

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 900

IN THE MATTER OF:

Order of Investigation of	)	Served December 23, 1968
Fares of D. C. Transit	)	
System, Inc.	)	Docket No. 194

The background for this present order is found in a series of earlier orders issued in connection with a proceeding instituted by an application of D. C. Transit System, Inc., seeking higher fares. In Order No. 880, we determined that D. C. Transit would incur expenses totaling \$39,333,169 in the future annual period. We further found that present fares would not provide sufficient revenues to cover those expenses.<sup>1/</sup> We directed that a hearing be held to examine a fare structure which would produce the requisite revenues. At that hearing, the principal presentation was made by the Commission staff. Its presentation was based on the company's position that ridership during the future annual period would be at the actual level experienced during the year ending April 30, 1968, adjusted only for resistance to fare increases. Following that hearing, we issued Order No. 882 in which we raised D. C. fares to 30¢ cash, 4 tokens for \$1.05. Maryland fares were also increased. These increases should, on the basis of the facts of record, have provided sufficient revenues to cover operating expenses and interest.

Order No. 882 was an interim order and we awaited developments with regard to the riders' fund issues raised by the court of appeals' decisions so we could determine what should be done in our final order to be issued by December 13, 1968, the expiration of the 150 day statutory suspension period. On that date, certain issues raised by the court of appeals had been taken up to the Supreme Court by D. C. Transit

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<sup>1/</sup> We decided in Order No. 880 that the pendency of certain issues raised by the decision of the court of appeals in Williams v. WMATC, decided October 8, 1968, required that the company receive no return on equity for the time being.

in a petition for a writ of certiorari. Other issues, however, were not appealed by D. C. Transit and these unappealed issues also created the possibility of a riders' fund. In these circumstances, we felt that it was appropriate for the company to forego a return on equity for a further period. Hence on December 13, 1968, we issued Order No. 894, in which we terminated the proceeding instituted by D. C. Transit without any further adjustment in fares. In that order, however, we pointed out a problem raised by facts not of record in that proceeding. Specifically, it appeared that the fare increases authorized by Order No. 882 were not, in fact, producing revenues sufficient to cover the level of expenses we had found in Order No 880 to exist. The reason appeared to be that ridership was not at the levels assumed by the company figures on which the staff had based its earlier presentation. A considerable decline had taken place. We felt that this was a problem that we should not ignore or overlook, so on December 13 we also entered Order No. 895, in which we instituted a further investigation into D. C. Transit's rates and set a hearing for January 14, 1969, at which the parties were directed to produce evidence concerning the further adjustments, if any, to D. C. Transit's fare structure to produce farebox revenues of \$35,695,256 annually.

On December 16, 1968, D. C. Transit filed a motion with the Commission asking that the January 14 hearing be moved up. D. C. Transit represented that because of its precarious financial condition it would be unable to continue operations until the conclusion of proceedings scheduled to begin on January 14, 1969. In the face of this serious representation, coupled with our independent knowledge of the company's financial condition, we moved the hearing from January 14, 1969, to December 19, 1968.2/

The hearing was held on that date and we received testimony concerning the following subjects:3/

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- 2/ Wide publicity was given to the new hearing date in all news media.
- 3/ Chairman Avery presided at the hearing. Because the hearing date was moved up, the other Commissioners had commitments which prevented their attendance. Commissioner Doub was presiding at a major telephone rate case hearing at the Maryland Public Service Commission. Commissioner Hooker also had hearings scheduled at the Virginia State Corporation Commission. All Commissioners have received copies of the transcripts and exhibits and have reviewed them prior to issuance of this order.

- 1) The results being experienced by D. C. Transit in the period since October 31, 1968, under the fares authorized by Order No. 882.
- 2) The projected results for the future annual period under that fare structure, compared with the expenses we had found to exist in Order No. 880.
- 3) Suggested fare structures designed to produce additional revenues sufficient to cover projected expenses.
- 4) Data concerning the company's actual present financial condition and its projected financial condition if fares are not adjusted.

