BEFORE THE

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 452

IN THE MATTER OF: Served March 10, 1965

Application of Washington, Virginia and Maryland Coach Company, Inc., for Increase of Fares.	))))	Application No. 296 Docket No. 72

By Hooker, Chairman, and Storm, Commissioner. Duke, Vice-Chairman, did not participate in the hearing or decision.

APPEARANCES:

MANUEL J. DAVIS, Attorney for Washington, Virginia and Maryland Coach Company, Inc., Applicant.

STEFAN C. LONG, Attorney for Arlington County Board, intervenor.

DONALD C. CROUNSE, Attorney for Fairfax County Board, intervenor.

RICHARD G. D'ANTONIO, pro se, intervenor.

J. HOWARD FLINT, JR., pro se, intervenor.

JAY E. SHANKLIN, pro se, intervenor.

RUSSELL W. CUNNINGHAM, General Counsel, Washington Metropolitan Area Transit Commission.

This proceeding arose upon the filing by the Washington, Virginia and Maryland Coach Company, Inc., (hereafter sometimes W. V. & M. or Applicant), of WMATC Tariff No. 21, cancelling WMATC Tariff No. 7, and WMATC Tariff No. 22, cancelling WMATC Tariff No. 4. The Tariffs were supported by the requisite application and supporting data. The Tariffs propose a five-cent increase in all interstate fares between Washington, D. C., and Northern Virginia, up to and including the Company's Fare Zone No. 6, except certain children's fares. The proposed effective date was January 31, 1965.

The Commission suspended the Tariffs and deferred the use of the fares stated therein until May 1, 1965. Notice of the application and hearing was given in compliance with the Commission's requirements.

A hearing on this matter was held on March 1, 1965. The evidence adduced at the hearing consisted of 196 pages of transcript and 26 exhibits. Two witnesses testified for the Applicant, two for the Staff of the Commission, and one for the Arlington County and Fairfax County Boards. Three bus riders appeared and testified. In addition, the file contains 28 letters and petitions from other bus riders, generally protesting any increase in fares until service improvements are made.

Applicant also has filed an application with the Virginia State Corporation Commission for a five-cent (5¢) increase in each of its Virginia intrastate fares except children's fares in certain zones. For the base year, November 1, 1963, to October 31, 1964, revenues from Virginia intrastate passengers were twenty-five percent of W. V. & M.'s total revenues realized from its regular route passenger service. The evidence of record in this case includes revenue projections from both interstate and intrastate operations. In determining total revenue projections for the future rate year it was necessary to take into consideration the decision of the Virginia State Corporation Commission in connection with the application before it. In order to give proper consideration to this matter, this decision is being rendered concurrently with the decision of that Commission.

Witness Wheeler, General Manager of W. V. & M., described the Applicant's Tariffs, operating authority, and the extent of its operational system. He explained the traffic survey made on certain days of November and December, 1964, to determine the number of passengers riding the buses in each fare zone. He testified that W. V. & M. had entered into a new wage agreement with its operators on November 30, 1964. The immediate impact was an increase in the basic rate for operators of six cents an hour through March 27, 1965, then an additional increase thereafter of six cents an hour through May 1, 1965; three cents an hour increase through June 26, 1965; nine cents an hour increase through November 27, 1965, and nine cents an hour increase through February 5, 1966, and five cents an hour increase beginning February 6, 1966.

Witness DeStefano, President of W. V. & M., gave testimony relating to the revenues and expenses of the test year and the projected future period, under present fares and proposed fares. He presented a detailed list of equipment (Ex. No. 13). He described how W. V. & M. used the results of its traffic survey to estimate future revenues, and volunteered a reduction in expense of $30,147, which altered its operating ratio, under the proposed fares, from 94.22 percent to 93.86 percent.

