WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 939

IN THE MATTER OF:	Served April 11, 1969
Application of WMA Transit Company for Authority to Increase Fares.	Application No. 550
	Docket No. 197

APPEARANCES:

STANLEY H. KAMEROW, Attorney for WMA Transit Company, Applicant.

HOWARD L. PETERSON, (pro se), Protestant.

RENN C. FOWLER, Assistant General Counsel, Washington Metropolitan Area Transit Commission.

I

PROCEDURAL BACKGROUND

This proceeding arises from the filing of an application on January 27, 1969, by WMA Transit Company seeking authority to increase fares and adjust fare zone boundaries, pursuant to Section 5 of the Washington Metropolitan Area Transit Commission Regulation Compact. The application, accompanied by the appropriate tariffs, testimony, and exhibits, seeks the following changes:

1. The conversion of the present intrastate two-zone system to a six-zone system coincident with the present interstate zones.

2. Elimination of tokens and the institution of an exact fare system.

3. Increase in the D. C. fare from 25¢ to 30¢.

4. Increase in the Maryland intrastate fare to 35¢ for the first zone plus 10¢ for each additional zone.

5. Increase in the interstate fare to 55¢ for travel between the District of Columbia and the first zone in Maryland, plus 10¢ for each additional zone.

6. Increase in the interline ticket from 35¢ to 45¢.

By Order No. 921, served February 5, 1969, the Commission suspended WMA's proposed tariffs until May 5, 1969, pending investigation and hearing, and deferred use of the fares stated in the tariffs until decisions herein.

Notice of the proposed fares and the hearing thereon was given in accord with the Commission's Rules and Regulations. Mr. Howard Peterson was granted leave to intervene and participate as a formal party. The hearing was held on March 4, 1969, with day and evening sessions.

Messrs. William R. McKimmie, the applicant's accountant, and William E Bell, Vice President in charge of Operations, testified for the applicant; the Commission's Chief Engineer, Mr. Charles W. Overhouse, and a Commission auditor, Mr. John F. Fularz, testified for the staff; and, a patron of the applicant, Mr. Howard L. Peterson, testified on his own behalf. In addition, at the informal evening hearing, Mr. Albert Short appeared and made a brief statement. The record consists of a transcript of 288 pages of testimony and 21 exhibits: 1-11 applicant; 1-2 intervenor; and 1-8 staff.

The nature of our task may be summarized briefly. Rates must be established which will produce revenue sufficient to cover all of the company's legitimate expenses and provide it with a fair return. To that end, we project revenues and expenses for a period of time in the future. Only those expenses which are both justifiable and reasonably predictable are allowed.

In this proceeding both the staff and the applicant utilized a historical twelve-month period ending on November 30, 1968, and a future annual period ending February 28, 1970, in order to calculate the need for a change in fares.

II

PROJECTED ANNUAL RESULTS

1. The Historical Year

We begin our analysis of the company's revenue requirements by determining the financial results of its operations during a past historical period -- in this case, the twelve months ending November 30, 1968. There are no issues for us to resolve in this regard since the staff made certain adjustments to the company figures which were concurred in by the company. The figures in question are adjusted to eliminate the effects of the civil disturbances in the District of Columbia during April, 1968, and the effects of a five-day work stoppage on the WMA system in September, 1968. The operating results for the historical year, thus adjusted, are as follows:

TABLE I

Operating Revenue:	
Passenger Revenue	$ 2,243,202
Charter and Sightseeing Revenue	682,177
Government Contract Revenue	67,202
Other Operating Revenues	12,404
School Subsidy	8,824
Total Operating Revenues	$ 3,013,809
Operating Revenue Deductions:	
Operating Expenses	$ 2,202,089
Depreciation Expense	327,953
Operating Taxes and Licenses	237,096
Operating Rents	185,489
Income Taxes	10,157
Total Operating Revenue Deductions	$ 2,962,784
Net Operating Income (Loss)	$ 51,025
Operating Ratio	98.31%
Rate of Return on Operating Revenue	1.69%