Testimony and exhibits were presented by witnesses for the company and the staff.<sup>4/</sup> The company presented testimony by Samuel O. Hatfield, its Vice President and Comptroller. Mr. Hatfield presented evidence concerning projected results on the basis of two assumptions: first, that the decline in ridership which had occurred in the past year would continue at the same rate throughout the future year ending December 20, 1969; second, that the declining trend would level and that ridership would continue at its present levels except for resistance to any additional fare increase. Under either assumption, the fares authorized by Order No. 882 would be entirely inadequate to meet the operating expenses and interest expenses which the company would incur. Mr. Hatfield suggested new fare structures sufficient to produce the required revenues, under either assumption. Mr. Hatfield also presented statements of financial condition which showed a steady decline in retained earnings due to operating losses, a steadily worsening ratio of current liabilities to current assets, an income statement for November, 1968, which showed that even under the increased fares authorized by Order No. 882 the company had lost \$227,768 in that month alone, and an analysis of cash flow which indicated that a serious cash deficit, amounting to over \$600,000, would exist by January 15, 1969. No question as to these facts was raised by any party. Mr. Hatfield stated that D. C. Transit's credit was seriously impaired and that a number of suppliers were now requiring a C.O.D. arrangement.

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<sup>4/</sup> The parties granted leave to intervene in the morning session were: (a) Diana K. Powell, pro se; (b) Alfred S. Trask, for the Federation of Citizens Associations of the District of Columbia; and (c) Paul R. Webber III, for the D. C. City-Wide Consumer Council, Northwest United Community Corporation Organization, and the Welfare Alliance of the District of Columbia.

The staff presented testimony by Charles W. Overhouse, its Chief Engineer, and Richard C. Kirtley, its Senior Accountant. The staff evidence demonstrated a downward trend in passengers but expressed the view that the trend had apparently now levelled. It indicated that November results were a reliable indicator of results to be expected during the entire year. It indicated that the existing fares would not produce revenues sufficient to cover the operating expense and interest we had found would exist in Order No. 880. It suggested a new fare structure which would produce the revenues required to meet expenses. Finally, they demonstrated the extremely serious decline in D. C. Transit's cash working capital.

The intervenors made no presentation of evidence but they did cross-examine staff and company witnesses. We also heard statements from a number of interested members of the public who were not formal parties to the proceeding.

This, then, is the evidence before us. We must now consider its implications. First, it is clear beyond question that the present fares will simply not produce the revenues needed by the company to cover operating expenses and interest. In Order No. 882, we found that this would require revenues from the farebox totalling \$35,695,256. <sup>5/</sup> Before deciding what actual results under present fares will be, we must decide whether the declining trend in passengers will continue or will level out. The Commission witness is of the opinion that it will level out and the company's witness, while leaving the final determination to us, was hopeful that it would level out. It is our opinion that we should base our decision on an assumption that the trend will level out and that the decline will not continue. All seem in agreement that the causes for the decline are linked to the civil disturbances of the Spring and the imposition of the scrip system. Those events are past and their impact has been absorbed. Moreover, the actual number of riders each week in recent weeks has been fairly steady. We will make the assumption that the ridership will be steady at the present levels, except for the resistance factor.

The next question is which projections of ridership based on this assumption to accept -- that of the staff or that of the company. They both reach substantially the same result, although the staff projection is very slightly higher. Each employed a different methodology

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<sup>5/</sup> These farebox revenues, when coupled with a school fare subsidy payment of \$1,161,152 and non-farebox revenue of \$2,470,199 would cover the company's operating expenses of \$39,326,607.

in reaching his results. With one exception, discussed at p. 5, infra, we find the staff approach preferable because it is tied more directly to the results actually experienced in the most recent period when the present fare structure has actually been in effect. Accordingly, on the basis of Staff Exhibit No. 4, we find that under present fares the company would obtain passenger revenue, excluding school fare subsidy, totalling \$33,525,951.

