WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 882

IN THE MATTER OF: Served October 29, 1968

Application of D. C. Transit System, Inc., for Authority to Increase Fares.	)	Application No. 505
	)	
	)	Docket No. 186

On October 18, 1968, we issued Commission Order No. 880, in which we took up the issues raised by the application of D. C. Transit System, Inc. ("Transit") for an increase in fares. We need not review that order in detail. Suffice it to say that after a thorough canvass of the issues we determined that it was necessary to grant D. C. Transit a fare increase which would produce additional passenger revenues of approximately $1,715,801. Putting it another way, we determined in Table II, p. 22, of Order No. 880 that, in the future annual period, the company would obtain passenger revenues of $34,047,169 under present fares. Our review of the company's revenue requirements caused us to conclude that the company should obtain passenger revenues of $35,762,970 during that period. Passenger revenues in this amount, when coupled with all other revenue, including the new school fare subsidy payment now available to the company, would enable it to cover its interest expense and cost of debt service. We felt that this was sufficient for an interim period while we consider the issues involving the riders' fund raised by the court of appeals decisions issued on October 8, 1968.

In Order No. 880, we directed the parties to prepare proposals for fare changes which would produce the additional revenues we found it necessary to authorize. Such proposals were prepared and were aired at a public hearing held on October 25, 1968.

The present intra-District fares are 27¢ cash and 25¢ token, with tokens sold in multiples of 4 for $1.00. In general terms, the changes in intra-District fares discussed at the October 25 hearing may be described as follows:

(1) A straight 28¢ fare at all times;

(2) A straight fare of 30¢ during peak periods and a straight fare of 25¢ during off-peak periods. (There

was considerable discussion as to the hours during which a 30¢ fare would be necessary.)

(3) A more traditional approach which would preserve both a cash and a token fare with a differential in price between them. Two alternatives discussed were a 30¢ cash fare with tokens at 25¢ (4 for $1.00) and a 30¢ cash fare with tokens at 26.25¢ (4 for $1.05).

Before taking up these alternatives in detail, we should discuss the changes required in other fare categories. We believe that the changes originally proposed by D. C. Transit for all other fare categories are appropriate. We had stated in Order No. 880 that two principles must be pursued. First, the burden of the increase should be spread equitably over all classes of riders. Second, we directed that, to ensure that the school fare subsidy payment is applied solely to intra-District fares, adjustments in non-intra-District fares be made as though the subsidy payment were not available to reduce the required amount of farebox revenues. We think that the changes proposed originally by the company meet these standards. These changes principally involve three categories, interstate local, interstate express, and intra-state local fares.

The changes proposed by the company have the very considerable advantage of producing a rational and symmetrical fare for the company's suburban services. In intrastate local service, the fares start out at 30¢, a level which will also be an integral part of intra-District fares. Beyond two zones, which encompasses a distance about equal to an average intra-District ride, in the staff's judgment, the fare increases in 5¢ increments in accordance with distance travelled. In interstate local service, the fare starts out at 40¢, a 10¢ increment for crossing the District line, and increases by distance travelled, initially at the rate of 10¢ per zone, and beyond zone 4 at 5¢ per zone. The interstate express fare has a similar structure, but in every zone is 10¢ higher than the interstate local fare, reflecting the higher grade of service. Thus, each suburban fare category has a rational structure, understandable to the patron. Further the structure of all categories, when each is compared with other categories, whether suburban or intra-District, forms a harmonious whole. We think this is a desirable result in general, and it is particularly so at this time. We have indicated in Order No. 880 that we will shortly be undertaking a cost allocation study as one of the bases for establishing a just, reasonable, and non-discriminatory rate structure. We have no knowledge at present as to what action will be required as a result of that study. However, we are convinced that it is highly desirable to start out the study with a rational, balanced rate structure since this will provide a solid foundation on which to impose any needed changes. Hence, we feel that the changes proposed by D. C. Transit in fares other than D. C. cash and token fares are appropriate, and that the resulting fare structure is one which is just, reasonable, and non-discriminatory, particularly for the period during which we are undertaking a cost allocation study as a further source of data for establishing rates.

The fare raises just discussed will produce additional revenue of about $200,000. This is about 12% of the actual farebox revenues increase of $1,650,000 and about 7% of the total additional revenues, including the school fare subsidy payment. Chairman Avery wishes to note that in some circumstances he would consider that the non-District increases should produce a percentage of the total increase more in line with the 85%/15% breakdown which presently exists between D. C. and non-D.C. fares. He has not so ruled in this proceeding for three reasons:

1. The harmonious rate structure which results from now adopting the changes proposed by D. C. Transit seems highly desirable;

2. Making further changes to bring about the target percentage relationship would shift only about $100,000 of the required increase from D. C. to non-D.C. sources. This relatively small shift would not make possible any reduction in D. C. fares below the level we find hereinafter to be necessary.