2. The Future Annual Period -- At Present Fares

On the basis of these historical year figures, we undertake to compute projected operating results for the future annual period. The period used by the parties was the year ending February 28, 1970. In making this computation, the company and the staff based their projections on essentially the same assumptions as to ridership. Thus, their projected Passenger Revenues were identical. The staff projected a higher level of charter and sightseeing revenue than did the company. The company reduced its historical year results in this category by a substantial amount. The staff, on the other hand, made a more modest reduction based on a study of actual results in recent years. We believe the staff's figure is more reliable and will adopt it in our projection.

There were certain differences between the parties with regard to adjustments in operating expenses during the future annual period. One matter in dispute was projected wage costs. The company's forecast was based on the assumption that top pay levels of $3.00 and $3.25 per hour would be paid to all union employees. The staff, on the other hand, took into account the length of service and rate of turnover experienced in the historical period and computed wage cost on the basis that some employees would be paid at rates varying from $2.25 an hour, $2.35 an hour, $2.50 an hour, $2.60 an hour to $2.75 an hour, as well as at $3.00 and $3.25. The company's witness stated on cross-examination that about 50% of the employees do not presently qualify for the top rate. The staff used 323,585 regular route pay hours for the future period, as against 327,091 regular route pay hours forecast by the company. The staff's methodology is obviously more accurate and will be adopted by us.

Another expense item in dispute involved insurance costs. The insurance cost forecast by the company was based on the expense booked in the historical year which was excessive because it included a two-year retrospective premium adjustment; the amount forecast by the staff is the maximum rate billable for the future annual period and will be accepted by the Commissioners.

Thus, adopting the conclusions we have just discussed, the operating results for the future annual period at present fares would be as follows:

TABLE II

Operating Revenue:	
Passenger Revenue	$ 2,264,568
Charter and Sightseeing Revenue	672,000
Government Contract Revenue	67,500
Other Operating Revenues	15,674
School Subsidy Revenue	28,397
Total Operating Revenues	$ 3,048,139
Operating Revenue Deductions:	
Operating Expenses	$ 2,420,031
Depreciation Expense	350,610
Operating Taxes and Licenses	247,545
Operating Rents	185,489
Income Taxes	-0-
Total Operating Revenue Deductions	$ 3,203,675
Net Operating Income (Loss)	$ (155,536)
Operating Ratio	105.10%
Rate of Return on Operating Revenues	(5.10%)

Obviously, the present fare structure will not produce adequate revenues even to cover the company's operating expenses. Adjustments to the fare structure must, therefore, be made.

3. The Future Annual Period -- At Adjusted Fares

We turn now to a consideration of the evidence concerning financial results under an adjusted fare structure. It is in this area that the first major area of dispute between the company and staff arises. The subject in dispute is the projection of revenues for the future annual period. In its original submission, the company assumed a level trend of ridership from the historical period, allowing only for loss due to the resistance to new fares. The company then assumed that each passenger would have his fare increased by 10¢. The staff accepted the company's assumption of a level trend of ridership but pointed out that the company was proposing increases for many passengers considerably in excess of 10¢. The staff, therefore, computed revenues on the basis of the actual fare increases proposed, also allowing for resistance to these actual fare increases. At the hearing, the company, in responding to the revenue figures presented by the staff, attacked, for the first time, the assumption that ridership would maintain a level trend from the historical period, except for the resistance to new fares. The company argued that there would be a 10% decline in ridership due to the effect of the 40 day strike which occurred on the system during December 1968 and January 1969.