The Chief Engineer of the Commission, C. W. Overhouse, gave a report on service and operations of W. V. & M. He made five recommendations for improvements in service, including additional rush hour service on several lines, availability of tokens and interline tickets on the Dulles Airport route, establishment of an Interstate Zone 5 on Route 8-G, that Zone 1 fares be equal to the A. B. & W. Transit fare, and that W. V. & M. purchase at least twenty (20) new, air-conditioned buses and place them in service before or during July, 1965, and the addition each year thereafter of new, air-conditioned buses of a number equal to one-twelfth (1/12) of the buses in its fleet in order to provide a reasonable and adequate standard of service.

Mr. Overhouse presented evidence that, under the proposed fare, W. V. & M. would realize a total revenue of $4,119,539. W. V. & M. estimated total revenues of $4,187,123. The difference in revenue estimates was due to the different methods of estimating the number of passengers to be carried. W. V. & M. took the November and December passenger counts and annualized them. Overhouse used the counts to determine the percentage of passengers by fare classifications, related it to the historical year and then projected the resultant passengers to the future year without any provision for loss of passengers due to fare resistance. Further, Overhouse took into account a loss in revenue due to a reduction in service on the Dulles Airport Route.

The Chief Accountant of the Commission, M. E. Lewis, testified that he had made a thorough audit of the books of the Applicant and, after analysis, had made adjustments of the Applicant's future period figures. The first adjustment resulted in a decrease in net income of $16,222, as the Applicant, in his opinion, understated the projection of drivers' hours in the amount of $33,398, and overstated wage costs in cost-of-living adjustments in the amount of $17,174.00.

The second adjustment related to Account 4100, Equipment Maintenance and Garage Expense, where Mr. Lewis eliminated $10,524 as a nonrecurring cost of painting buses and decal designs to reflect its parent's colors. He also deleted $13,006 which was the non-wage portion of increase in that account projected by W. V. & M., because there was no basis to project such an increase. He also added $1,891 for tires and tubes because of the added miles. The total difference for this account between W. V. & M. and the Staff was $21,639.00.

Account 4200, Transportation Expense, was decreased by $31,965, mainly because of reduced fuel costs. Adjustments in Account 5200, Operating Taxes, decreased expenses by $6,526. A major adjustment was made in Account 4500, Insurance; the Commission witness reduced the Company estimate by $25,368 to give effect to expected retrospective refunds of premiums.

The final adjustment was in the calculation of income taxes. Mr. Lewis stated that his adjustments reflect previous expressions by this Commission on this subject (A. B. & W. Transit Company Fare Application, Order 369, June 22, 1964). He suggested, however, that if normalization be used, the Applicant's books should mirror this fact by a Reserve for Deferred Taxes (a suggestion concurred in by Witness DeStefano).

Finally, the witness calculated the annual cost of twenty (20) new buses at $42,607, assuming that the new buses would replace old gasoline buses, with a concomitant savings per year in fuel of $9,093.00.

Total Staff adjustments indicate a net operating income, after taxes, under the proposed fares, of $286,470; and $265,422, if twenty (20) new buses are acquired.

Witness Charles Hammond testified on behalf of the intervening County Boards. He stated that their basic concern was with the state of equipment used to provide the transportation and submitted exhibits to illustrate the age of some of the equipment, (Ex. No. 23), and how it compared with a transit company comparably situated in the area, (Ex. No. 24). He further illustrated how, in his opinion, the cost of twenty-nine (29) new buses could be offset by reduced expenses of a corresponding number of old buses.

Witness Richard D'Antonio, a bus rider, stated that he opposed the fare increase. He felt the proposed fares would discourage use of the service, and that no change in fares was needed, because of the presence of certain factors, namely, that there is an increase in population and redistribution of employment centers in the suburban area which will generate a reverse flow of traffic, and materially increase the revenues and efficiencies of W. V. & M., and that the increase in highway construction would add to W. V. & M.'s business. He further complained that the fare zones should be adjusted to remove any inequities.

Witness Howard Flint, also a bus rider, stated that despite frequent complaints, service has not improved, but has, to the contrary, actually regressed in the sixty days prior to the hearing.

