional job for which intended. On the other hand, they too are old in the aggregate, when compared with latest design and modern development.

In these categories there is good prospect of convincing the Commission that the value is little, if any, greater than junk or salvage to either the Company or the District, if a well-planned systematic program of modernization were to be launched.

It is true that the Company performs an outstanding job of maintaining its facilities. They are all in generally good condition. There is a practical limit, however, beyond which obsolescence becomes an important factor not only in economics of maintenance, but also in employee morale and public acceptance.

3. Service Life of Buses

In computing accrued depreciation on buses, the Commission staff used a service life of 14 years on the oldest group and on the newest group, and 15 years for the remainder. No doubt these service lives were dictated to some extent by the fact that 23 buses were actually in operation that were in excess of those ages. As of the present, there are 114 that are 15 years of age.

This condition does not, however, necessarily indicate the true service life for purpose of computing accrued depreciation in purchase price valuation. After a bus has reached 14 years of age without major rebuild, it has used up its economic public acceptance life and should be replaced.

The mere fact that it can be kept in mechanical condition to run, does not per se dictate the desirability of its continued use. As to the purely mechanical aspects, it could be kept running for 50 years, but little, if any, of the original vehicle would be present.

Obviously there must be a more practical determination of the proper time factors when fixing a purchase price for obsolete buses.

In the valuation of buses on the properties acquired by the Los Angeles Metropolitan Transit Authority, 14 years was the maximum service life allowance on one property, 12 years on another, and 10 years on the third. Variation was due to the difference between companies as to major bus body rebuilding program, and general condition of equipment, with due weight being given to obsolescence.

4. Treatment of Salvage in Depreciation

Another factor of disagreement between the theories propounded herein and those used by the Commission staff and supported by the Company, is with respect to method of relating salvage value to unit cost in computing accrued depreciation of properties, especially buses.

In Exhibits 1 and 11 submitted by Commission witnesses, estimated salvage value was first deducted from the full reproduction cost new, and then condition per cent was applied to the remainder to determine the remaining value of the property item exclusive of salvage value, and finally, salvage value was added back to produce the estimated full cost less accrued depreciation. This method is commonly practiced for purpose of accounting, but does not necessarily produce consistent results for valuation purposes in determining purchase price.

In accounting practice, the objective is to amortize the original investment by charging uniform increments to operating expenses through the depreciation expense account, so as to recover the full amount of original investment. Part of the investment will be recovered through termination salvage by sale of the property item when it reaches the end of its economically serviceable life. It then follows, logically, that the difference between sale price for salvage at termination and full cost, would be the amount to amortize over the period of time during which it was used in service.

Although that treatment is widely practiced as a means of purely arithmetic spreading of investment through expenses, it does not necessarily follow that the same arbitrary procedure is applicable in determining the reasonable value of an item of property for interim sale purposes. In this case, the objective is to develop the fair price at a given time in contemplation of its continued use in the same service, and termination salvage value has no relationship to interim sales value prior to termination.

Such a process entails compounding of imponderables in establishing present value, by estimating the probably amount for which the item can be sold at some unpredictable time in the future, and then adding to that questionable amount another segment estimated to be the value at present, exclusive of such future value. The result of this treatment is to interject another questionable quantity into a formula that is already based upon unknowns and variable factors.

The theory propounded herein on this salvage treatment subject is not intended as being critical of the Commission's staff. The practice has been used sufficiently to indicate its acceptance. This does

not, however, render the procedure to be forever inviolate. No doubt the Company would be vigorously opposed to the theory, and its merits might be viewed with question by the Commission's staff. In the first instance, the position is understandable, as application of the theory would result in reducing the value of the properties. If the case were to be carried to a procedural conclusion, this revision in method should be urged before the Commission.

5. Declining Mileage Theory of Depreciation

Regardless of the mathematical means of computing the fair value of properties for acquisition purposes, the fundamental objective is to relate the monetary consideration to be paid, to the serviceability of the properties in continued use.

For purpose of convenience more than any other reason, the simple formula of straight line proration of estimated present replacement cost has been adopted as a means of performing the arithmetic. Under this procedure, there is a basic assumption that serviceability is uniformly spread over the total years of service life and that, therefore, the total replacement cost should likewise be so treated.

In the field of used vehicle sales, it is a universally recognized fact that the sales price of a used vehicle is not directly proportionate to its age. During the first year of life, the potential resale value decreases by from 25% to 30%, and each year thereafter the annual decrease becomes progressively less.

To some extent, it is reasonable to apply this same theory to passenger buses. They are automotive vehicles and in actual practice, newer buses of the operating fleet travel more miles per year than the older ones.

Based upon bus operating statistics of the Company, a graph was plotted to show the relationship between monthly bus miles operated as a function of bus age, and an interesting curve resulted. From this curve, a tabulation was taken off which shows a fairly uniform declining monthly mileage from new condition to about 10 years, followed by a sharp reduction during the next two years, and then a gradual decline from that age to about 16 years.

Results of this analysis indicate that in relating time factors to present replacement cost for computing net present value, a third element should be introduced that will give recognition to the actual pattern of declining annual mileage.

When applying this formula to a fleet of buses where the average age is high due to a lagging replacement program, the resultant total value of the fleet is sharply reduced below that obtained by use of the straight line method of uniform annual increments.

Effects of this method of computation are shown on Exhibits B, C and F.

As an example of the statistical results of analysis, new buses were shown to operate about 7,100 miles per month. At 7.5 years, the average monthly mileage was 4,900, and at 10 years of age the monthly mileage was about 4,400. Between 10 and 12 years, the mileage shown by the records was a high of 3,500 and a low of 1,200 per month. From 12 to 17 years, the mileage decreased from 1,200 to 800 per month.

Admittedly, this application is theoretical. It is, however, based upon actual Company mileage statistics and definitely indicates a relationship between not only time and value on an annual basis, but also time and bus mileage.

Any other method, in final analysis, is also theoretical. It is natural that the Company would object to use of this formula because it produces a lower net value than the straight line formula. From the District's point of view, however, the declining mileage formula shows merit.

This divergence of opinion as to formula only emphasizes that the ultimate result in a sales transaction reduces down to the essential element of barter trading, in which the degree of vigor in bargaining varies with conditions and attitudes of the parties. In other words, whatever means of approach may be followed toward a final purchase price, it involves a process of negotiation. The only difference is the manner in which the negotiations are conducted and the length of time required to reach final agreement, whether mutual between parties or forced by legal procedure.

D. VALUATION BY NEGOTIATION

1. General

It is the primary objective of this report to lay the groundwork for developing a reasonable valuation of Key System properties through negotiation rather than litigation. In doing so, it necessarily follows that the suggested range of purchase price considerations falls in a higher level of values than would be urged herein if the purpose of this report were to present a case for the Transit District in litigation.

In proposing the negotiation concept as a preferred course of action, it is considered appropriate if not obligatory to present both sides of the issue, so as to emphasize the advantages of negotiation as opposed to litigation, and also to indicate the general form of attack that would be recommended if negotiation should prove impossible for some unforeseen reason.

2. Probable Just Compensation

Several comparative statements are included in the appendix of this report to show the results of computing values on several bases as to time and theory.

The table shown as Exhibit A, sets forth an estimate of value of Key System properties, based upon full knowledge developed to date. It purports to represent the closest estimate of value that might be found by the Public Utilities Commission after receipt of all evidence that would have been introduced if the case were continued to finality before that agency.

3. Range of Valuation Computations

Exhibits B and C show the end results of valuation computations on several basis of development, both as of May 14, 1958, and as of June 30, 1960, including intangible values. These results are stripped to bare essentials that would be urged in a contested case before the Commission.

They are in recognition of the fact that the Company would contend for much higher amounts. They do not reflect any allowance, however, for losses that would be incurred by the District in lengthy litigation, as have been pointed out elsewhere herein.

Exhibits D, E and F show further comparisons of valuation under different methods of computation as to time period and basic source of data. These exhibits are by general accounting classifications. Totals from these exhibits provide the basis of computing the comparisons shown on Exhibits B and C.

4. P.U.C. Exhibit No. 11 Valuation

Exhibit G is a general summary of valuation as developed by the staff of the Public Utilities Commission and submitted in evidence as Exhibit No. 11 in the proceeding under Application No. 40084. These figures include no allowance for intangible values, severance damages, Materials & Supplies and Minor Items, and exclude gasoline buses.

Exhibit H shows a breakdown of diesel buses as contained in Exhibit G.