To this must be added the school fare subsidy payment. It is on this item that we think that the company analysis is more exact than the staff. It must be recalled that there has been no change whatever in the actual school fare paid by riders. It has been, and remains, 10¢. Hence, no resistance or other changing factors need be considered. The company's analysis of actual riding in the most recent period available indicates a substantial increase over the same period of the preceding year. Hence, the company expects an increase in revenue from school passengers amounting to \$74,314 and a school fare subsidy payment of \$1,577,738. Their analysis of the increasing trend is confirmed by data available in the Commission files. The methodology employed by the Commission staff at the December 19 hearing did not take into account the increasing trend in this category of service. We are convinced that the company projection of the school fare subsidy payment is the more accurate one and it is that figure we will use. Hence, with the previously noted farebox revenues of \$33,525,951, the additional \$74,314 in school fares actually collected and the school fare subsidy payment of \$1,577,738, the passenger revenues which the company will obtain under present fares total \$35,178,003.

As previously noted, these revenue sources must produce \$36,856,489, if the company is to obtain the revenues necessary to cover the operating and interest expenses we found would exist in Order No. 880. Hence, the existing fare structure is unjust and unreasonable in that it will not produce sufficient revenues to enable the company to cover its operating expenses and interest cost.

Before turning to the question of specific fare changes needed to produce the required revenues, we should first discuss whether action is required now. The answer to this question is plain. The evidence of record makes it plain beyond dispute that this company is not presently obtaining revenues sufficient to cover its expenses. Its financial liquidity has been steadily deteriorating. Its cash working capital is fast disappearing. Perhaps most important, its ability to obtain further credit is seriously in doubt so long as fares at their

present levels are not sufficient to stanch these serious losses. In these circumstances, we have a clear obligation to take immediate action to ensure the company's continued ability to provide the transit service so vitally needed by the community.

We turn, then, to a consideration of the changes in fare structure necessary to produce the revenues required. Both the company and the staff have recommended that the fare in the District of Columbia become a straight 30¢ and, in view of the company's present financial requirements, we think that this is not only just and reasonable, it is an inescapable conclusion.

Additional revenues are required beyond those produced by this change in D. C. fares and the resultant increase in the school fare subsidy payment. Both the company and the staff suggested, in effect, that the number of zones in suburban fares be reduced from twelve to six. The staff recommends that the zone fare in each new zone be the higher of the two present zone fares that would be included in the new enlarged zone, except in the case of Zones 1 and 2 of intrastate local service, in which the staff recommends that the fare be 35¢. The company would leave the fare in these first two zones of intrastate local service at 30¢. This produces less revenue from those two zones than the staff proposal, of course. The company would make up that revenue by imposing larger increases than those proposed by the staff in certain other zone fares. Specifically, the company proposes higher fares than the staff in the Maryland-D. C. line fare of interstate express service, as well as in Zones 1 and 2 of that service. In addition, the company proposes a higher fare than the staff in Zones 1 and 2 of interstate local service.

We have carefully considered both the company and the staff proposals for changes in suburban fares. We are very cognizant of the fact that we are just undertaking a cost allocation study in accordance with the recent directive of the court of appeals. We are sure that the results of that study will be useful in forming a judgment as to appropriate changes not only in suburban zone fare levels but in the structure of the zones themselves. We believe it is unwise at this juncture to undertake the radical restructuring of the zones suggested by the company and the staff. To reduce the number of zones from twelve to six at this point would cause serious disruptions to the zone pattern. We might wish to make further changes in that pattern when the cost allocation study is complete. Two such changes in a short period could lead to considerable confusion and misunderstanding on the part of the riding public. We think it is preferable to raise the additional revenues now needed by leaving the present zone structure intact and raising existing zone fares by the amount needed to produce the required revenues. Using figures in

the record we find that adding five cents on to each present zone fare, other than Zones 1 and 2 of intrastate local service, will produce the following results:

<u>Types of Passengers</u>	<u>Revenue</u>
Total Cash and Tokens	\$27,557,606
Interline Ticket	952,697
Maryland Intrastate	2,463,185
D. C. and Maryland Interstate Local	1,759,733
School	788,869
Downtown Shoppers	104,804
Capitol Hill Express	39,302
Silver Rocket	141,879
D. C. and Maryland Interstate Express	1,491,274
D. C. Stadium	60,000
 Total	 <u>\$35,359,349</u>

In effect, this suburban fare structure produces approximately the same amount from that source as the increases proposed by the staff at the hearing. Actually, the total is about \$23,000 higher. We do not find it necessary to adopt the staff suggestion that the fare in the first two zones of intrastate local service be raised from 30¢ to 35¢ because the higher estimate of the school fares actually to be collected and the higher school fare subsidy payment discussed at p. 5, supra, plus the additional \$23,000 raised by the suburban fare changes we here adopt produces the revenue which the staff sought through its suggested change.

We believe that the fare changes we authorize produce a rational and balanced fare structure for the period during which we make the cost allocation study discussed in the opinion of the court of appeals in Payne v. WMATC. The straight 30¢ fare in the District is a round figure, easily understood by the riding public. It will produce approximately the same percentage of total passenger revenues as has been the case in the past. The same 30¢ fare will apply in the first two zones of intrastate local service. As we discussed in Order No. 882, we think that the service provided in these first two zones of intrastate local service is substantially identical to intra-District service, and having an identical fare for both, when possible, is highly desirable. The remaining zones of suburban service are all treated in a rational and consistent manner, each being raised five cents. By means of the changes authorized herein, \$2,249,984 of additional revenue is being raised, 85 percent from District sources and 15 percent from suburban sources.

These are approximately the same percentage relationships which have applied to past increases. Accordingly, we reiterate our conclusion that the fare increases authorized herein, as set out in Appendix A hereto, produce a rational and balanced fare structure which we find to be just, reasonable, and not unduly discriminatory.

They will produce the following financial results:

Projected Operating Statement  
At Fares Prescribed by the Commission  
Effective December 24, 1968

<u>Operating Revenues:</u>	
Farebox Revenues	\$35,359,349
Schoolfare Subsidy (7,888,688 rides at 20¢)	<u>1,577,738</u>
	\$36,937,087
Charter	2,104,578
Government Contract	125,305
Station and Vehicle Privileges	171,904
Other Revenue	<u>68,412</u>
 Total Revenues	 \$39,407,286
<u>Operating Revenue Deductions:</u>	
Operating Expenses	\$34,367,584
Taxes, Other than Income Taxes	1,303,702
Depreciation	2,475,154
Amortization of Acquisition	
Adjustment	<u>(194,516)</u>
 Total Deductions	 <u>37,951,924</u>
 Net Operating Income	 <u>\$ 1,455,362</u>

Since this will enable the company to meet its operating expenses and interest cost, as found to exist in Order No. 880, we find these fares to be just, reasonable, and non-discriminatory.

A subsidiary question remains for discussion. The token and cash fare in the District are now identical. This raises the possibility that we should simply eliminate the token and have cash fares only. The company suggested that we take this action. Having considered the question, we have concluded that we will require the continued sale of tokens with the existing system of sales outlets for a further period of time. With the exact fare system now in effect, it may be that riders will

still find the use of tokens convenient. If they do so in significant numbers, we think that tokens should be available to them. The best way to find out the wishes of the public is to leave the token available and see what level of usage develops. If that usage drops to insignificant levels, which do not justify the cost of token distribution, we will consider the elimination of the token altogether. Hence, for now, we will authorize the sale of tokens at four for \$1.20.

Finally, there is the question of the treatment of outstanding tokens. We believe, as in the past, that the most equitable treatment is to allow tokens now outstanding to be used without further payment.