Before we can proceed any further with assessing the proposals before us, we must dispose of this question. After careful consideration, we have concluded that we should reject the company's contention concerning the impact of the strike and accept the assumption originally adopted by both the company and the staff that ridership will continue at a level trend. Unquestionably, in the first days when service was restored following the strike, ridership was at levels significantly below pre-strike experience. However, there has been a rapid recovery and within 47 days after restoration of service, one-half of the loss had been recovered. The upward trend is continuing. This is a much more rapid recovery than was experienced on the D. C. Transit System following the long strike on that system in 1955. Moreover, we are not unmindful that this company has experienced a healthy record of growth over the past several years due to a growing population in its service area. This continued growth possibility should do much to offset the deleterious effect of the strike upon ridership. We believe, therefore, that the staff's projection of revenues and expenses under the fares proposed by applicant is the more accurate presentation. Hence, we find that, in the future annual period, under fares proposed by the company, the operating results would be as follows:

TABLE III

Operating Revenue:	
Passenger Revenue	$ 2,769,536
Charter and Sightseeing Revenue	672,000
Government Contract Revenue	67,500
Other Operating Revenues	15,674
School Subsidy Revenue	37,863
Total Operating Revenues	$ 3,562,573
Operating Revenue Deductions:	
Operating Expenses	$ 2,420,031
Depreciation Expense	350,610
Operating Taxes and Licenses	247,545
Operating Rents	185,489
Income Taxes	11,029
Total Operating Revenue Deductions	$ 3,214,704
Net Operating Income (Loss)	$ 347,869
Operating Ratio	90.24%
Rate of Return on Operating Revenues	9.76%

III

RATE STRUCTURE PROBLEMS

In evaluating whether these results indicate that the proposed fares are just, reasonable, and non-discriminatory, we believe it is best to take up at this juncture certain questions relating to the rate structure. The proposal made by the company was initially understood, or rather misunderstood, by the public media as being a 10¢ increase for each rider. In fact, it can amount to much more than that. For one thing, the company proposes to eliminate the present two zones for intrastate Maryland riding and use instead the six zones which exist for interstate rides. The first zone fare for intrastate riding would be increased 10¢ and there would be an additional 10¢ increase for each of the five additional zones. The result is that a person who presently rides the equivalent of six zones intrastate and pays 35¢, would under the company's proposal pay 85¢, an increase of 50¢ or 143%. Such substantial increases are not consistent with sound rate-making. Similar situations exist in the interstate fare category. The company proposes to increase some of those fares by as much as 25¢ and 30¢ -- percentage increases of 42% and 46%. Again, we think that increases of this magnitude are contrary to proper rate design. Having carefully considered the problem, we have concluded that no passenger should be asked to pay an increase greater than 15¢, except in the occasional instance of a major correction in a zone boundary.

There is one other objective toward which we believe we should work in adjusting rates at this time. WMA has, in effect, had three separate rate structures for some period of time. One structure applied on the T line to Bowie-Belair; another is applicable on the D, W, S, and I lines, which serve the Southeast corridor; a third applied on all other lines. We believe that it would be more equitable and desirable to have a uniform structure applicable on all lines. We cannot achieve that objective entirely at this time because it would mean increases of too great a magnitude for some riders. We will, howver, make adjustments looking toward that end.

A rate structure which takes into account the company's revenue requirements but is consistent with the criteria we have just discussed is set forth in Appendix A hereto. The financial results which can be expected at these fares are as follows:[1]

TABLE IV

Operating Revenue:

Passenger Revenue	$ 2,631,468
Charter and Sightseeing Revenue	672,000
Government Contract Revenue	67,500
Other Operating Revenues	15,674
School Subsidy Revenue	37,863
Total Operating Revenues	$ 3,424,505

[1] The figures in this table are based on information supplied by the staff in Appendix N to Staff Exhibit 1, with adjustments based on data presented by the company and staff witnesses in oral testimony.