5. Gasoline Bus Inventory and Valuation

As explained heretofore, gasoline buses were originally excluded from the properties contemplated for acquisition by the Transit District. It is recommended herein that they be included in the negotiated purchase price. The difference between probable severance damages for exclusion of these buses and the negotiated purchase price of them, would be relatively small and their availability would have some value from a practical standpoint.

Exhibit I shows the estimated valuation of these buses as of May 14, 1958, and June 30, 1960, exclusive of general overhead allowance and fuel in bus tanks. Adding these amounts brings the June 30, 1960, figure up to \$508,000 as shown on Exhibit A.

Exhibits J through M show the inventory of gasoline buses, together with diesel buses, and valuation of all buses on different bases of computation.

6. Materials & Supplies and Minor Items

Exhibits N, O and P show valuation figures for those items referred to elsewhere herein as Minor Items of Property. With minor exception, these amounts were computed jointly with representatives of the Company, and reflect data contained in Exhibit No. 16, submitted for identification before the Commission at public hearing.

PART SIX

KEY SYSTEM VALUATION FACTORS

A. GENERAL CONTENTIONS AND INTANGIBLES

1. Basic Elements

Key System representatives, during extended discussions and conferences, have advocated much higher values for the Company's properties than would be indicated by projecting the valuation findings of Commission staff witnesses to a future closing date.

It is the Company's position that many years of lean earnings have been experienced before reaching the current favorable financial status, and that there should be ample compensation for such developmental progress in establishing a purchase price.

Fundamentally, there are two areas of attack contemplated by the Company if the case should continue to a conclusion before the Public Utilities Commission. First, it is contended that values of tangible properties as found by Commission witnesses are too low, and, secondly, that substantial allowance should be made for alleged value of intangible assets.

During the extended negotiation conferences referred to above, there has been a complete discussion of the Company's contentions and the probable attitude of the Transit District in opposition. Each side is now well informed as to the intentions and theories of the other.

Staff level negotiations have now reached the point where further discussions would be of no productive value. Complete basic data has now been developed upon which to proceed with policy level negotiations in accordance with procedures suggested elsewhere herein.

To facilitate such further negotiations, a brief outline of Company contentions as to value, are set forth below. No complete and detailed valuation of properties by classes was prepared by the Company. Its approach was to analyze evidence of value submitted by Commission witnesses to seek flaws in theory and results, and to formulate general aspects of intangible value, without detailed support.

If the Commission hearings were to continue, then the Company would no doubt present a carefully detailed case in support of its contentions.

2. Theories Propounded

In general, the Company has adopted those theories that would tend to increase the estimated value of its properties through use of higher present reproduction cost, longer service lives in computing accrued depreciation, higher salvage value allowance, increased construction overhead percentages, generous escalator increase factors from date of valuation to date of closing, and optimistic intangible assets in the form of going concern values.

3. Values Developed

On several occasions, estimated purchase price values were suggested by Company representatives, computed both on the basis of summing up the various tangible and intangible amounts and on the basis of capitalized current net earnings.

In summing up specific elements of tangible and intangible values, the top figure was \$11,100,000, with indication that a greater amount would result if overhead percentages were to be applied in accordance with those prescribed by the Commission in some past proceedings.

On a capitalized net earnings basis at an interest rate of 6%, it was shown that the resultant equivalent investment would be \$31,600,000, at 10% an investment of \$14,700,000, and at 14% an investment of \$10,475,000.

Applying the capitalized earnings theory to a 94.6% operating ratio produced an equivalent investment of \$10,300,000, and at a 95.0% operating ratio, an amount of \$9,478,000.

4. Escalator Factors

Valuation of properties by the Commission staff was based on reproduction cost new less accrued depreciation as of May 14, 1958. Final acquisition of properties after completion of Commission hearings and court procedure would probably not take place until three or four years later than the valuation date.

It would be necessary to reduce the valuation figures in arriving at the final purchase price, to account for diminishing value due to greater accrual of depreciation during the interim period. For the bus account, this reduction would be relatively heavy due to the age of the buses and their relatively short service life.

As an offsetting factor to that reduction, the Company contends that an escalator function should be applied that would recognize the increase in costs of reproduction as of the closing date on the assumption that the upward trend would continue. (Had the cost trend been downward instead of ascending, there is little probability that this theory would have been pursued.)

Escalator percentages proposed by the Company to cover the interim period from May 14, 1958, to June 30, 1960, were as follows:

Land	5.0%
Structures	8.5
Diesel buses	14.0
Gasoline buses	10.0
Fare boxes	4.0
Shop & Garage Equipt.	4.0
Furniture & Office Equipt.	4.0

There is no established procedure or precedent that dictates the necessity of applying any escalator factors. Actually, there is ample precedent to support a contrary theory. Much could be said on this issue, but space does not permit. For example, no such allowance was made in the purchase of transit properties by the Los Angeles Metropolitan Transit Authority.

5. Intangible Values

In the classification of intangible values, the Company contended that going concern value should be given due weight in the purchase price to cover, among other things, the following:

a. Development and organization	\$ 20,000
b. Legal expenses	50,000
c. Survey and scheduling	50,000
d. Employee training	700,000
e. Loss of One Year's income	<u>1,000,000</u>
	\$1,820,000

Actual net income to the Company from operations was \$628,197, as shown by Exhibit R attached. The amounts for other items are questionable, especially an allowance of \$700,000 for employee training. In a contested case, the District should oppose the above values. No doubt the Commission would make some allowance for intangible values, but not likely in the amounts shown above.

In another meeting at a later date, additional suggestions were offered by the Company to portray the alleged values that would be enjoyed by the Transit District through acquisition of a going concern. They were as follows:

a. Preliminary costs, surveys, route selection, development of operating plans and procedures, assembly of property, development of accounting and maintenance records	\$ 50,000
b. Development of schedules and working assignments	57,000
c. Employment and training of personnel	
835 Operators @ \$650	
193 Maintenance employees @ \$200	
163 Others @ \$150	
<u>1,191</u>	605,800

d. Telephone installations	\$ 25,000
e. Present worth of savings because of Company's established unemployment insurance tax rate	550,000
f. Saving of operating losses and gain of net income from an established going concern	<u>1,500,000</u>
Total	\$2,787,800

6. Tax Savings

Based on actual costs during 1959, it is contended that the District will make savings through exemption from taxes as follows:

a. Real and personal property taxes	\$ 70,727
b. Federal tax on fuel and oil	91,076
c. Vehicle license fees	115,000
d. City franchise taxes	139,256
e. Miscellaneous	<u>9,213</u>
Total	\$425,272

B. TANGIBLE VALUE CONTENTIONS

The Company has taken the position that there are two primary areas in which it would exert concerted effort if the proceedings should continue before the Public Utilities Commission on a contested basis. These areas are tangible properties and intangible assets. Intangibles have been covered above. As to tangible properties, the Company contends that the valuation findings of the Commission's staff are substantially low in most categories, and that if the proceedings should continue, extensive evidence would be submitted in support of this contention through witnesses from its own staff and expert witnesses from other sources.

The principal objections are briefly stated as follows:

1. Land

The Company has had an independent appraisal made of land by an outside appraisal firm, and states that the value as found is considerably greater than that submitted by the Commission's staff.

2. Structures

The same independent appraiser has informed the Company that a considerably higher value should be attached to the structures, and it is further contended that the remaining life and full service life of buildings and structures as presented in Exhibit 1 before the Commission are unrealistic and inconsistent, as demonstrated by experiences on other properties and in connection with other proceedings.

3. Diesel Buses

It is contended that considerably longer service lives should have been used in computing accrued depreciation, and that a higher salvage value should have been adopted. This position is based upon the actual existence on Key System properties of buses in regular service, giving satisfactory performance, that are already of greater age than the full service life adopted by the Commission's staff.

It is further claimed that insufficient consideration has been given to the high degree of maintenance of Key System buses.

4. Gasoline Buses

It is contended that the gasoline buses should not be excluded from the fleet if and when the properties are acquired by the District. It is insisted that these buses, although of relatively high average age, are necessary to performance of the peak hour operation and actually result in a greater level of economy than would be the case if newer buses were used.

The Company states that if it is left with 294 gasoline-powered buses, there would be small chance of finding a market for that quantity, and that they would probably have to be disposed of at scrap value. If such should be the case, a demand would be made for severance damages equivalent to the difference between the reasonable functional value of the buses as presently used in service, and the amount that could be realized through scrap sale.

5. Service Cars and Equipment

The Company contends that the Commission's staff has erred in adopting Blue Book values and prices as indicated by newspaper advertisements in fixing the value of the service fleet, upon the grounds that such price sources are normally used only as a guide and usually as a lower limit, rather than a truly representative selling price. It is further contended that prices as found in newspapers are in many cases solely for the purpose of offering inducements to prospective customers in the hope that higher priced vehicles will be purchased.