One procedural point requires disposition. On December 19, 1968, the day of the hearing which preceded the entry of this order, a Petition to Intervene was filed by Mr. Sanford Schamus. The Petition was reviewed by the Chairman of the Commission, then presiding at the hearing, and brief oral argument was heard thereon at the hearing. The Chairman ruled that the petitioner had made no showing of standing which would justify authorizing his intervention. Petitioner asked that this issue be ruled on by the full Commission. The full Commission has reviewed the Petition to Intervene and the transcript of the oral argument thereon. It is clear that petitioner has made no showing which would justify his intervention. The only ground on which he appears to rely is his status as a taxpayer. He is not a resident of this community, does not allege that he has ever used D. C. Transit service, and the source of his interest remains somewhat obscure. We affirm the ruling of the Commission's Chairman made on December 19, 1968, that no showing of standing has been made and that the Petition to Intervene should be denied.

#### FINDINGS OF FACT

The findings of the Commission are set out in the foregoing opinion.

#### CONCLUSIONS OF LAW

For the reasons set out in the foregoing opinion, we conclude, as a matter of law:

1. That the existing fare structure of D. C. Transit System, Inc., is unjust and unreasonable in that it will not produce revenues sufficient to cover the operating expenses and interest cost which, in Order No. 880, we found that the company would incur.
2. That the fare structure authorized herein, as set forth in Appendix A hereto, is just, reasonable and not unduly

discriminatory in that it will produce revenues sufficient to cover the operating expenses and interest cost which, in Order No. 880, we found that the company would incur.

3. That it is just and reasonable that the company receive no return on equity while the Commission considers the questions regarding the riders' fund raised by the court of appeals decision in Williams v. WMATC, decided October 18, 1968.

**THEREFORE, IT IS ORDERED:**

1. That D. C. Transit System, Inc., be, and is hereby, authorized to file tariffs on December 23, 1968, to become effective at 4:00 A.M., December 24, 1968, reflecting the fares prescribed hereinabove and as set forth in the Appendix attached hereto and made a part hereof.

2. That tokens outstanding on December 24, 1968, shall be honored as though purchased at the new rate prescribed herein.

3. That the Commission shall retain jurisdiction in this proceeding, with the power to make such further adjustments in fares as appear necessary in light of subsequent events.

4. The Petition to Intervene, filed by Sanford L. Schamus on December 19, 1968, be, and it is hereby, denied.

BY DIRECTION OF THE COMMISSION

  
GEORGE A. AVERY  
Chairman

APPENDIX A

ORDER NO. 900

	<u>Fares in Effect Prior to This Order</u>	<u>Fares Authorized Herein</u>
<u>District of Columbia</u>		
Cash	\$ .30	\$ .30
Token	.26 <sup>1</sup> / <sub>4</sub> (4/1.05)	.30 (4/1.20)
Interline	.35 +5¢	.35 +10¢
Capitol Hill Express	.65 (a)	.65 (a)
Minibus	.10	.10
School	.10	.10
Transfer	Free	Free

Maryland

Intrastate Local

Zones	1	.30	.30
	2	.30	.30
	3	.40	.45
	4	.45	.50
	5	.50	.55
	6	.55	.60
	7	.60	.65
	8	.65	.70
	9	.70	.75
	10	.75	.80
	11	.80	.85
	12	.85	.90

Interstate Local

Zones	1	.40 (b)	.45 (b)
	2	.50 (b)	.55 (b)
	3	.60 (b)	.65 (b)
	4	.70 (b)	.75 (b)
	5	.75 (b)	.80 (b)
	6	.80 (b)	.85 (b)
	7	.85 (b)	.90 (b)
	8	.90 (b)	.95 (b)
	9	.95 (b)	1.00 (b)
	10	1.00 (b)	1.05 (b)
	11	1.05 (b)	1.10 (b)
	12	1.10 (b)	1.15 (b)