3. In any event, the cost allocation study will provide a firmer basis than we have at present for making a judgment as to the validity of the percentage relationship mentioned above. In the meanwhile, the existing relationship will remain essentially undisturbed by our present decision.

We can turn, then, to the question of changes in the D. C. cash and token fares. We have previously noted that the changes we here authorize must produce passenger revenues totalling $35,762,970. The changes we discussed above will produce revenues from all fare categories other than D. C. and token totalling $7,563,872. Thus, we must establish D. C. cash and token fares which will produce revenues of about $28,200,000. As previously noted, we have three proposals before us: a straight 28¢ fare; an on peak/off peak fare differential; a cash/token fare differential. In addition, of course, we might consider any alternative or variation in these which could be justified by the facts of record.

We can eliminate the first alternative quickly. We think that a straight 28¢ fare is too cumbersome, particularly under the exact fare system presently in effect on D. C. Transit. Moreover, we think there are substantial benefits available through maintaining some sort of price differentials for justifiable classes of users.

We can narrow our choice, therefore, to the on peak/off peak differential or the cash/token differential.

We have given serious consideration to the on peak/off peak alternative. It offers many advantages. First, it has sound economic justification in that it reflects the higher costs associated with meeting the burden of peak-level demand. Second, it offers the opportunity, at least, of levelling out the peak to some extent. Third, it provides a means of preserving for a further period of time a 25¢ fare for D. C. riders. On the other hand, it appears that its impact upon the low income group is the subject of some dispute. In fact, the precise nature of this impact can only be a matter for conjecture since there is no way of measuring travel patterns, and particularly potential travel patterns, with precision. Thus, it can be argued on the one hand that a reduced off-peak fare can result in savings for low income persons who are unemployed, or for dependents of employed low income persons. On the other hand, the burden of higher fare during rush hour on those of low income who must travel during that period is obvious.

We think that the true outlines of the problem only begin to emerge when the specific facts are considered. Hence, we will turn to these.

1. <u>What level of fares are we talking about</u>?

In terms of the financial requirements of the company, the only off peak/on peak fare differential which can be considered is a 30¢ fare during peak periods and a 25¢ fare during off peak periods. Higher fares would produce too much revenue and lower fares would produce too little.

2. <u>During what hours would these fares be in effect</u>?

This question was the subject of much discussion at the hearing. The company suggested that the 30¢ fare should apply from 4:00 A.M. to 10:00 A.M. and from 3:00 P.M. to 9:00 P.M. on weekdays and that the 25¢ fare should apply at all other times. The staff suggested that the 30¢ fare apply from 6:00 A.M. to 10:00 A.M. and from 3:00 P.M. to 7:00 P.M. weekdays and the 25¢ fare at all other times. Despite the difference in hours, the resulting dollar revenues projected by the company were essentially the same as those projected by the staff. This was because the company assumed immediate and substantial shifts in ridership from the high fare to the low fare period. Specifically, they argued that 50% of those now riding in the first and last hour of the high fare period would shift and that 25% of those now riding in next-to-first and next-to-last hour of the high fare period would shift. The staff proposal assumed that no such substantial shift in riding would take place. We think the staff has much the better of this dispute. It seems apparent that those who ride buses during the peak period of 6 - 10 A.M. and 3 - 7 P.M. are doing so because they are en route to and from work or on other unavoidable errands and we think that the assumption that substantial numbers of them would shift simply flies in the face of common sense. For instance, it appears highly unlikely that any substantial number of those who now travel between 5 P.M. and 6 P.M. would wait until after 7 P.M. in order to save a nickel. Hence, were we to adopt this proposal, we would authorize the 30¢ fare from 6 A.M. to 10 A.M. and from 3 P.M. to 7 P.M. on weekdays, with a 25¢ fare at all other times.

3. <u>What percentage of passengers would be paying 30¢ and what would the resulting revenues be?</u>

Both the company and the staff based their revenue projections for the on peak/off peak alternative on a study of ridership patterns undertaken by Alan M. Voorhees & Associates in 1966. This thorough survey of ridership patterns produced evidence as to the number of persons who ride the bus during each hour on a normal weekday. Both staff and company agreed that the data were reliable and produced a picture which was confirmed by their own judgment as to riding patterns. Saturday, Sunday and holiday ridership was determined from independent, reliable sources. The data indicated that about 55% of the total number of riders would ride when the 30¢ fare is in effect and that about 45% would ride in the remaining periods, paying 25¢. This rate structure would produce revenues from this source of about $28,160,000, and total passenger revenues of about $35,781,000.

