WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 1332

IN THE MATTER OF:

Application of THE GRAY LINE, INC., for Authority to Increase Fares	)))	Served June 10, 1974 Application No. 833 Docket No. 263

By Application No. 833, filed March 25, 1974, The Gray Line, Inc., (Gray Line), seeks approval of WMATC Tariff No. 5 and WMATC Tariff No. 6 which would cancel its current WMATC Tariff No. 4. The proposed WMATC Tariff No. 5 names per capita fares for passengers, during the officially scheduled racing season, between Washington, D. C., and specified race tracks in Maryland. The proposed WMATC Tariff No. 6 sets forth rules, regulations and fares governing charter operations and special operations on round trip sightseeing or pleasure tours.

Pursuant to Order No. 1318, served April 11, 1974, 1/ a hearing was held April 30, 1974, to develop an appropriate record upon which to determine whether the proposed rate structures contained in WMATC Tariff Nos. 5 and 6 would be just, reasonable and not unduly preferential or unduly discriminatory either between riders or sections of the Metropolitan District. Irving Schlaifer intervened in the proceeding for himself.

The fixing of an increase in an effective rate structure involves two general determinations. Initially, the operating expenses of the carrier in the future must be projected. Then, rates must be prescribed which would result in sufficient revenues to enable the carrier to earn a reasonable return. The following discussion will treat separately operating revenue deductions and operating revenues, including operating ratios, for the purpose of determining the rate structure to be authorized.

1/ The discussions of The Gray Line, Inc.'s proposed WMATC Tariff Nos. 5 and 6 and the financial statements filed as support for the proposed fares contained in Order No. 1318, served April 11, 1974, are incorporated herein by reference.

I. OPERATING REVENUE DEDUCTIONS

For purposes of forecasting the operating expenses to be incurred by Gray Line during the proposed rate year of May 1974 through April 1975, the actual operating expenses during the calendar year 1973 were submitted. The use of an historical period which precedes the future rate year by four months is acceptable in this instance. Gray Line has supplemented the record with relevant financial data for the first quarter of 1974. The future rate year does not have to conform to the same time frame as the historical period. Therefore, the historical period used by the Commission is the calendar year 1973 and the future rate year is May 1974 through April 1975.

A summary of the financial information submitted by Gray Line is set forth in Appendices A and B, attached hereto. Appendix A is a summary of the comparative income statements for the historical period and the future rate year under both the present fares and the proposed fares, and includes the operating revenues and operating revenue deductions found to be proper by the Commission. Appendix B is a more detailed statement of the operating expenses embodied in Appendix A. Several of the items contained in Appendix B require explanation.

Drivers' Wages

Gray Line has projected an increase of $112,850 in drivers' wages for the future rate year. This increase is the result of two factors. First, Gray Line has entered contracts to provide specialized service to persons commuting between several points in the Metropolitan District. Gray Line estimates that the labor cost of performing this new service would be $45,500 in the future rate year. Second, Gray Line is obligated by contract with its drivers to pay increasing wages during the future rate year. Gray Line has projected a 10.6 percent increase in the wage levels.

The level of wages is a result of two provisions of the wage contract. The agreement provides for fixed increases at stated points in time and provides for increases as the result of changes in the cost-of-living index for the Washington, D. C., area. Gray Line contended that the cost-of-living increases in the future rate year would be the same as the most recent increase of 18¢ per hour. The following table sets forth the wage levels at the fixed dates for changes, the contract increases of 9¢ per hour, and the estimated cost-of-living increases of 18¢ per hour.

TABLE I
PROJECTED WAGE LEVELS

Date	Contract	Contract And Cost-of-Living
5-1-74	$5.89-1/2	$5.89-1/2
5-15-74	5.89-1/2	6.07-1/2
8-15-74	5.89-1/2	6.25-1/2
11-1-74	5.98-1/2	6.34-1/2
11-15-74	5.98-1/2	6.52-1/2
2-15-75	5.98-1/2	6.70-1/2

During the historical period of the calendar year 1973, the weighted average of Gray Line's drivers' wages was $5.31 per hour. The projected wage with contract increases would be an average of $5.94 per hour and with contract and projected cost-of-living increases would be an average of $6.36 per hour. Comparison of these averages indicates that the projected wage, considering only contractual increases and not cost-of-living increases, is 11.86 percent more than the historical period wage. The Commission finds that the projected wage expense is reasonable because it properly reflects the projected contractual obligation of Gray Line. Moreoever, the Commission need not and does not consider any aspect of the cost-of-living increases projected by Gray Line.