Much stress is laid upon the inherent functional value of equipment that is performing a satisfactory service even though fully depreciated from an accounting point of view.

6. Shop and Garage Equipment

The same argument is put forth with respect to shop and garage equipment, which the Company insists is in first class condition and performing highly satisfactory service with many remaining years in prospect, even though the average age is high and the original cost has been, for the most part, fully amortized.

7. Furniture and Office Equipment

The same theory is applied regarding values found for furniture and office equipment. Stress is laid upon serviceability rather than age as controlling.

8. Procurement Costs

It is contended that the procurement costs as shown in Exhibit No. 11, is unrealistic, has no basis in fact and in far less than should have been allowed in representing the cost of procuring and installing the properties, and that under this heading should have been included an allowance for general overheads on a percentage basis applied to each of the property accounts, in accordance with alleged Commission procedure established in prior condemnation proceedings.

C. COMMENTS ON COMPANY CONTENTIONS

1. Basic Elements

Under the theory of reproduction cost new less accrued depreciation, it is assumed that the Transit District has two alternatives in preparing to set up operations. It can acquire the properties of the existing transit operation together with its rights, or it can set up an independent operation separate from the existing carrier and engage in competitive operations.

There are cases of the latter procedure in the field of electric power distribution, and there are others where public and privately owned transit operations are conducted in the same general areas. The Alameda-Contra Costa Transit District could establish a separate operation in competition with Key System. The economic advantage of such action is highly questionable, however, so long as there is reasonable prospect of taking over the existing operation at a fair price.

2. Reproduction Cost New

There appears to be a strong tendency to establish an inseparable relationship between the reproduction cost new theory and just compensation in public acquisition of existing privately owned utilities. Actually, this method of measurement is only one of many that should be taken into account when developing a fair purchase price.

It is true that if a competitive system should be established, there would be many elements of cost incurred that would be avoided by acquiring an existing property. This does not make it mandatory, however, that all of such hypothetical development costs should be added to the value of tangible facilities in arriving at a purchase price.

3. Established Just Compensation Procedure

Courts have held repeatedly that in fixing just compensation, all reasonable elements relating to value should be considered and not

the reproduction cost new alone. The logic of this is easily demonstrated if the property in question were constructed at a high level of costs and the valuation were being made at a time when the level of costs were greatly deflated.

Therefore, with respect to the Company's contentions as to going concern value and interim escalator factors, it is safe to predict that the Commission would follow its past practices and give these elements only the degree of consideration justified when weighed against the many other segments of value, including original cost and deferred equipment replacement, as well as the status of net worth as shown by Exhibits S and T attached hereto.

4. Original Cost Consideration

In furtherance of the above theory that reproduction cost should not be the sole measure of value, reference may be made to rate making procedure as established by regulatory agencies. Reasonable rate of return is not based upon net earnings related to reproduction cost. The preponderance of weight is given to original cost which reflects the actual investment in the properties.

On this theory, it might be argued that if a utility is not permitted to earn a return on reproduction cost, then why should it be permitted to enjoy a high capital gains profit through sale of its properties based on reproduction cost. In both instances, the profit dollar comes from the public pocket.

Therefore, if the proceeding should continue before the Commission, strong argument should be made in opposition to full reproduction cost theory and original cost should be stressed as a principal factor in purchase price determination.

In U. S. Supreme Court case Bluefield Waterworks and Improvement Co. vs. Public Service Commission of the State of West Virginia et al (No. 256) 262 U.S. 679, P. U. R. 1923D, 11 (U. S. Sup. Crt June 11, 1923), it was stated:

"A public utility is entitled to such rates as well permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures."

Although the above relates to utility rates, the same general theory inherently applies to prospective profit from sale of a public utility property. In the case of a continuing operation, the rate of return profit is spread to the rate payer on a uniform annual basis. In the sale of a property, the profit is concentrated but inevitably it is

passed on to the rate payer. If original cost is a fair measure of profit in a rate case, then it should constitute an equitable reference point in just compensation.

5. Going Concern Value and Overheads

Whatever method of measuring value may be used, it applies to the worth of an item of physical property that is required in performance of the anticipated transit operation. Upon the same basis of reasoning, there are certain intangible assets that are equally necessary to performance of the proposed operation.

It is reasonable to accord some measure of value to those intangibles in the same manner as applied to tangible properties. Fixing of a specific amount for such values is difficult as there is no open market trading in such commodities. The process, therefore, becomes one of exercising reasonable judgment based upon full consideration of all known related factors.

- ✓ There should be no doubt that Key System is entitled to a reasonable allowance for intangible values. Included in the estimated just compensation as shown on Exhibit A attached hereto, is an allowance of \$420,000 for intangible value, which represents 5% of tangible properties as of date of valuation on May 14, 1958.

General overhead allowance has also been included on the basis of percentages fixed by the Commission in early proceedings on transit properties in Los Angeles, with modifications to reflect the difference in types of property.

Total allowances for these two items is far less than as proposed by the Company in amount of \$2,800,000.

6. Reasonable Compensation

The amounts shown on Exhibit A are considered to be fair representations of purchase price values for the properties involved, based upon analysis of all factors thus far developed. A purchase price of \$7,805,600 would be justified as payment for all of the properties and rights, including gasoline buses, but excluding station properties at Piedmont and San Leandro.

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ESTIMATED PROBABLE JUST COMPENSATION
THAT WOULD BE AWARDED FOR KEY SYSTEM PROPERTIES

As of June 30, 1960

Based upon findings of Exhibit No. 11 as amended, brought forward to June 30, 1960, plus allowance for overheads, going concern value and other items of intangible value.

Item No.	Account	Valuation Estimate		Amount of Reduction
		as of May 14, 1958 (1)	as of June 30, 1960 (2)	
1.	Land	\$1,810,900	\$1,883,400	\$ (72,500)
2.	Structures	1,342,200	1,325,000	17,200
3.	Diesel Buses	3,080,500	2,612,700	467,800
4.	Fare Boxes	78,400	86,800	(8,400)
5.	Service Cars & Equipment	24,400	22,400	2,000
6.	Shop & Garage Equipment	256,400	223,500	32,900
7.	Furniture & Office Equipment	100,400	68,200	32,200
8.	Miscellaneous	13,500	13,500	-
9.	Subtotal	6,706,700	6,235,500	471,200
10.	Bus Stop Signs & Benches	52,300	50,700	1,600
11.	Materials & Supplies	317,800	327,400	(9,600)
12.	Subtotal	7,076,800	6,613,600	463,200
13.	Gasoline Buses	1,033,400	508,000	525,400
14.	Materials & Supplies	139,400	143,600	(4,200)
15.	Subtotal	1,172,800	651,600	521,200
16.	Total Properties	8,249,600	7,265,200	984,400
17.	General Overheads	137,200	120,400	16,800
18.	Total Tangible Properties	8,386,800	7,385,600	1,001,200
19.	Intangible Values	420,000	420,000	-
20.	Total	\$8,806,800	\$7,805,600	\$1,001,200

() Indicates Increase.

SUMMARY COMPARISON OF VALUATION OF KEY SYSTEM PROPERTIES

As of May 14, 1958, and June 30, 1960

On Several Bases of Computation and Segregation

Excluding Gasoline Buses

<u>Method of Computation</u>	<u>Tangible Properties</u> (1)	<u>Intangible Values</u> <u>Severance Damage</u> (2)	<u>Going Concern</u> (3)	<u>Total Valuation</u> (4)
A. VALUATION AS OF MAY 14, 1958				
<u>I. P.U.C. Exhs. 1 & 11 - R.C.N.</u>				
a. As computed, Str. Line Depr.	\$7,196,900	\$699,400	\$353,900	\$8,250,200
b. With Salvage Adjusted	6,987,400	679,100	343,600	8,010,100
 <u>II. Transit District Estimates</u>				
a. R.C.N. Straight Line Depr.	6,749,800	656,000	332,000	7,737,800
b. R.C.N. Declining Mileage Depr.	5,451,900	529,800	268,100	6,249,800
 B. VALUATION AS OF JUNE 30, 1960				
<u>I. P.U.C. Exhs. 1 & 11 - R.C.N.</u>				
a. Without Escalator				
(1) As Computed, Str. Line Depr.	6,097,400	592,500	299,900	6,989,800
(2) With Salvage Adjusted	5,831,800	566,800	286,800	6,685,400
b. With Escalator				
(1) As Computed, Str. Line Depr.	6,327,000	614,900	311,200	7,253,100
(2) With Salvage Adjusted	6,066,500	589,500	298,400	6,954,400
 <u>II. Transit District Estimates</u>				
a. Without Escalator				
(1) R.C.N. Straight Line Depr.	5,523,000	536,700	271,600	6,331,300
(2) R.C.N. Declining Mileage Depr.	4,747,200	461,300	233,500	5,442,000
(3) Original Cost - Str. Line Depr.	4,169,000	405,200	205,000	4,779,200
(4) Original Cost - Declining Mileage Depr.	3,240,800	320,200	162,000	3,723,000
b. With Escalator				
(1) R.C.N. Straight Line Depr.	5,732,800	557,100	282,000	6,571,900
(2) R.C.N. Declining Mileage Depr.	4,898,800	476,100	240,900	5,615,800