Operating Revenue Deductions:

Operating Expenses	$	2,420,031
Depreciation Expense		350,610
Operating Taxes and Licenses		247,545
Operating Rents		185,489
Income Taxes		1,684
Total Operating Revenue Deductions	$	3,205,359
Net Operating Income (Loss)	$	219,146
Operating Ratio		93.60%
Rate of Return on Operating Revenues		6.40%

IV

RATE OF RETURN

As indicated above, these fares are in many instances lower than those proposed by the company. As a result, of course, the revenues produced are lower than the company's proposal would produce. This brings us to the subject of the adequacy of the return, a topic we have not yet discussed. This subject is not a little complicated, in this proceeding, although not in the way rate of return problems are usually complicated. Rather, the problem here is determining just what the company proposes as an appropriate return. Its own submission indicated that the fares it proposed would produce a return of 1.91%. This would not have been sufficient even to cover the company's interest expense. Of course, as the discussion on page 7, supra, demonstrates, the company's proposal actually would have produced a return of 9.76%. The company did not so indicate, however, and its own proposal may be taken as indicating a willingness on the company's part to accept a low return on equity for the time being.

The results which would be experienced under the fare structure set out in Appendix A are consistent with that view as to return on equity. The company will pay an annual interest expense of about $211,677. Thus, the return which would be experienced would provide enough to cover that interest and provide a very modest return on equity -- a return which by any standard of judgment could not be considered excessive.

We assume that the company, and the Commission staff, will watch closely the results actually experienced under this new fare structure. If the projected results do not actually materialize, the matter can, by proper procedures, be brought before us once again for further adjustmens.

V

PROPOSED SCRIP SYSTEM

There is one further issue in the case requiring our attention. As part of its submission, the company requested permission to forego the making of change upon buses and institute a scrip system similar to that we authorized for D. C. Transit System, Inc., in Order No. 822. As that order indicates, we authorized a scrip system on D. C. Transit because the crime situation on that company's buses had reached crisis proportions. In the twelve months ending April 30, 1968, 479 robberies had taken place on D. C. Transit buses and a driver was killed in the course of a hold-up on May 17, 1968. These circumstances, we felt, justified the inconvenience which the riding public would suffer if it were no longer possible to obtain change on the bus.

A similar situation does not exist on WMA. Information supplied by the company pursuant to requests made at the hearing indicates that in the last three and one half years there have been seven robberies on WMA buses. While even one robbery is too many, and each robbery is of extreme concern to the driver involved, it must be recognized that these facts do not demonstrate the existence of serious crime problems of the magnitude which existed on D. C. Transit.

The standard which must control our approval of the scrip system is the public interest. That interest of course includes a concern for the safety of the bus driver. It also includes a concern that the passenger receive adequate and convenient service.

We are not unaware that our pioneering step in authorizing the use of scrip on D. C. Transit was a success in terms of dealing with the crime problem and that it has now been adopted in a number of other major cities. A bulletin issued by the American Transit Association on December 17, 1968, states that its statistical department has been continuing a study of exact fare experience of thirteen major systems. Each of those systems reported a speed-up in service, and all thirteen reported "highly favorable public reaction." The bulletin continued, "crime has declined to almost nothing on the buses of these companies."

The experience of this Commission with the scrip system at D. C. Transit agrees with the final statement in the ATA bulletin which is that issuance of scrip is high initially, "then rapidly drops as riders become accustomed to the need for correct change."

That same experience, however, showed that institution of the scrip system caused a demonstrable and significant initial drop-off in ridership -- a sign, we are sure, that scrip involves inconvenience to the riding public.

On the one hand, we have our responsibility for the drivers' safety and the threat, fortunately mostly potential in this instance, which robberies pose to his safety. We have, on the other hand, our responsibility to ensure that bus service is adequate and convenient for the riding public.

Balancing these considerations, we have concluded that before taking final action authorizing institution of the scrip system on WMA, the company must submit to us a plan which will minimize the inconvenience of that system for the riding public. The plan should provide for a number of locations where scrip can be redeemed. The company's one location on Southern Avenue would clearly be inadequate. It should also provide for a system of commuter ticket books to be sold by a convenient means. Additional steps, such as making arrangements to have change readily available at terminal locations should be considered and proposed if feasible.