Diesel Fuel

As part of the basis for projecting operating revenues and operating expenses, Gray Line assumed that the level of passengers transported and miles operated during the historical period would occur in the future period. Also, Gray Line projected that the new commuting service would involve 18,720 miles of operation. Based on its current cost for diesel fuel of 34.6¢ per gallon, District of Columbia tax of 8¢ per gallon, and Federal tax of 4¢ per gallon, Gray Line's projected fuel expenses is projected herein to be $103,497 in the future rate period. This amount is $887 less than the projected amount submitted by Gray Line on the basis of a minimum pre-tax cost of 35¢ per gallon. The Commission finds that $103,497 is a reasonable projection of future fuel costs because it is based on a rational assumption as to operating miles and on the current price of fuel.

Commissions

Gray Line uses agents to sell per capita sightseeing tours and race track tickets. These agents are paid on a commission basis of 30 percent and 10 percent of gross sales, respectively. However, these Gray Line services also are sold by its employees. Gray Line represented to the

Commission that in the historical period, the commissions paid to agents selling per capita sightseeing was approximately 20 percent of the total per capita sightseeing revenues and the commissions paid to agents selling race track tickets was approximately 5 percent of the total race track revenues.

The projection of increases in commission expenses is necessarily dependent upon the projection of revenues. For the purpose of projecting the commission expense, the revenue projections by Gray Line have been accepted. The per capita sightseeing revenue is projected as increasing from $1,485,276 to $1,678,743, or by $193,467. The commission expense would increase by 20 percent of this latter amount or by $38,693. The race track revenue is projected as increasing from $281,113 to $323,332, or by $42,219. The commission expense would increase by 5 percent of this latter amount or by $2,111.

The Commission finds that the commission expense will increase by $44,330 in the future rate period. The commission expense in the historical period was $259,600. Accordingly, the commission expense in the future period will be $303,930.

The Commission believes that one additional matter should be mentioned with respect to this expense. The amount of commission expense is dependent upon the amount of revenues. It is clearly evident that as the revenues increase the commission expense increases. Thus, the approval of a higher fare structure generates greater revenues for the same operations and necessarily results in a higher commission expense without any noticeable improvement in the service being provided the public by Gray Line. Also, the fare structure is prescribed on the basis of operating revenue deductions. Thus, the greater the operating expense the higher the fare structure and the higher the fare structure the greater this operating expense. It is this form of interrelationship between revenues and expenses which the Commission believes is not in the public interest. This matter currently is being considered in a separate proceeding involving the manner in which transportation services are sold to the public.

Insurance and Safety

Gray Line submitted that its insurance expense is approximately $2.30 per $100 of revenue. For the purpose of projecting insurance expense, the Commission shall accept Gray Line's projection of revenues. Gray Line has projected an increase of $474,181 in revenues. Accordingly, the insurance expense will be projected as increasing by $10,906, from $62,949 to $73,855. The Commission finds that this projection is reasonable and supported by the record.

The Commission is of the opinion that the other operating expenses have been properly projected and that the amounts should be accepted. The projection of total operating expenses of $2,917,814 for the future rate period will be used by the Commission in determining a reasonable and just fare structure.

An additional item which is included as a revenue deduction is income taxes. See Compact, Title II, Article XII, Section 6(a)(4). The amount of income taxes to be paid by a carrier is difficult to determine. However, Gray Line paid 51.12 percent of its operating income in income taxes in the historical period and projected that 51.12 percent of its operating income in the future rate period would be paid in income taxes. The Commission is of the opinion that the use of 51.12 percent to determine the income tax liability is justified by the record.

