BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D.C.

ORDER NO. 385

IN THE MATTER OF: Served September 11, 1964

Amortization of the Balance)
in the Acquisition Adjustment)
Account, D. C. Transit System,)
Incorporated.)

The Acquisition Adjustment Account on the books of D. C. Transit System, Incorporated, has been, and is now being, amortized against current operating expenses at the rate of $85,738.29 per month. This is a reduction against operating expenses representing the net effect of two acquisitions. The major item arose upon the inception of D. C. Transit System, Incorporated, at August 15, 1956, and represented the excess of the book value of the assets of Capital Transit Company over the purchase price, in the amount of $10,339,041.19; this is being amortized over a ten-year period. The second item involves the excess of purchase price over book value of the assets of the Intercounty Bus Line in 1960, in the amount of $82,397.00. This latter amount is being amortized over the remaining life of the D. C. Transit franchise (to August 15, 1976).

The major portion of the Adjustment being amortized, then, will be fully written-off by August 15, 1966, at which time operating expenses for financial statement purposes will automatically rise by $1,033,904.12 per year, or $86,158.67 per month. The portion of the Acquisition Adjustment Account which originated August 15, 1956, was amortized down to $2,713,998.31 by January 1, 1964. This balance is subject to further adjustment for a tax settlement and other costs directly related to and part of the Acquisition agreement, in the amount of $194,539.37, leaving $2,519,458.94 to be amortized.

The Commission has been seriously concerned about the projected impact of the abrupt termination of the amortization credit on August 15, 1966. On the basis of gross revenues of $31,000,000 per year, the cessation of the monthly entry for the Acquisition Adjustment would decrease the Company's calculated net operating profits by three and one-third percent. This could possibly generate a need for an increase in fares at that time. In order to prevent this eventuality, if possible, the Commission assigned to its staff the task of devising alternative solutions to this problem. The Commission also requested from the Company all available data which it had pertinent to this matter. Such data was received by the Commission, and made a part of its study.

The one indisputable fact is that, just as the $82,397 Acquisition Adjustment Debit of 1960 is eventually chargeable to the ratepayer, so is the $10,339,041.19 Acquisition Adjustment Credit of 1956 subject to eventual credit to the ratepayer. A major question is that of how to schedule the amortization of the Acquisition Adjustment credit so as to cause the least detrimental impact from the discontinuation of the annual credit of $1,033,904.12. Another facet of the entire problem is the determination of the date at which adjustment, if any, should commence.

The Commission staff has related the balance in the Acquisition Adjustment Account to the properties acquired on August 15, 1956, which are still in service and subject to depreciation at their original cost. The staff then projected retirement dates for these properties and calculated an amortization schedule based on such projections, cutting off at August 15, 1976, as the expiration date of the franchise. This produced an uneven and constantly reducing amount of amortization per year; it also would be subject to change as projected retirements materialized earlier or later than scheduled. These characteristics are the major disadvantages of this plan of amortization; they could be avoided, and the recurring credits smoothed out, if the amortization were placed on a straight-line basis.

As to the question of the date at which an adjustment should commence, the earlier the change is effected, the more credit balance remains to inure to the benefit of future ratepayers.

FINDINGS

The Commission, having carefully considered the question of the rate of amortization of the Acquisition Adjustment Account balance on the books of D. C. Transit System, Incorporated, and after studying the data developed by the Commission's staff as well as all the information supplied by the Company, finds and concludes that:

1. It is in the public interest to avoid the abrupt change in net operating revenue beginning on and after August 16, 1966, which will occur unless action is taken to change the amortization rate of the Acquisition Adjustment Account balance.

2. The greater the amount that can be spread over future periods, the greater will be the benefit to future ratepayers; accordingly, the maximum amount to be equalized over future periods, without opening financial periods already closed by the Company, can be attained by making the adjustment effective for the full calendar year 1964 and thereafter.

3. The most equitable and effective means of equalizing the impact of the Acquisition Adjustment on each succeeding year's ratepayers is to amortize the balance equally each month over the remaining life of the franchise under which D. C. Transit System, Incorporated, is operating.

4. Changing the amortization rate for that portion of the Acquisition Adjustment Account which originated August 15, 1956, to extend to August 15, 1976, will, if commenced in the calendar year 1964, result in a net credit of $16,630.09 per month for 151.5 months, against the balance to be amortized of $2,519,458.94.

ORDER

THEREFORE, IT IS ORDERED:

1. That D. C. Transit System, Incorporated, shall adjust its books to reflect the amortization of the balance in its Acquisition Adjustment Account in equal monthly amounts over a period of 151.5 months, beginning January 1, 1964, and extending to August 15, 1976, unless and until ordered otherwise.

2. That this Order shall become effective thirty (30) days after the date of issuance hereof.

BY DIRECTION OF THE COMMISSION:

Delmer Ison

DELMER ISON
Executive Director