BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 124

Served January 22, 1962

IN THE MATTER OF:

Application of Washington, Virginia and Maryland Coach Company, Inc., for Authority to Increase Interstate Fares Between the District of Columbia and Points in Northern Virginia	)	Docket No. 13

APPEARANCES:

Manuel J. Davis, Attorney for the Washington, Virginia and Maryland Coach Company, Inc.

Peter J. Kostik, Assistant Commonwealth Attorney, Arlington County Board.

Jay E. Shanklin, Public Witness.

Russell W. Cunningham, General Counsel, Washington Metropolitan Area Transit Commission.

This matter came before the Commission upon the application of the Washington, Virginia and Maryland Coach Company, Inc., for authority to increase its interstate fares 5¢ per passenger between Washington, D. C., and all zones in Northern Virginia, except Zone No. 1. No changes in fares are proposed in Zone No. 1 which encompasses the area east of Courthouse Road, Arlington, Virginia. The proposed fares, which were scheduled to become effective January 15, 1962, were suspended by the Commission pending a hearing and disposition of the application by the Commission.

After due notice, given pursuant to the Commission's Rules and Regulations, public hearings were held on January 8, 1962, and January 16, 1962, with ample opportunity for any interested party to be heard. Certificate of Notice has been made a part of the record.

The only protest to the proposed fares was filed by Arlington County Board which admitted that applicant is entitled to some relief. Jay E. Shanklin appeared as a public witness who stated, "I would merely like to say as far as myself as a rider and the other riders that I have talked to that ride between Fairfax City in the forty-five cent zone now and Washington daily that we don't have any substantial objection to a fare increase if it is tied to an improvement in service."

The applicant presented its case through its witnesses, Mr. William W. Wheeler, Vice President and Assistant General Manager, and Mr. Sebastian A. DeStefano, Vice President and Treasurer.

The Arlington County Board, protestant, presented testimony through its representative, Mr. Charles E. Hammond, Executive Assistant to Arlington County Public Utilities Commission.

The Commission's staff presented evidence through its witnesses, Mr. Charles W. Overhouse, Chief Engineer, and Mr. Melvin E. Lewis, Chief Accountant.

The Commission has had a prior opportunity to review its responsibility and policy under the Compact in a former fare case designated Docket Nos. 5 and 7. The Commission reiterates its intention to carry out this policy vigorously.

Operating Expenses

It is the responsibility of the Commission to carefully examine all operating expenses, not only to ascertain the propriety of same, but to determine that such expenses have been reasonably and prudently incurred. While executive salaries are ordinarily a matter of managerial discretion, the organizational chart submitted as an exhibit by applicant in this case raises the inquiry that some executive salaries may be disproportionate to the responsibilities and duties performed by such executive. While in this specific case the evidence does not clearly justify the reduction of any such salaries as not being a reasonable and prudent operating expense for regulatory purposes, the Commission will keep such salary expenses and other operating expenses under close scrutiny.

Depreciation

The Commission, cognizant of the fact that the Company has had a consistent policy of using a straight-line depreciation rate of 10% per year on its revenue equipment, will permit the Company to continue this policy as to its older buses. However, the record supports the recommendation of the Commission's Chief Engineer, and the Commission adopts his rates, based on a 12-year service life and estimated salvage of 6% of original cost, for all air-conditioned buses and all new buses to be acquired after January 1, 1962.

Equity Capital

The Commission is cognizant of the fact that the estimated net earnings for 1962 (approximately $190,000) plus funds released by the depreciation charge as projected ($182,291) will barely provide sufficient funds to service the Company's debt for 1962 ($372,000). This points up the necessity on the part of the Company to invest more equity capital into this venture. Heavy borrowing against small equity distorts the return-on-investment ratio, concomitantly frustrating the stockholders because most of the funds produced by operations are needed for debt service. As of October 31, 1961, even after giving full credit to $300,000 in intangible assets, the Company's creditors had three times more interest in the Company than did the stockholders. This 3-to-1 relationship will be substantially worsened after the contemplated financing of $469,000 worth of new buses in 1962. More equity capital will be financially healthy for this Company because it will not only permit the purchase of more revenue equipment but will also make possible the utilization of operating profits for fair dividends to the stockholders.

Operating Rents

As for Operating Rents, the Commission takes note that all parties to this proceeding recognized a $12,000 disallowance on rental of terminal property, and will not disturb this adjustment. The Commission recognizes, for regulatory purposes, the equitable character of an adjustment based on the difference between cost-to-buy and cost-to-lease. The Company's fare box rental arrangement, whereby 96% of the total rent for ten years is paid during the first five years, does not produce an equitable charge to the current ratepayers. The adjustments to Operating Rents made by the Commission staff will be accepted.