II. OPERATING REVENUES

Gray Line has projected future revenues upon the assumption that the same number of passengers would be carried, the same number of hours would be involved in operations, and the same number of miles would be traveled in the future period as during the historical period. These assumptions are basic to any projection of revenues and revenue deductions. Initially, the current costs are used to determine the projected operating expenses. Then a projection of revenues is made which would be sufficient to cover the operating expenses and capital costs and to provide a margin of profit.

The Commission is of the opinion that the proposed fare structures for charter operations are not just or reasonable and may be unduly discriminatory or unduly preferential either between riders or sections of the Metropolitan District. The following tables set forth the present fares, proposed fares, and dollar difference between vehicle passenger capacity classifications for regular charter operations and group sightseeing and charter transfers. The Commission believes these fares are unreasonable and unjust.

TABLE II

Vehicle Passenger Capacity	Hourly Rate Present Fare	Hourly Rate Proposed Fare	Dollar Difference By Passenger Capacity
A. Regular Charter Operations			
38-43 passenger	$14.00	$16.50	---
44-49 passenger	15.00	19.00	$2.50
53 passenger	16.00	22.00	3.00
B. Group Sightseeing Charter			
38-43 passenger	$19.00	$19.00	---
44-49 passenger	19.00	21.50	$2.50
53 passenger	19.00	24.50	3.00

TABLE III
TRANSFER CHARTER
(between any two points in
downtown Washington, D. C., one-way)

Vehicle Passenger Capacity	Trip Rate Present Fare	Trip Rate Proposed Fare	Dollar Difference By Passenger Capacity
38-43 passenger	$36.00	$38.00	---
44-49 passenger	36.00	42.00	$4.00
53 passenger	36.00	44.00	2.00

As the tables clearly illustrate, the proposed fares involve different amounts of increases between classes. The regular charter rate for a 44-49 passenger vehicle is $2.50 per hour more than a 38-43 passenger vehicle and the charter rate for a 53 passenger vehicle is $3 per hour more than a 44-49 passenger vehicle. For group sightseeing, the charter rate for a 44-49 passenger vehicle is $2.50 per hour more than a 38-43 passenger vehicle and the charter rate for a 53 passenger vehicle is $3 per hour more than a 44-49 passenger vehicle. The transfer charter rate for a 44-49 passenger vehicle is $4 per trip more than a 38-43 passenger vehicle but the transfer charter rate for a 53 passenger vehicle is only $2 per trip more than a 44-49 passenger vehicle.

The Commission is of the opinion that the record adequately supports the conclusion that the dollar amount of difference between vehicle capacity classes is not justified by the cost of owning or operating the different size vehicles. Therefore, the Commission finds that the proposed fare structures for regular charter and group sightseeing charter and for charter transfer (one-way) between any two points in downtown Washington, D. C., are unjust or unreasonable and may be unduly discriminatory or unduly preferential either between riders or sections of the Metropolitan District. Pursuant to the mandate of the Compact, Title II, Article XII, Section 6(a)(2), the Commission shall prescribe new fare structures for each of the several charter operations.

Although the record does not disclose the number of hours for each vehicle classification for regular charter service or group sightseeing charter service, the Commission believes a reasonable estimate may be made. The record indicates that 44-49 passenger vehicles primarily are used to provide each of these services. Assuming that 38-43 passenger vehicles and 53 passenger vehicles were used an equal amount of the time to provide regular charter service, the division of the revenues generated in the historical period for each service by the hourly charge for a 44-49 passenger vehicle would indicate the number of hours that each service was operated during the historical period. The result of this division is an estimate that 16,361 hours were involved in regular charter operations and that group sightseeing operations involved an estimated 16,061 hours.

In order to prescribe the appropriate fare structure, the Commission has determined that the revenues projected by Gray Line for the future rate year should be divided by the estimated hours of operations during the historical period. The results of this division are hourly charges of $17.81 for regular charter and $21.51 for group sightseeing. The hourly charges determined herein shall be rounded to $18 for regular charter and $21.50 for group sightseeing charter. This rounding will facilitate the collection and recordation of fares without unreasonably or unjustly increasing the hourly charge for the service.