In sum, the institution of a scrip plan involves a balancing of interests. The actual threat to driver safety is not as severe here as in the case of D. C. Transit. Therefore, we must have means before us which minimize the burdens of the scrip system for the riding public. When such means are presented, we will make a final judgment as to the appropriate disposition of the question in the public interest.

FINDINGS OF FACT

We have stated our findings of fact on the issues in this proceeding in the foregoing discussion.

CONCLUSIONS OF LAW

The Commission concludes as a matter of law:

1. That the present fare structure of applicant is unjust and unreasonable in that it will produce an operating deficit that will imperil the company financially.

2. That the fares proposed by applicant would be unjust and unreasonable in that the fare structure proposed is inconsistent with the sound principles of rate-making for transportation companies.

3. That the fares authorized by this Order are just and reasonable. They are not unduly preferential nor unduly discriminatory either between riders or sections of the Metropolitan District; they will produce earnings sufficient to save applicant from financial jeopardy, allowing the company to pay its operating expenses, to service its debt, and to provide such additional amount as is necessary to provide for the financial health of the company.

THEREFORE, IT IS ORDERED:

1. That the fares proposed by WMA Transit Company in tariffs filed January 27, 1969, and previously described in and suspended by Order No. 921, be, and they are hereby denied.

2. That applicant, WMA Transit Company, be, and is hereby authorized to file a tariff on or before April 11, 1969, to become effective, at or after 12:01 A.M., April 13, 1969, reflecting the fares as set forth in Appendix A, attached hereto and made a part hereof.

3. That WMA Transit Company shall file appropriate tariffs on or before April 11, 1969, to become effective, at or after 12:01 A.M., April 13, 1969, instituting an interline ticket fare collection system whereby the originating

company shall collect its appropriate zone fare and issue an interline ticket, for no extra charge, which will permit a five cent discount on the connecting carrier's regular service.

4. That upon issuance of this order, the applicant be, and is hereby, authorized to discontinue the sale of tokens, provided all outstanding tokens shall be honored as the equivalent of twenty cents (20¢) cash toward an interstate ride.

5. That the company is hereby directed to file further information with regard to institution of a scrip system in accordance with the provisions of the foregoing opinion.

6. That jurisdiction be, and it is hereby, retained in this proceeding to enter such further orders with regard to institution of a scrip system as may appear appropriate following the compliance by the company with Section 5 hereof.

BY DIRECTION OF THE COMMISSION:

George A. Avery

GEORGE A. AVERY
Chairman

APPENDIX A

	Fares in Effect Prior to This Order	Company's Proposed Fares	Fares Authorized Herein
District of Columbia			
Cash	$.25	$.30	$.30
Interline	.35	.45	*
School Ticket	.10	.10	.10
Transfer	Free	Free	Free
Maryland			
Intrastate			
Zone 1	.25	.35	.35
2	.35	.45	.35
3	.45	.55	.45
4	.55	.65	.45
5		.75	.45
6		.85	.45
Interstate			
T Line			
Zone 1	.45	.55	.55
2	.55	.65	.65
3	.65	.75	.75
4	.75	.85	.85
D.W.S.&I. Lines			
Zone 1	.40	.55	.50
2	.45	.65	.60
3	.50	.75	.65
4	.55	.85	.70
5		.95	.75
All Other Lines			
Zone 1	.45	.55	.55
2	.50	.65	.60
3	.55	.75	.65
4	.60	.85	.70
5	.65	.95	.75
6	.70	1.05	.80
Interline	.35	.45	*
Token	.1750 (4/.70)	Discon. see Interstate Fares	Discon. see Interstate Fares
Transfer	Free	Free	Free
Other			
Stadium	.60	.75	.75
Race Track	1.50	1.50	1.50

*Interline ticket issued upon request, after payment of proper fare, worth 5¢ toward fare on connecting carrier. Interline ticket accepted from connecting carrier worth 5¢ toward WMA fare.