SUMMARY COMPARISON OF VALUATION OF KEY SYSTEM PROPERTIES

As of May 14, 1958, and June 30, 1960
On Several Bases of Computation and Segregation

Including Gasoline Buses

<u>Method of Computation</u>	<u>Tangible Properties</u> (1)	<u>Going Concern</u> (2)	<u>Total Valuation</u> (3)
A. VALUATION AS OF MAY 14, 1958			
I. <u>P.U.C. Exhs. 1 & 11 - R.C.N.</u>			
a. As computed, Str. Line Depr.	\$8,388,500	\$412,600	\$8,801,100
b. With Salvage Adjusted	8,179,000	402,300	8,581,300
II. <u>Transit District Estimates</u>			
a. R.C.N. Straight Line Depr.	7,941,400	390,600	8,332,000
b. R.C.N. Declining Mileage Depr.	6,041,100	297,100	6,338,200
B. VALUATION AS OF JUNE 30, 1960			
I. <u>P.U.C. Exhs. 1 & 11 - R.C.N.</u>			
a. Without Escalator			
(1) As Computed, Str. Line Depr.	6,762,900	332,600	7,095,500
(2) With Salvage Adjusted	6,497,300	319,600	6,816,900
b. With Escalator			
(1) As Computed, Str. Line Depr.	7,023,300	345,400	7,368,700
(2) With Salvage Adjusted	6,762,800	332,600	7,095,400
II. <u>Transit District Estimates</u>			
a. Without Escalator			
(1) R.C.N. Straight Line Depr.	6,188,500	304,400	6,492,900
(2) R.C.N. Declining Mileage Depr.	5,221,600	256,800	5,478,400
(3) Original Cost - Str. Line Depr.	4,568,200	224,700	4,792,900
(4) Original Cost - Declining Mileage Depr.	3,601,300	180,100	3,781,400
b. With Escalator			
(1) R.C.N. Straight Line Depr.	6,429,100	316,200	6,745,300
(2) R.C.N. Declining Mileage Depr.	5,398,300	265,500	5,663,800

COMPARISON OF PROPERTY VALUATIONS - (A)

As of May 14, 1958

Comparing P.U.C. Exh. 11 and Transit District Computations with and without gasoline buses, with and without salvage before depreciation, and on straight line and declining mileage basis of depreciation accrual

(Without Intangibles and Severance Damage
and before final corrections in Exh. 11)

Item No.	Description	P.U.C. Exh. No. 11		Transit District	
		With Salvage	Without Salvage	Straight Line	Declining Mileage
		(1)	(2)	(3)	(4)
1	Land	\$1,815,105	\$1,815,105	\$1,815,105	\$1,815,105
2	Structures	1,340,318	1,336,786	1,336,786	1,336,786
3	Diesel Buses (276)	3,080,470	2,878,000	2,644,300	1,367,656
4	Fare Boxes	78,390	78,390	78,390	78,390
5	Service Cars & Equipment	24,405	24,405	24,405	24,405
6	Shop & Garage Equipment	256,400	256,400	256,400	256,400
7	Furniture & Office Equipment	100,400	100,400	100,400	100,400
8	Miscellaneous	13,500	13,500	13,500	13,500
9	Subtotal	6,708,988	6,502,986	6,269,286	4,992,642
10	Bus Stop Signs & Benches	52,262	52,262	52,262	52,262
11	Materials & Supplies - Cap.	115,499	115,499	115,499	115,499
12	Materials & Supplies - Oper.	202,333	202,333	202,333	202,333
13	Subtotal	7,079,082	6,873,080	6,639,380	5,362,736
14	Gasoline Buses (294)	1,032,750	1,032,750	1,032,750	440,220
15	Materials & Supplies - Cap.	45,792	45,792	45,792	45,792
16	Materials & Supplies - Oper.	93,588	93,588	93,588	93,588
17	Subtotal	1,172,130	1,172,130	1,172,130	579,600
18	Total Valuation	\$8,251,212	\$8,045,210	\$7,811,510	\$5,942,336
19	Total Valuation of Buses	\$4,113,220	3,910,750	3,677,050	1,807,876
20	Aver. Per Bus (570)	\$ 7,216	6,861	6,451	3,172
21	Total Valuation - Per Bus*	\$ 14,476	14,114	13,704	10,425
22	Total Valuation - Per Bus**	\$ 7,260	7,253	7,253	7,253

* Including valuation of buses.

** Excluding valuation of buses.

COMPARISON OF PROPERTY VALUATIONS - (B)As of June 30, 1960

P.U.C. Exh. 11 projected to June 30, 1960, with and without salvage before depreciation, and with and without interim escalator increases from 5/14/58 to 6/30/59

(Without Intangibles and Severance Damage
and before final corrections in Exh. 11)

Item No.	Description	Without Escalator		With Escalator	
		With Salvage	Without Salvage	With Salvage	Without Salvage
		(1)	(2)	(3)	(4)
1	Land	\$1,815,105	\$1,815,105	\$1,815,105	\$1,815,105
2	Structures	1,267,982	1,261,142	1,325,041	1,317,893
3	Diesel Buses (276)	2,195,970	1,941,590	2,338,010	2,088,830
4	Fare Boxes	56,800	56,800	61,060	61,060
5	Service Cars & Equipment	20,818	20,818	22,379	22,379
6	Shop & Garage Equipment	200,689	200,689	215,741	215,741
7	Furniture & Office Equipment	59,707	59,707	64,185	64,185
8	Miscellaneous	13,500	13,500	13,500	13,500
9	Subtotal	5,630,571	5,369,351	5,855,021	5,598,693
10	Bus Stop Signs & Benches	49,189	49,189	50,665	50,665
11	Materials & Supplies - Cap.	115,499	115,499	115,499	115,499
12	Materials & Supplies - Oper.	202,333	202,333	202,333	202,333
13	Subtotal	5,997,592	5,736,372	6,223,518	5,967,190
14	Gasoline Buses (294)	515,250	515,250	545,540	545,540
15	Materials & Supplies - Cap.	45,792	45,792	45,792	45,792
16	Materials & Supplies - Oper.	93,588	93,588	93,588	93,588
17	Subtotal	654,630	654,630	684,920	684,920
18	Total Valuation	\$6,652,222	\$6,391,002	\$6,908,438	\$6,652,110
19	Total Valuation of Buses	\$2,711,220	2,456,840	2,883,550	2,634,370
20	Aver. Per Bus (570)	\$ 4,757	4,310	5,059	4,622
21	Total Valuation - Per Bus*	\$ 11,671	11,212	12,120	11,670
22	Total Valuation - Per Bus **	\$ 6,914	6,902	7,061	7,049

* Including valuation of buses.

**Excluding valuation of buses.

COMPARISON OF PROPERTY VALUATIONS - (C)As of June 30, 1960

Transit District estimates projected to June 30, 1960, with and without interim escalator increases, salvage after depreciation, and on straight line and declining mileage basis of depreciation accrual.