Service

Public service carriers operating under the jurisdiction of the Commission are to be fairly and reasonably compensated; however, the carriers have a duty to perform and maintain the highest degree of transportation service in accordance with the Commission's policy. Accordingly, the Commission will promote improvements in service by applicant to the greatest extent possible consistent with the needs of the public and the ability of the public to pay for same.

The only public witness, other than protestant, testifying in this case, stated that he did not object to the proposed fares, provided an improvement in service was accomplished. The Commission, by this Order, is requiring a substantial improvement in service. Also, by separate Order, the Commission will prescribe regulations establishing specific service standards governing load factors of applicant which will have the effect of improving applicant's service.

Applicant should immediately revise its schedules so as to provide a fifteen minute headway service on Lines 1 and 2 and a twenty minute headway service on Line 8 during non-rush hours on weekdays in lieu of the present twenty minute and thirty minute headways, respectively, and to extend Line No. 2 to Annandale, Virginia, from Fairfax Hospital. Further, the Engineering Department of the Commission is directed to make continuous studies of the service of applicant and make appropriate recommendations for service improvements consistent with public convenience and necessity and the financial ability of applicant to provide such service.

Applicant has on order fifteen (15) new air-conditioned buses which will be placed in service within the next few months. With these buses, applicant will have in its fleet forty-five air-conditioned buses. Applicant has assured the Commission that it will continue to replenish its fleet with new equipment. The Commission is of the opinion that a minimum of fifteen (15) new air-conditioned buses should be acquired annually until the fleet is substantially modernized.

Projected Revenues and Expenses

The primary issue involved in this case is the reasonableness of the proposed fares. All parties to the proceeding used the calendar year 1962 as the future Rate Year. There were differences of opinion concerning projected miles and projected revenue passengers which led to varying estimates for revenue and expenses for the Rate Year.

The Commission adopts both the mileage and passenger estimates as developed by the Engineering Staff of this Commission. Its mileage figure is the only one which recognizes an adjustment in miles to accompany a diminution due to passenger resistance to increased fares. Likewise, the Engineering Staff's reliance on actual passenger counts plus a study of the Company's passenger trends commended the figures developed by the staff. The figures developed by the Company were not far from the staff figures, but the data presented by the protestant, Arlington County Board, results in a revenue projection $183,000 higher than the staff's figure. However, the considered opinion of the Commission is that the protestant's failure to recognize increased load factors in developing a relationship between mileage and revenue introduced serious error in revenue and passenger estimates by protestant. The Commission prefers to rely on figures developed by actual passenger count and passenger trends.

In estimating operating expenses, the Commission adopts the data developed by its staff because these projections were mainly based on the mileage data accepted by the Commission; also, the staff's expense figure of $3,054,721 gives effect to depreciation and rent adjustments adopted by the Commission.

After a careful consideration of all the evidence, the Commission is of the opinion, and so finds that under the fares authorized herein and the intrastate fares authorized by the Virginia State Corporation, applicant will earn gross operating revenues in 1962 in the amount of approximately $3,450,000 and incur operating expenses (including income taxes) in the amount of approximately $3,260,000, leaving a net operating profit of approximately $190,000 for an operating ratio of 94.57%.

The Commission concludes that the fares authorized herein are not unjust or unreasonable and will not result in excessive earnings to the applicant.

IT IS HEREBY ORDERED:

(1) That the fares filed by W. V. & M. Coach Company, Inc., in its WMATC Tariff No. 7 be, and the same are, hereby approved to become effective February 4, 1962.

(2) That W. V. & M. Coach Company, Inc., be, and it is, hereby required to depreciate its air-conditioned buses in its present fleet, and all new buses placed in service after January 1, 1962, over a period of twelve years, allowing a salvage value of six per centum of their original cost.

(3) That applicant shall improve its service as follows:

(a) Change the present midday headways on Lines 1 and 2 from twenty (20) minutes to fifteen (15) minutes on weekdays (Monday through Friday).

(b) Change the present midday headways on Line 8 from thirty-five (35) minutes to twenty (20) minutes on weekdays (Monday through Friday).

(c) Extend Line No. 2 from Fairfax Hospital to Annandale, Virginia.

(4) That W. V. & M. Coach Company, Inc., submit a plan to the Commission for the replacement and modernization of its revenue equipment.

(5) That as a condition to the authority granted herein that W. V. & M. Coach Company, Inc., comply with the provisions of this Order.

(6) That WMATC Tariff No. 7 of the Washington, Virginia and Maryland Coach Company, Inc., be, and it is, hereby further suspended until February 4, 1962.

(7) That at least ten (10) days prior to the effective date of the fare increase authorized herein, notice of such increase shall be posted in all buses operating over routes affected.

BY DIRECTION OF THE COMMISSION:

Delmer Ison

DELMER ISON
Executive Director