Witness Jay E. Shanklin, a bus rider, appeared at the beginning of the hearing and was permitted to intervene. He was unable to remain to make a sworn statement he had previously requested to make. Subsequently, on March 9, 1965, he submitted a written statement, a copy of which has been lodged in the file.

He voiced opposition to the proposed increases until substantial improvements in service were made. Of the six factors presented in the statement, Numbers 2, 5, and 6 were service improvement suggestions. Number 1 suggested an improvement in the capital structure of the Applicant. Number 3 suggested the need for new buses, and Number 4 alleged inequities in the outer fare zones.

There was no disagreement as to the book revenues and operating expenses of the Applicant for the base year, November 1, 1963, to October 31, 1964, as adjusted after audit by the Commission Staff, except the provision for income taxes. The net operating income before taxes was $121,218 for that period. The Applicant, using an "imputed" or normalized method, computed its taxes at $60,443 (Ex. No. 12). Staff Witness Lewis used the actual tax per Company's tax return for the full year 1963, which was $10,273.48 and the income tax provision on Company books for the first ten months of 1964, which was none; the tax total was $10,273.48. The operating ratios thus presented equal 98.25 percent under Applicant's calculations and 96.81 percent under the Staff's calculations. As the tax problem exists in determining calculations for the projected future period, comment is deferred until later in this opinion.

FUTURE YEAR - April 1, 1965 to March 31, 1966

The Applicant and the Staff presented exhibits forecasting results of operations for the twelve-month period ending March 31, 1966, assuming (1) no change in fares and (2) under the proposed fares. The latter was amplified by the Staff to show the financial effect that the immediate purchase of the new equipment it recommended would have on W. V. & M.

Applicant Exhibit 16 and Staff Exhibit 22 starkly reveal the difference between the projections of the Applicant and the Staff recommended adjustments. Since all but two of the adjustments apply to both categories of the future year, we will resolve them now.

MILEAGE

The Staff projected 31,778 less miles than the Applicant. The difference lies in the reduction of service to Dulles Airport required by the Commission after the date of filing of the present fare application, offset by the additional mileage resulting from the added service recommended by Mr. Overhouse and acquiesced in by the Applicant. The Staff figures are obviously more accurate and we adopt them.

OPERATING REVENUE

The Staff contended that the Applicant had overstated its operating revenue under the proposed fares by $67,584, because of the manner in which it computed the number of passengers to be carried. The Commission is of the opinion that the method used by Mr. Overhouse is the proper one. Applicant failed to give effect to the fact that the November and December traffic survey days were not representative of the base period, as more passengers are carried on the average in those holiday months.

OPERATING COST

A. Wages. The Staff adjusted this cost upward by $16,222, which is the difference between the cost of the added service and a disallowance of cost-of-living adjustments, which Mr. Lewis felt were speculative and, therefore, not entitled to consideration. Mr. De-Stefano stated that the Applicant based the estimated four-cent increase on the past performance of this factor. He also projected a one-cent per hour cost-of-living adjustment effective January 3, 1965. However, the actual adjustment was just one-half of that. The Commission concludes that while a future cost of living adjustment is possible, it is conjecture to say that it is probable and sheer guesswork to attempt to project a definite amount. The Staff adjustments are adopted.

B. Repainting of Buses. Shortly after the control of W. V. & M. was acquired by D. C. Transit System, Inc., fifty-three of W. V. & M.'s newest buses were repainted to reflect the color scheme of the parent company and new decal designs were placed thereon. It is obvious that this was not an ordinary expense, but one incurred solely to reflect the change in ownership. Therefore, the Commission finds it to be a non-recurring cost and will not consider it for rate-making purposes.

C. Transportation Expense. The Staff reduction amounted to $31,965. As hereinbefore noted, at the hearing the Applicant stated that a new fuel contract would reduce its expense by approximately $30,000. As the Staff computation is detailed, we accept its figure.