(Without Intangibles and Severance Damage and before final corrections in Exh. 11 figures for land)

Item No.	Description	Without Escalator		With Escalator	
		Straight Line	Declining Mileage	Straight Line	Declining Mileage
		(1)	(2)	(3)	(4)
1	Land	\$1,815,105	\$1,815,105	\$1,815,105	\$1,815,105
2	Structures	1,261,142	1,261,142	1,317,893	1,317,893
3	Diesel Buses (276)	1,637,770	874,670	1,760,600	940,270
4	Fare Boxes	56,800	56,800	61,060	61,060
5	Service Cars & Equipment	20,818	20,818	22,379	22,379
6	Shop & Garage Equipment	200,689	200,689	215,741	215,741
7	Furniture & Office Equipment	59,707	59,707	64,185	64,185
8	Miscellaneous	13,500	13,500	13,500	13,500
9	Subtotal	5,065,531	4,302,431	5,270,463	4,450,133
10	Bus Stop Signs & Benches	49,189	49,189	50,665	50,665
11	Materials & Supplies - Cap.	115,499	115,499	115,499	115,499
12	Materials & Supplies - Oper.	202,333	202,333	202,333	202,333
13	Subtotal	5,432,552	4,669,452	5,638,960	4,818,630
14	Gasoline Buses (294)	515,250	327,400	545,540	351,955
15	Materials & Supplies - Cap.	45,792	45,792	45,792	45,792
16	Materials & Supplies - Oper.	93,588	93,588	93,588	93,588
17	Subtotal	654,630	466,780	684,920	491,335
18	Total Valuation	\$6,087,182	\$5,136,232	\$6,323,880	\$5,309,965
19	Total Valuation of Buses	\$2,153,020	1,202,070	2,306,140	1,292,225
20	Aver. Per Bus (570)	\$ 3,777	2,109	4,046	2,267
21	Total Valuation - Per Bus*	\$ 10,679	9,011	11,095	9,316
22	Total Valuation - Per Bus**	\$ 6,902	6,902	7,049	7,049

* Including valuation of buses.

** Excluding valuation of buses.

Exhibit No. 11, Cal. P.U.C. Appl. 40084

GENERAL SUMMARY OF REPRODUCTION COST NEW AND REPRODUCTION COST NEW
LESS ACCRUED DEPRECIATION AS OF MAY 14, 1958 (As Amended)

<u>Account No.</u> (1)	<u>Description</u> (2)	<u>Reproduction Cost New as of May 14, 1958</u> (3)	<u>Reproduction Cost New Less Accrued Depreciation as of May 14, 1958</u> (4)
1201	Land and Land Rights	\$ 1,810,940	\$1,810,940
1211	Structures	1,789,323	1,342,169
1221	Revenue Equipment		
	a. Motor Coaches	6,688,900	3,080,470
	b. Fare Boxes	179,170	78,390
1231	Service Cars and Equipment	157,665	24,405
1241	Shop and Garage Equipment	557,469	256,400
1251	Furniture and Office Equipment	264,190	100,400
	Procurement Costs	30,000	12,500
	Franchise and Certificate Rights	-	1,000
	Grand Total	\$11,477,657	\$6,706,674

Note: (a) Above amounts are exclusive of Gasoline Powered Buses, Materials & Supplies, Severance Value, Going Concern Value and other Intangible Values.

(b) Table 1, Page 8, Exhibit No. 11, Cal. P.U.C. Application No. 40084, submitted on December 17, 1959, by Commission Witness T.J. Canty.

Exhibit No. 11, Cal. P.U.C. Appl. 40084

APPRAISAL OF KEY SYSTEM TRANSIT LINESDIESEL BUSES AND FARE BOXES

From Tables 3 and 4, Pages 12 and 14, Exhibit No. 11, Cal. P.U.C. Appl. No. 40084
Submitted on December 17, 1959, by Commission Staff Witness T.J. Canty

Item No.	Make	Model	Seats	Co. No. Group	Year	No. of Buses	Reproduction Cost New as of May 14, 1958	
							Total Before Depreciation	Less Accrued Depreciation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	gm	4008	40	1400	1947	5	\$ 110,000	\$ 33,100
2.	gm	4507	45	1700	1947	100	2,370,000	846,000
3.	gm	4507	45	1800	1947	75	1,777,500	711,750
4.	gm	4509	45	1900	1948	25	592,500	248,500
5.	gm	5103	51	2000	1950-51	50	1,295,000	701,000
6.	gm	4801	48	2100	1958	21	543,900	540,120
7.	Total Buses					276	\$6,688,900	\$3,080,470
8.	Fare Boxes (Including 1,571 vaults)					705	\$ 179,170	\$ 78,390

Note: a. For purpose of brevity, certain intermediate columns have been omitted.
b. Above amounts are exclusive of 294 gasoline powered buses.

VALUATION OF GASOLINE BUSESESTIMATED REPRODUCTION COST NEW LESS ACCRUED DEPRECIATION

294 Gasoline Buses - Estimated by Arthur C. Jenkins - Consulting Engineer

Item No.	Make (1)	Model (2)	Seats (3)	Co. No. Group (4)	Year (5)	No. of Buses (6)	Reproduction Cost New Less Accrued Depreciation	
							As of May 14, 1958 (7)	As of June 30, 1960 (8)
1.	wh	788	41	800	1941-42	23	\$ 13,000	\$ 12,100
2.	wh	798	44	900	1944-45	91	98,400	68,250
3.	wh	798	44	1000	1947	75	417,700	162,500
4.	gm	3609	36	1300	1946	45	125,505	54,000
5.	mk	41GT	41	2500	1947	60	378,760	150,000
6.	Total RCNLD						\$1,033,365	\$446,850

VALUATION OF PASSENGER BUSES - 14 YEAR SERVICE LIFEAs of May 14, 1958

Based on Transit District method of computation using 14 year service life and computing straight line depreciation without salvage deductions on reproduction cost new less accrued depreciation

Item No.	Number of Buses	Co. Group Number	Year Model	Age in Years	Condition Percent	Reproduction Cost New	
						Total	Less Depreciation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>A. Gasoline Buses</u>							
1.	17	800	1941	16.7	0. %	\$ 317,900	\$ 8,500
2.	6	800	1942	16.7	0.	117,000	4,500
3.	54	900	1944	13.3	4.8	1,074,600	54,000
4.	37	900	1945	13.3	4.8	728,900	44,400
5.	25	1000	1947	11.0	21.4	585,000	125,250
6.	50	1000	1947	10.5	25.0	1,170,000	292,500
7.	45	1300	1946	11.7	16.7	751,500	125,100
8.	50	2500	1947	9.8	30.4	1,055,000	320,500
9.	10	2500	1947	9.8	30.4	191,000	58,000
10.	294			11.9	14.9%	\$5,990,900	\$1,032,750
<u>B. Diesel Buses</u>							
11.	5	1400	1947	10.4	25.6%	\$ 106,500	\$ 27,250
12.	100	1700	1947	10.3	26.8	2,430,000	651,000
13.	60	1800	1947	9.5	32.1	1,458,000	468,600
14.	15	1800	1947	9.5	32.1	282,000	90,600
15.	25	1900	1948	9.2	34.5	607,500	209,750
16.	25	2000	1950	7.2	48.8	665,000	324,500
17.	25	2000	1951	7.2	48.8	665,000	324,500
18.	21	2100	1958	-	100.0	548,100	548,100
19.	276			8.6	38.7%	\$6,762,100	\$2,644,300
20. Total	570			10.3	26.2%	\$12,753,000	\$3,677,050

VALUATION OF PASSENGER BUSES - 14 YEAR SERVICE LIFEAs of June 30, 1960

Based on Transit District method of computation using 14 year service life and computing straight line depreciation without salvage deductions on reproduction cost new less accrued depreciation

Item No.	Number of Buses	Co. Group Number	Year Model	Age in Years	Condition Percent	Reproduction Cost New	
						Total	Less Depreciation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>A. Gasoline Buses</u>							
1.	17	800	1941	18.8	- %	\$ 317,900	\$ 8,500
2.	6	800	1942	18.8	-	117,000	4,500
3.	54	900	1944	15.4	-	1,074,600	54,000
4.	37	900	1945	15.4	-	728,900	44,400
5.	25	1000	1947	13.1	6.6	585,000	38,250
6.	50	1000	1947	12.6	10.1	1,170,000	118,500
7.	45	1300	1946	13.8	1.8	751,500	54,000
8.	50	2500	1947	11.8	15.5	1,055,000	163,500
9.	10	2500	1947	11.8	15.5	191,000	29,600
10.	294			14.0	- %	\$ 5,990,900	\$ 515,250
<u>B. Diesel Buses</u>							
11.	5	1400	1947	12.5	10.7%	\$ 106,500	\$ 11,400
12.	100	1700	1947	12.3	11.9	2,430,000	289,000
13.	60	1800	1947	11.6	17.3	1,458,000	251,400
14.	15	1800	1947	11.6	17.3	282,000	48,600
15.	25	1900	1948	11.3	19.6	607,500	119,250
16.	25	2000	1950	9.3	33.9	665,000	225,750
17.	25	2000	1951	9.3	33.9	665,000	225,750
18.	21	2100	1958	2.1	85.1	548,100	466,620
19.	276			10.7	23.8%	\$ 6,762,100	\$1,637,770
20. Total	570			12.4	11.3%	\$12,753,000	\$2,153,020

VALUATION OF PASSENGER BUSES - 16 YEAR SERVICE LIFE

As of May 14, 1958 and June 30, 1960

Based on Transit District method of computation using 16 year service life and computing straight line depreciation without salvage deductions on reproduction cost new less accrued depreciation