The current hourly charge for regular charter operations varies among the several vehicle classifications. The difference between the vehicle capacity classifications is $1. The Commission shall prescribe a fare structure with the same $1 differential. Thus, the hourly charges for regular charter service shall be $17 for a 38-43 passenger vehicle, $18 for a 44-49 passenger vehicle, and $19 for a 53 passenger vehicle. However, the current hourly fares for group sightseeing charter are the same for each vehicle classification. The Commission shall prescribe a fare structure which has a fixed hourly charge for all vehicles used to provide this service.

The fare charge for transfers between any two points in downtown Washington, D. C., is assessed per trip. The number of trips involved in this operation during the historical period can be determined by dividing the total revenue from this service during the historical period by the applicable fare charge per trip. The result of this division indicates that Gray Line conducted 11,192 such trips during the historical period.

In order to prescribe the appropriate fare structure for the future rate year, the Commission has determined that the revenue projection by Gray Line should be divided by the estimated number of trips during the historical period. The result of this division would be a per trip fare of $41.47. The Commission finds that a fare charge of $41.50 per trip is just and reasonable. This fare charge shall apply to each of the several vehicle sizes used by Gray Line to provide this service.

The effect of rounding the charges contained in the charter operations is an increase in the revenues projected for the future period. At an hourly charge of $18 for 16,361 hours, the revenue projection for regular charter operations would be $294,498. The prescribed hourly charge herein for group sightseeing charter is $21.50 and the projected number of hours is 16,061. Thus, this operation is projected as generating $345,312 in revenues. The projection of revenues from charter transfers would be $464,468.

The Commission finds that the amount of revenue projected by Gray Line as a result of its proposed rate structure, as modified herein by the Commission's prescription of fare structures for the several charter operations, is necessary to enable Gray Line to cover operating expenses and capital costs. The projected amount of revenue is $3,210,126. The projected revenue deductions 2/, including income taxes, determined by

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2/ The Commission has decided that a further adjustment to revenue deductions is not essential to its determination of a proper rate structure herein. In particular, the revenue projection by the Commission is $3,389 larger than Gray Line's projection. As previously indicated, insurance expense is a function of revenues in that for each $100 of additional revenues the insurance expense is increased by $2.30. Therefore, the operating expense of insurance and safety would be increased by $78 and the operating revenue deductions in the category of income taxes would be decreased by $40.

the Commission are $3,067,244. The amount of net carrier operating revenue would be $142,882, or a rate of return of 4.45 percent and an operating ratio of 95.55 percent. The net operating revenue must be applied to the service of debt which Gray Line projects as being $82,855 on principal and approximately $8,000 in interest payments. Thus, the profit remaining would be $52,027.

THEREFORE, IT IS ORDERED:

1. That Application No. 833 of The Gray Line, Inc., for approval of WMATC Tariff No. 5, naming per capita fares for passengers, during the officially scheduled racing season, between Washington, D. C., and specified race tracks in Maryland, be, and it is hereby, granted.

2. That Application No. 833 of The Gray Line, Inc., for approval of WMATC Tariff No. 6 cancelling its current WMATC Tariff No. 4 with respect to charter operations and special operations on round trip sightseeing or pleasure tours be, and it is hereby, denied.

3. That The Gray Line, Inc., be, and it is hereby, authorized to file WMATC Tariff No. 6 cancelling WMATC Tariff No. 4, in lieu of the proposed WMATC Tariff No. 6, containing the following fare structures.

CHARTER OPERATIONS

Regular

Hourly Rate:	
38-43 passenger	$17.00
44-49 passenger	$18.00
53 passenger	$19.00
Mileage Rate:	
38-43 passenger	$ 0.90
44-49 passenger	$ 0.95
53 passenger	$ 1.00

Transfers

Transfer between Washington National Airport (one-way) per coach	$46.00
Transfer between any two points in downtown Washington, D. C., (one-way) per coach:	
38-43 passenger	$41.50
44-49 passenger	$41.50
53 passenger	$41.50