D. Employees' Welfare Expense. The Staff added $543 due to the use of a higher payroll base. This adjustment is adopted.

E. Insurance Expense. The Staff adjustment in the amount of $25,368 is accepted, in view of Applicant's history of retrospective insurance refunds during the past five years.

F. Operating Taxes. Staff adjustments here amounted to a decrease of $6,526. They were not controverted by the Applicant and are adopted.

G. Income Taxes. This Commission has previously adopted the policy that a carrier may utilize either the "flow-through" or the "normalization" theory of estimating its income tax, provided that if normalized, the carrier must set up and maintain a Reserve for Deferred Taxes (A. B. & W. Transit Company Fare Application, supra). W. V. & M. opts the normalization method, but has failed to follow the declared Commission policy. The Commission expects that W. V. & M. will confirm its compliance within fifteen (15) days of the issuance of this order.

Staff Witness Lewis adjusted the computed income tax to reflect interest expense as a tax deduction. The Applicant challenges this adjustment on the theory that the interest is a cost borne by the stockholders and one which the bus rider is not asked to pay for. Therefore, it reasons, if the ratepayer bears no part of the debt cost, he should not be credited for the decrease in taxes resulting from the deduction. The Commission has previously noted that it gives full allowance to the total interest cost of the carrier in setting the return allowed (A. B. & W. Transit Company Fare Application, supra). The interest expense is incurred in rendering the transportation service. It must be remembered that any item of expense must be incurred to be considered -- and this includes income tax. The only exception to this is where the legislature has prohibited using tax relief for calculating cost of service (e.g., investment tax credit). The Staff calculation is correct.

It was suggested after the hearing that there is a need for new share capital in the Company, that this situation existed in W. V. & M.'s last fare case, and it has not improved. While there is no evidence in the record concerning this point, the Commission takes notice of its records that a substantial portion of the earnings of the Applicant, since that last proceeding, has been retained, causing an improvement in the capitalization of the Company. It does not now appear to be an immediate problem.

After giving effect to the above discussed adjustments, projected estimates for the future year appear as follows:

	Present Fares	Proposed Fares
Miles	5,258,267	5,258,267
Operating Revenue	$ 3,552,906	$ 4,119,539
Operating Costs	3,639,863	3,639,863
Net Operating Income (Loss) Before Income Taxes	(86,957)	$ 479,676
Income Tax	- -	$ 193,206
Net Operating Income (Loss) After Income Taxes	$ (86,957)	$ 286,470
Operating Ratio	102.45%	93.05%
Rate of Return	- 2.45%	6.95%

SERVICE

The bus companies operating in the Washington area have reversed the national downward trend in transit ridership. One of the major factors in the achievement has been the progressive policy on the part of the majority of the companies to replenish their bus fleet with modern air-conditioned buses on a regular basis. Such a policy is in accord with the announced policy of the Commission in Order No. 59, issued September 7, 1961. W. V. & M. has not, in the opinion of the Commission, replaced its equipment as contemplated by the Commission's policy.

Normally, fare applications generate controversy over revenues and expenses, and the resultant fares. Herein, however, the emphasis of opposition to the proposed fares centered around the standard of service rendered by the Applicant. The thrust of this opposition, and the complaints in relation thereto, all stemmed primarily from the age and condition of Applicant's equipment.

The Commission is not unaware of the tremendous growth of this area, and the concomitant increased demands upon the carriers to keep pace, and their consequent endeavors. The Commission recognized this problem in Applicant's last fare case, and found in its decision therein that Applicant should acquire a minimum of fifteen (15) buses yearly in order to maintain an adequate standard of service and, in addition, approved fares to provide a reasonable return therefor. Unfortunately, Applicant did not acquiesce in this "suggestion".

In exercising its power to prescribe just and reasonable fares, the Compact requires the Commission to:

> "...give due consideration, among other factors, to the inherent advantages of transportation by such carriers; to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed; to the need, in the public interest, of adequate and efficient transportation service by such carriers at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable such carriers, under honest, economical and efficient management, to provide such service." Section 6(2)(3), Article XII.