Item No.	Number of Buses	Co. Group Number	Service Life	Condition Percent		Reproduction Cost New Less Depreciation	
				5/14/58	6/30/60	5/14/58	6/30/60
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Gasoline Buses							
1.	17	800	19.6	14.9%	3.8%	\$ 47,362	\$ 13,005
2.	6	800	19.6	14.9	3.8	17,436	4,788
3.	54	900	16.2	17.9	4.6	192,348	54,000
4.	37	900	16.2	17.9	4.6	130,462	37,000
5.	25	1000	16.0	31.3	17.2	183,100	108,300
6.	50	1000	16.0	34.4	20.8	402,500	261,950
7.	45	1300	16.0	27.1	13.5	203,670	109,215
8.	50	2500	16.0	39.1	25.5	412,500	289,600
9.	10	2500	16.0	39.1	25.5	74,680	52,430
10.	294		16.3	27.0%	13.8%	\$1,664,058	\$ 930,288
B. Diesel Buses							
11.	5	1400	16.0	34.9%	21.4%	\$ 37,170	\$ 24,530
12.	100	1700	16.0	35.9	29.7	872,400	776,800
13.	60	1800	16.0	40.6	27.1	591,960	425,280
14.	15	1800	16.0	40.6	27.1	114,495	82,260
15.	25	1900	16.0	42.7	29.2	259,400	190,950
16.	25	2000	16.0	55.2	41.7	367,075	298,475
17.	25	2000	16.0	55.2	41.7	367,075	298,475
18.	21	2100	16.0	100.0	86.5	548,100	510,342
19.	276		16.0	46.0%	33.7%	\$3,157,675	\$2,607,112
20. Total	570			36.1%	23.3%	\$4,821,733	\$3,537,400

INVENTORY OF PASSENGER BUSES

Owned by Bay Area Public Service Corporation
As of October 31, 1959

<u>No.</u>	<u>Model</u>	<u>Make</u>	<u>Year</u>	<u>Seats</u>	<u>Company Bus Numbers</u>
<u>A. Gasoline Powered</u>					
5	788	wh	1942	41	832, 837, 873, 875, 887
18	788	wh	1941	41	815, 816, 821, 822, 826, 831, 843, 854, 859, 864, 865, 867, 881, 884, 885, 895, 896, 898
91	798	wh	1944 1945	44	900 through 999, except 901, 918, 923, 939, 942, 954, 962, 972, 979
75	798	wh	1947	44	1000 - 1074, incl.
45	3609	gm	1946	36	1300 - 1344, incl.
60	C41	mk	1947	41	2501 - 2560, incl.
<u>294</u>	Total Gasoline Buses				
<u>B. Diesel Powered</u>					
5	4008tdh	gm	1947	40	1401 - 1405, incl.
100	4507tdh	gm	1947	45	1700 - 1799, incl.
75	4507tdh	gm	1947	45	1800 - 1874, incl.
25	4509tdh	gm	1948	45	1900 - 1924, incl.
25	5103tdh	gm	1950	51	2000 - 2024, incl.
25	5103tdh	gm	1951	51	2025 - 2049, incl.
21	4801tdh	gm	1958	48	2100 - 2120, incl.
<u>276</u>	Total Diesel Buses				
570	Total Buses				

Note: Makes - wh-white; gm-general motors; mk-mack.

VALUATION OF MATERIALS & SUPPLIES, SMALL TOOLS & JIGS, AND
MISCELLANEOUS FACILITIES OF KEY SYSTEM TRANSIT LINES
INCLUDING ITEMS FOR BOTH DIESEL AND GASOLINE BUSES

CONSOLIDATED SUMMARY

As of October 31, 1959

Item No.	Location	Reproduction Cost New			Accrued Depreciation	R. C. N. Less Depreciation
		Diesel	Gasoline	Total		
		(1)	(2)	(3)	(4)	(5)
1.	Division No. 2	\$209,357	\$168,160	\$377,517	\$112,334	\$265,183
2.	Division No. 3	39,918	22,701	62,619	16,985	45,634
3.	Division No. 4	65,186	93,261	158,447	62,187	96,260
4.	General Office	37,951	-	37,951	-	37,951
5.	Other	103,554	-	103,554	39,108	64,446
6.	Total	455,966	284,122	740,088	\$230,614	\$509,474
7.	Accrued Depreciation	85,872	144,742	230,614		
8.	R. C. N. Less Depreciation	\$370,094	\$139,380	\$509,474		

Note: Table 1, Page 12, Exhibit No. 16 for Identification, Cal. P. U. C. Application No. 40084, submitted on March 17, 1960, by District Witness Arthur C. Jenkins.

VALUATION OF MATERIALS & SUPPLIES, SMALL TOOLS & JIGS, AND
MISCELLANEOUS FACILITIES OF KEY SYSTEM TRANSIT LINES

CONDENSED SUMMARY BY LOCATION
EXCLUDING GASOLINE BUS ITEMS

As of October 31, 1959

Group No.	Description	Divisions			General Office	Other Locations	Total	Accrued Deprec'n	R.C.N. Less Deprec'n
		No. 2	No. 3	No. 4					
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Bus Assembly Units								
A-1	Rebuilt	\$ 41,961	\$13,918	\$26,700	\$ -	\$ -	\$ 82,579	\$20,645	\$ 61,934
A-2	Not Rebuilt	11,094	3,596	9,786	-	-	24,476	12,238	12,238
A-3	Small Tools & Jigs	25,379	1,128	5,425	-	391	32,323	11,313	21,010
A-4	Fleet Maintenance	13,592	3,921	4,678	-	-	22,191	-	22,191
A-5	Office Supplies	688	583	651	3,506	1,723	7,151	-	7,151
A-6	Timetables	821	375	670	-	750	2,616	-	2,616
A-7	Transfers & Z/checks	2,123	807	2,302	-	-	5,232	-	5,232
A-8	Ticket Stock	86	38	48	237	254	663	-	663
A-9	Metal Tokens	2,665	847	1,578	32,060	2,181	39,331	-	39,331
B	Materials & Supplies	93,804	5,856	6,410	-	2,891	108,961	-	108,961
C-1	Operators' Equipment	53	37	23	-	4,951	5,064	2,532	2,532
C-2	Miscellaneous	-	-	-	-	1,930	1,930	965	965
C-3	Fuel & Motor Oil	5,240	6,552	3,225	-	-	15,017	-	15,017
D-1	Bus Stop Signs	-	-	-	-	86,439	86,439	34,576	51,863
D-2	Bus Stop Benches	-	-	-	-	1,140	1,140	741	399
	Subtotal	197,506	37,658	61,496	35,803	102,650	435,113	83,010	352,103
	Purch. & Stores Exp.	11,851	2,260	3,690	2,148	904	20,853	2,862	17,991
	Total	\$209,357	\$39,918	\$65,186	\$37,951	\$103,554	\$455,966	\$85,872	\$370,094

VALUATION OF MATERIALS & SUPPLIES, SMALL TOOLS & JIGS, AND
MISCELLANEOUS FACILITIES OF KEY SYSTEM TRANSIT LINES

CONDENSED SUMMARY BY LOCATION

GASOLINE BUS ITEMS ONLY

As of October 31, 1959

Group No.	Description	Divisions			General Office	Other Locations	Total	Accrued Deprec'n	R.C.N. Less Deprec'n
		No. 2	No. 3	No. 4					
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Bus Assembly Units								
A-1	Rebuilt	\$ 73,834	\$15,359	\$44,215	\$ -	\$ -	\$133,408	\$ 67,258	\$ 66,150
A-2	Not Rebuilt	51,318	3,091	26,851	-	-	81,260	68,030	13,230
A-3	Small Tools & Jigs	2,410	-	1,192	-	-	3,602	1,261	2,341
A-4	Fleet Maintenance	4,122	878	1,570	-	-	6,570	-	6,570
B	Materials & Supplies	26,958	2,088	14,154	-	-	43,200	-	43,200
	Subtotal	158,642	21,416	87,982	-	-	268,040	136,549	131,491
	Purch. & Stores Exp.	9,518	1,285	5,279	-	-	16,082	8,193	7,889
	Total	\$168,160	\$22,701	\$93,261	\$ -	\$ -	\$284,122	\$144,742	\$139,380

KEY SYSTEM TRANSIT LINES & AFFILIATED COMPANIES

LIST OF DIRECTORS AND OFFICERS

From 1959 Annual Report to Stockholders

A. RAILWAY EQUIPMENT & REALTY COMPANY, LTD.1. Directors

E. V. Anderson
 *Foster G. Beamsley
 E. C. Houghton
 Edward H. Siems
 Glen L. Stanley

2. Officers

E. C. Houghton, President
 Glen L. Stanley, Vice President
 Edward H. Siems, Secretary and
 Treasurer
 E. J. Wilson, Controller

B. BAY AREA PUBLIC SERVICE CORPORATION

(Wholly owned by Railway Equipment & Realty Co.)