Group Sightseeing

Hourly Rate:	
38-43 passenger	$21.50
44-49 passenger	$21.50
53 passenger	$21.50

SPECIAL OPERATIONS

Tour

All Day Deluxe	$23.00
Interior of Public Buildings	$10.00
D. C. and Arlington National Cemetery	$10.00
Mt. Vernon and Alexandria, Virginia	$11.00
Embassies and Churches	$10.00
Nite Tour - D. C.	$10.00

4. That The Gray Line, Inc., be, and it is hereby, authorized to file two copies of WMATC Tariff No. 5 cancelling WMATC Tariff No. 4, as set forth in ordering paragraph 1. hereof, and two copies of WMATC Tariff No. 6 cancelling WMATC Tariff No. 4, as set forth in ordering paragraph 3. hereof. Each tariff shall become effective on three (3) days' notice.

BY DIRECTION OF THE COMMISSION:

WILLIAM R. STRATTON
Vice Chairman

APPENDIX A

THE GRAY LINE, INC.

Comparative Income Statements

	Calendar Year 1973	RATE YEAR (5/1/74 to 4/30/75) PRESENT FARES	PROPOSED FARES	PRESCRIBED FARES
OPERATING REVENUES:				
Sightseeing-Per Capita	$ 1,485,276	$ 1,485,276	$ 1,678,743	$ 1,678,743
Sightseeing-Group	305,153	305,153	345,433	345,312
Transfers	402,899	402,899	464,140	464,468
Racetrack	281,113	281,113	323,332	323,332
Charter	245,422	245,422	291,316	294,498
Commuter Service	-	91,080	91,080	91,080
Other	12,693	12,693	12,693	12,693
TOTAL OPERATING REVENUES:	$ 2,732,556	$2,823,636	$ 3,206,737	$ 3,210,126
OPERATING EXPENSES:				
Maintenance	$ 288,632	$ 300,899	$ 300,899	$ 300,899
Transportation	1,206,436	1,369,610	1,378,131	1,377,244
Station	298,357	299,678	340,389	344,008
Traffic,Soliciation & Advertising	235,429	254,189	254,189	254,189
Insurance & Safety	62,949	64,943	73,739	73,855
Taxes & Licenses	124,776	145,562	148,110	148,110
General & Administrative	302,255	317,416	317,416	317,416
Depreciation	64,930	69,993	69,993	69,993
Operating Rents	29,346	32,100	32,100	32,100
TOTAL OPERATING EXPENSES	$2,613,110	$2,854,390	$2,914,966	$ 2,917,814
INCOME TAXES	$ 56,547	$ -	149,153	149,430
TOTAL REVENUE DEDUCTIONS	$2,669,657	$2,854,390	$3,064,119	$ 3,067,244
NET CARRIER OP.REVENUE	$ 62,899	[$ 30,754]	142,618	142,882
OPERATING RATIO (percent)	97.7	101.09	95.55	95.55
RATE OF RETURN (percent)	2.3	[1.09]	4.45	4.45

APPENDIX B

THE GRAY LINE, INC.

COMPARATIVE STATEMENT
OF
OPERATING EXPENSES

	Calendar Year 1973	RATE YEAR (5/1/74 to 4/30/75) PRESENT FARES	PROPOSED FARES	PRESCRIBED FARES
Drivers' Wages	$ 634,999	$ 747,849	$ 747,849	$ 747,849
All Other Salaries & Wages	471,261	507,027	507,027	507,027
Payroll Related Items	122,117	138,591	138,591	138,591
Diesel fuel & fuel items	54,877	104,384	104,384	103,497
Tires & Tubes	19,545	22,166	22,166	22,166
Additives	381,642	381,642	390,163	390,163
Commissions	259,600	259,600	300,311	303,930
Gray Line Association Dues	19,674	26,024	26,024	26,024
Insurance & Safety	62,949	64,943	73,739	73,855
Depreciation	64,930	69,993	69,993	69,993
Rents	29,346	32,100	32,100	32,100
Licenses & Gross receipts taxes	30,840	38,741	41,289	41,289
Other Expenses	461,330	461,330	461,330	461,330
TOTAL OPERATING EXPENSES	$2,613,110	$2,854,390	$2,914,966	$2,917,814