The Staff has recommended that Applicant be required to purchase twenty (20) new, air-conditioned buses for usage in July, 1965, and the subsequent yearly replacement of a number of buses equal to one-twelfth of its fleet in order to provide a reasonable standard of service.

The Commission is of the opinion and finds that this requirement must be imposed in order to meet the need, in the public interest, of adequate and efficient transportation service at the lowest cost consistent with the furnishing of such service. The estimated annual cost to the ratepayer of the twenty buses is found to be $42,607. The Commission further finds that as it has heretofore established a twelve-year service life for Applicant's buses, W. V. & M. must go on a replacement program to coincide with that depreciation schedule.

Witness Shanklin's suggestions for service improvement go beyond the scope of this fare proceeding. However, the Staff already has them under investigation.

PROJECTED OPERATING RESULTS

As we have found, infra, the continuation under present fares would produce a net operating deficit of $86,957. The Commission finds that the present fares have become unjust and unreasonable and must be set aside.

We further find that the compliance with the twenty-bus purchase requirement will produce, under the proposed fares, a net operating income, after taxes, of $265,422, an operating ratio of 93.56 percent, and a rate of return on gross operating revenue of 6.44 percent. We further find that the additional new equipment, plus the other service improvements hereinbefore discussed, will provide an adequate standard of service upon which the Commission can and does find that the proposed fares are just and reasonable, having given consideration to the inherent advantages of transportation by this carrier, to the effect of the proposed fares upon the movement of traffic by the carrier, to the need, in the public interest, of adequate and efficient transportation service at the lowest cost consistent with the furnishing of such service, and to the need of revenues sufficient to enable the Applicant, under honest, economical and efficient management, to provide such service and maintain its fiscal health. Failure to comply with the Commission order, supra, pertaining to the new equipment, will require the Commission to reconsider its order before it becomes effective.

FARE ZONES

The statute requires that the fares prescribed not be unduly preferential or unduly discriminatory. Intervenor Shanklin offered testimony suggesting that there may be some inequities in the present zone structure of Applicant. This evidence was insufficient in the opinion of the Commission to justify a finding that inequities do exist. The Commission expects the Applicant to keep its zone structure under review and to seek changes therein to correct any inequities that have, or may in the future, develop. There is more to creating proper zones than drawing lines on the map and many factors must be taken into consideration other than mileage. The Staff is directed to inquire into this matter to determine if inequities, in fact, do exist among the various fare zones. Since there is too little evidence to justify a finding that any of the existing zones result in unduly preferential or discriminatory fares, either between riders or sections of the Metropolitan District, the Commission cannot, at this time, order an adjustment in Applicant's fare zones.

THEREFORE, IT IS ORDERED:

1. That Applicant shall place an order for twenty (20) new, air-conditioned, transit-type buses, on or before March 20, 1965, for delivery by July 15, 1965, and that Applicant submit to the Commission, on or before March 20, 1965, a copy of said order, accompanied by confirmation from the manufacturer, as proof of compliance.

2. That beginning in 1966, Applicant shall purchase each year, by July 1, a number of new, air-conditioned buses equal to one-twelfth (1/12) of the number of buses in its fleet.

3. That the present Tariffs, Nos. 7 and 4, be, and they are hereby, cancelled effective 3:59 a.m., Sunday, April 11, 1965.

4. That the proposed Tariffs, Nos. 21 and 22, be, and they are hereby, denied.

5. That new tariffs shall be filed to reflect the findings herein.

6. That Applicant shall post in all of its buses, at least ten (10) days prior to the effective date, appropriate notices indicating all changes in fares pursuant to the authority granted herein.

7. That the fares authorized herein shall become effective at 4:00 a.m., Sunday, April 11, 1965.

BY DIRECTION OF THE COMMISSION:

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Executive Director

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