1. Directors

E. C. Houghton
 R. Stuart Moore
 Weller Noble
 Glen L. Stanley
 E. J. Wilson

2. Officers

E. C. Houghton, Chairman of the Board
 Glen L. Stanley, President
 Edward H. Siems, Vice President,
 Secretary and Treasurer
 E. J. Wilson, Controller

C. KEY SYSTEM TRANSIT LINES

(Wholly owned by Railway Equipment & Realty Co.)

1. Directors

H. M. Davis
 E. C. Houghton
 R. Stuart Moore
 Weller Noble
 Glen L. Stanley

2. Officers

E. C. Houghton, Chairman of the Board
 Glen L. Stanley, President
 Edward H. Siems, Vice President,
 Secretary and Treasurer
 E. J. Wilson, Controller

* Deceased March 11, 1960.

KEY SYSTEM TRANSIT LINES AND AFFILIATED COMPANIES

CONSOLIDATED INCOME STATEMENT

Year Ended December 31, 1959

Operating Revenue

Passenger Revenue	\$11,250,311
Charter Revenue.....	43,045
Advertising and Other.....	78,317
Total Revenue	<u>\$11,371,673</u>

Operating Expenses

Maintenance of Bldgs & Equipt	\$1,502,149
Motor Fuel	445,128
Transportation	4,966,133
Station Expense.....	56,043
Traffic Promotion	30,679
Insurance and Safety	761,383
Pensions and Employee Welfare.....	305,243
Administrative & General.....	483,180
Depreciation	444,500
Taxes & Licenses (Before Fed. Income Tax) ..	926,327
Operating Rents	22,398
Total Expenses	<u>9,943,163</u>
Operating Income	1,428,510

Other Income

Interest Earned	93,163
Miscellaneous.....	7,764
	<u>100,927</u>
	<u>\$1,529,437</u>

Other Deductions

Rail abandonment costs.....	116,948
Amortization of Intangibles	41,292
	<u>158,240</u>
Net Income before Fed. Inc. Tax and Special Credit	1,371,197
Federal Income Taxes	743,000
Special Credit	125,764
	<u>617,236</u>
NET INCOME	<u>\$ 753,961</u>

KEY SYSTEM TRANSIT LINES AND AFFILIATED COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash	\$ 531,165
United States Treasury bills.....	2,669,521
Accounts receivable	264,438
Materials and supplies - at average cost.....	161,715
Prepaid taxes, insurance, and other expenses.....	<u>154,704</u>
TOTAL CURRENT ASSETS	\$3,781,543

PROPERTY, PLANT, AND EQUIPMENT:

	<u>Original Cost</u>	<u>Accrued Depreciation</u>	
Motor Coaches.....	\$ 9,308,529	\$8,353,252	
Land	652,349		
Structures	2,110,941	1,068,101	
Garage and other equipment	<u>741,901</u>	<u>547,470</u>	
	<u>\$12,813,720</u>	<u>\$9,968,823</u>	2,844,897

INTANGIBLES:

Excess of cost of investment over equity in net assets of subsidiary at date of acquisition, less accumulated amortization of \$492,469.....	\$1,559,455	
Acquisition adjustment - at cost, less accumulated amortization of \$4,528.....	<u>8,039</u>	1,567,494

DEFERRED CHARGES:

Deferred track removal and repaving costs, less deferred federal income taxes of \$240,000	\$ 222,222	
Unamortized loss on property retired	<u>23,395</u>	245,617
		<u>\$8,439,551</u>

KEY SYSTEM TRANSIT LINES AND AFFILIATED COMPANIES

CONSOLIDATED BALANCE SHEET

LIABILITIES

CURRENT LIABILITIES:

Accounts payable.....	\$	265,975
Salaries and wages.....		303,712
Taxes other than taxes on income.....		110,994
Pay roll deductions for income and social security taxes.....		76,093
Dividend payable on preferred stock.....		10,060
Unredeemed tickets and tokens.....		75,526
Federal taxes on income.....	\$	317,880
Less United States Treasury bills - at cost.....		<u>297,059</u>
		20,821
TOTAL CURRENT LIABILITIES.....	\$	<u>863,181</u>

STOCKHOLDERS' EQUITY:

Preferred Stock, \$6.00 cumulative, par value \$100.00 a share; redeemable at \$110.00 a share plus accrued dividends:		
Authorized 50,000 shares		
Issued 6,943 shares (including 235 shares held in treasury).....	\$	694,300
Common Stock, par value \$1.00 a share:		
Authorized 1,300,000 shares		
Issued 984,900 shares; in treasury 67,900 shares; outstanding 917,000 shares.....		917,000
Additional paid-in capital (No change during the year).....		2,984,302
Accumulated income retained in the business.....		<u>3,003,868</u>
		\$7,599,470
Less Preferred Stock held in treasury (235 shares) at cost.		<u>23,100</u>
		<u>7,576,370</u>
		<u><u>\$8,439,551</u></u>

Key System Transit Lines and
Bay Area Public Service Corporation

SUMMARY OF FINANCIAL RESULTS OF OPERATION

Year Ending September 11, 1959

Acct. No.	Account	Local Service (1)	Transbay Service (2)	Total (3)
<u>A. Operating Revenue</u>				
3200	Passenger	\$7,142,570	\$4,022,979	\$11,165,549
3210	Special Bus	39,711	-	39,711
3500	Newspaper	36	-	36
3600	Miscellaneous	369	5,035	5,404
3900	Other	62,590	15,859	78,449
	Total Operating Revenue	7,245,276	4,043,873	11,289,149
<u>B. Operating Expenses</u>				
4100	Equipment Maintenance & Garage	1,013,944	490,417	1,504,361
4200	Transportation	3,732,080	1,649,502	5,381,582
4300	Station	488	48,944	49,432
4400	Traffic, Solicitation & Advertising	32,931	20,478	53,409
4500	Insurance & Safety	504,810	263,485	768,295
4600	Administrative & General	508,503	241,326	749,829
	Total Operating Expense	5,792,756	2,714,152	8,506,908
5000	Depreciation Expense	277,873	176,201	454,074
5100	Amortization	75,139	103,584	178,723
5200	Taxes and Licenses	626,871	275,654	902,525
5300	Rents - Net	15,004	20,135	35,139
	Abandoned Rail Costs	-	32,208	32,208
	Total Expenses	6,787,643	3,321,934	10,109,577
	Operating Income	457,633	721,939	1,179,572
	Income Taxes	246,918	389,468	636,386
	Net Operating Income	\$ 210,715	\$ 332,471	\$ 543,186
	Operating Ratio	97.1%	91.8%	95.2%
	Coach Miles	13,186,613	6,272,550	19,459,163

Key System Transit Lines and
Bay Area Public Service Corporation

OPERATING EXPENSE DETAIL BY LOCAL AND TRANSBAY SERVICE

Year Ending September 11, 1959

Account No.	Account	Local Service (1)	Transbay Service (2)	Total (3)
<u>A. Equipment Maintenance and Garage Expense</u>				
4110	Supervision	\$ 83,550	\$ 39,745	\$ 123,295
4121	Repairs - Shop & Garage Equip.	6,258	2,977	9,235
4122	Oper. & Maint. of Serv. Equip.	11,162	5,312	16,474
4128	Repairs - Shop & Garage Bldgs & Grounds	18,587	9,085	27,672
4131	Utilities	21,536	10,244	31,780
4132	Other Shop & Garage Exp.	23,443	18,989	42,432
4140	Repairs - Rev. Equip.	597,346	284,160	881,506
4150	Service - Rev. Equip.	140,083	66,639	206,722
4160	Tires - Rev. Equip.	111,979	53,266	165,245
	Total	1,013,944	490,417	1,504,361
<u>B. Transportation Expense</u>				
4210	Supervision	324,912	154,621	479,533
4220	Drivers' Wages	3,074,037	1,027,241	4,101,278
4230	Fuel - Rev. Equip.	297,683	151,444	449,127
4240	Oil - Rev. Equip.	10,089	4,796	14,885
4261	Road Expense	153	72	225
4262	Tolls	-	299,342	299,342
4263	Miscel. Wages	497	236	733
4264	Other Expenses	24,709	11,750	36,459
	Total	3,732,080	1,649,502	5,381,582
<u>C. Station Expense</u>				
4311	Salaries & Commissions	417	42,190	42,607
4314	Supplies & Expenses	48	4,685	4,733
4319	Repairs - Sta. Bldgs & Equip.	23	2,069	2,092
	Total	\$ 488	\$ 48,944	\$ 49,432

(Continued)

OPERATING EXPENSE DETAIL BY LOCAL AND TRANSBAY SERVICE (Cont'd)

Year Ending September 11, 1959

Account No.	Account	Local Service (1)	Transbay Service (2)	Total (3)
<u>D. Traffic and Advertising Expense</u>				
4410	Salaries & Expenses	\$ 11,756	\$ 5,592	\$ 17,348
4430	Tariffs & Schedules	4,127	3,478	7,605
4440	Tickets & Baggage Checks	13,534	9,735	23,269
4470	Advertising	3,514	1,673	5,187
	Total	32,931	20,478	53,409
<u>E. Insurance and Safety Expense</u>				
4510	Salaries & Expenses	2,335	1,116	3,451
4520	P/L & P/D Insurance	441,927	232,959	674,886
4541	Workmen's Comp. -Ins.	48,778	23,205	71,983
4570	Fire & Theft	8,217	4,514	12,731
4580	Other Insurance	3,553	1,691	5,244
	Total	504,810	263,485	768,295
<u>F. Administrative and General Expense</u>				
4611	Salaries - Gen. Officers	45,742	21,758	67,500
4612	Expenses - Gen. Officers	10,439	4,965	15,404
4613	Salaries - Off. Employees	109,855	52,252	162,107
4616	Expenses of Gen. Off. Employees	1,357	644	2,001
4620	Law Expenses	10,151	4,825	14,976
4630	Gen. Off. Supplies & Exp.	20,358	9,679	30,037
4640	Communications	25,036	11,909	36,945
4651	Outside Auditing	3,573	1,703	5,276
4652	Employees' Welfare	208,318	99,075	307,393
4655	Purchasing & Store	54,420	25,887	80,307
4656	Other Gen. Exp.	18,907	8,464	27,371
4673	Regulatory Expenses	347	165	512
	Total	\$ 508,503	\$ 241,326	\$ 749,829

(Continued)

OPERATING EXPENSE DETAIL BY LOCAL AND TRANSBAY SERVICE (Cont'd)

Year Ending September 11, 1959

<u>Account No.</u>	<u>Account</u>	<u>Local Service (1)</u>	<u>Transbay Service (2)</u>	<u>Total (3)</u>
<u>G. Depreciation Expense</u>				
5011	Structures	\$ 47,106	\$ 22,401	\$ 69,507
5021	Revenue Equipment	218,062	147,755	365,817
5031	Service Cars & Equipment	3,664	1,743	5,407
5041	Shop & Garage Equipment	6,828	3,250	10,078
5051	Furniture & Office Equipment	1,256	597	1,853
5061	Miscellaneous Equipment	957	455	1,412
	Total	277,873	176,201	454,074
<u>H. Amortization and Track Removal</u>				
5100	Year Ending Aug. 31, 1959	85,600	103,600	189,200
	Less - Estimated for Sept. 1 - 11, 1958, incl.	10,461	16	10,477
	Total	75,139	103,584	178,723
<u>I. Operating Taxes and Licenses</u>				
5210	Fuel & Oil Taxes	252,098	125,107	377,205
5220	Veh. License & Regist. Fees	76,654	46,287	122,941
5230	Real Estate & Pers. Prop. Taxes	57,409	27,288	84,697
5240	Social Security Taxes	112,377	40,142	152,519
5250	Other Taxes	128,333	36,830	165,163
	Total	626,871	275,654	902,525
<u>J. Operating Rents</u>				
5320	Operating Rents - Dr.	15,262	20,256	35,518
5350	Equipment Rents - Cr.	45	21	66
5360	Rent - Owned Land & Structures - Cr.	213	100	313
	Net	15,004	20,135	35,139
	Grand Total	\$6,787,643	\$3,321,934	\$10,109,577

Key System Transit Lines and
Bay Area Public Service Corporation

BOOK INVESTMENT AND DEPRECIATION RESERVE - OPERATIVE PROPERTY

As of March 11, 1959

<u>Account No.</u>	<u>Account</u>	<u>Investment</u>	<u>Depreciation Reserve</u>	<u>Investment Less Reserve</u>	<u>Annual Depreciation Year Ending Sept. 11, 1959</u>
		(1)	(2)	(3)	(4)
1201	Land & Land Rights	\$ 592,381	\$ -	\$ 592,381	\$ -
1211	Structures	1,995,038	897,788	1,097,250	69,507
1221	Revenue Equipment	9,484,752	8,237,306	1,247,446	365,817
1231	Service Cars & Equipment	104,910	86,703	18,207	5,407
1241	Shop & Garage Equipment	273,789	131,646	142,143	10,078
1251	Furniture & Office Equipment	160,849	147,424	13,425	1,853
1261	Miscellaneous Equipment	37,579	16,640	20,939	1,412
	Total Operative Property	\$12,649,298	\$9,517,507	\$3,131,791	\$454,074

KEY SYSTEM TRANSIT LINES

OPERATING STATISTICSA. Passenger and Vehicle Miles Statistics

	<u>Year 1959</u>	<u>Year 1958</u>	<u>% Change</u>
1. <u>Revenue Passengers</u>			
Local (includes local passengers carried on transbay lines)	38,513,018	37,812,404	1.85
Transbay	8,051,841	7,972,292	1.00
Yerba Buena Island	967,292	885,069	9.29
2. <u>Passenger Revenue</u>			
Local (includes charter coach revenue)	\$7,208,387	\$6,786,955	6.21
Transbay	\$4,084,969	\$3,927,346	4.01
3. <u>Vehicle Miles</u>			
Local - Motor Coach	13,215,381	12,935,452	2.16
Transbay - Motor Coach	6,284,441	5,343,179	17.62
- Bridge Trains	-	408,099*	(100.00)
Total Transbay	6,284,441	5,751,278	9.27

* Transbay rail lines motorized effective April 20, 1958

B. Taxes Paid for Year 1959

City and County real estate and personal property taxes	\$ 70,727
Federal and State taxes on fuel, oil and grease	378,395
Payroll taxes	166,497
State and City vehicle licenses and fees	120,813
City franchise taxes	139,256
Miscellaneous and other taxes	11,381
Sub-total	887,069
Federal and State taxes on income (excluding \$41,000 estimated Federal tax on special credit)	782,258
Total Tax Expense	<u>\$1,669,327</u>

() Denotes Decrease.

OUTLINE OF PROPOSED PURCHASE AGREEMENT

Between

Alameda-Contra Costa Transit District

and

Key System Transit Lines &
Bay Area Public Service Corporation

- I. Preliminary Considerations
 - A. Nature of Parties
 - B. Properties Sought to be Acquired by District
 - C. Status of Valuation Proceedings
 - D. Further Considerations and Negotiations
- II. Transfer of Assets
 - A. Assets to be Transferred
 - B. Assets Not to be Transferred
- III. Purchase Price
 - A. Amount of Purchase Price
 1. Increases in Agreed Price
 2. Decreases in Agreed Price
 - B. Procedural Diligence
- IV. Treatment of Liabilities
 - A. Discharge of Liens
 - B. Payment of Other Indebtedness
 - C. Adjustments in Purchase Price
 - D. Contest of Liability
 - E. Company to Indemnify
 - F. District to Indemnify
 - G. Tickets and Tokens
- V. Service and Franchises
 - A. Assumption of Service Obligation
 - B. Indemnity by District
 - C. Covenants of the Company
- VI. Continuance of Business
 - A. Negative Covenants of Company
 - B. General Provisions
- VII. Representations and Warranties
By Company - Limitations Thereon
 - A. Company's Representations and Warranties

- VIII. Provisions of Agreement
 - A. Public Utilities Commission Approval
 - B. Termination
- IX. Employment
 - A. Employment by the District
 - B. Union Contracts
 - C. Employee Pension Plan
- X. Closing
 - A. Place and Date
 - B. Closing Details
 - C. Additional Documents
 - D. Stamp Taxes and Other Taxes
 - E. Defense of Suits
- XI. Disputes
 - A. Closing Despite Disputes
 - B. Arbitration of Certain Disputes
 - C. Suits to Enforce Agreement
- XII. Notices
 - A. Form and Manner of Giving
- XIII. Entire Agreement - Interpretation -
Non-Prejudicial Character of Agreement
 - A. Agreement Entire - Not for Benefit of Third Parties
 - B. Headings
 - C. Non-prejudicial Character of Agreement