4. <u>What is the actual rate structure necessary if the cash/token differential were adopted?</u>

As a starting point for resolving this question, we believe that a 30¢ cash fare is necessary. The alternatives --28¢ or 29¢ -- are cumbersome and confusing, particularly with the exact fare system now in effect. Moreover, the 30¢ fare is required if the on peak/off peak alternative were to be adopted and to make a valid and sensible comparison with the cash/token alternative we should begin with the same base. Hence, the next question is this: Assuming a 30¢ cash fare, what token fare is necessary in order to produce the necessary revenues? To answer this question, a determination as to the cash/token split at any given differential must be determined.

We began by exploring the possibility of retaining the token rate at 25¢ (4 for $1.00). We were hopeful that this would produce the needed revenues. Unfortunately, we were unable so to conclude. To produce approximately $28,200,000 with a cash fare of 30¢ and a token fare of 25¢ a cash/token split of almost 50/50 is necessary.[1] At present the cash fare is 27¢ and the token fare 25¢ and the split is now 50/50. Therefore, in order to be able to conclude that a 25¢ token rate would suffice, we would have to be able to assume that there would be no substantial change in the existing cash/token ratio. This is an untenable assumption. If the cash fare rose from 27¢ to 30¢ and the differential in price between cash and tokens rose from 2¢ to 5¢, the inevitable result would be a significant increase in token usage from present levels. This is confirmed by the fact that in 1962, when there was a 5¢ differential (cash 25¢, token 20¢) ~~the cash/token split averaged about 74% tokens and 26% cash.~~ Undoubtedly, these levels would not be reached with tokens not as readily available as they were in 1962. However, an assumption that no change would take place in the existing ratio is simply unacceptable. We conclude, then, that the token price must be above 25¢ if the needed revenues are to materialize.

After considering all the evidence and exercising our own judgment as to the probable cash/token split, we have concluded that the revenues required will be produced by a cash fare of 30¢ and a token fare of 26.25¢ (4 for $1.05). We feel that the impact of a cash fare at the 30¢ level, when coupled with an increase in savings on token purchases from the present 2¢ to 3.75¢, will bring the cash/token split back close to the levels which were

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	Present	Rides	Projected Fare	Total Projected Rides After Resistance Factor
D. C. Cash Fare	27¢	35,651,513	30¢	34,653,270
D. C. Token Fare	25¢	68,264,009	25¢	68,264,010
		103,915,522		102,917,280

Split required to arrive at revenue of $28,200,000:
48.3% = 49,709,046 rides at 30¢ = $14,912,714
51.7% = 53,208,234 rides at 25¢ = $13,302,058
$28,214,772

being experienced before the advent of the exact fare system. Specifically, we think that the assumption of a 65% token/ 35% cash split is a valid and acceptable one. At this ratio, the 30¢ cash and 26.25¢ token fare structure would produce revenues from this source of $28,131,384.

With these facts before us, we are in a position to make a sound judgment as to the relative merits of the two alternatives. The on peak/off peak alternative has much merit. It has a sound basis in economics. It offers the possibility of more efficient use of the system. It preserves the 25¢ fare for a further time. It actually offers the possibility of a rate reduction for some riders -- those who now ride in the off peak hours and do not use tokens, paying 27¢.

On the other hand, we are persuaded that the cash/token alternative is the preferable one. We base this conclusion on several reasons.

First, it should be noted that if the on peak/off peak differential is chosen, 55% of the riders will be paying the 30¢ fare. See p. 5, _supra_. With the cash/token differential, however, only 35% of the riders will be paying 30¢. The reason is obvious, of course. The extra 1.25¢ paid by the token user makes it possible to produce the total revenues required with the lower number of persons who will be paying the 30¢ fare.

Second, the option whether to pay the 30¢ fare is, under the cash/token alternative, within the control of the rider. Under the on peak/ off peak alternative, the choice would in many cases, if not most, be forced upon the rider by his need to ride in the peak hour.

Third, we recognize that the cash/token alternative has the disadvantage that the lower fare available is 26.25¢ rather than 25¢. However, the burden this imposes is outweighed, in our judgment, by the greater number of persons to whom the lower fare is available. The burden of this change from 25¢ to 26.25¢ is not overwhelming. For a person who rides 10 times each week, it amounts to only $6.50 in a year.

In sum, we believe that an alternative which requires about 20 million more passengers annually to pay a 30¢ fare, in most cases due to circumstances they cannot control, should not be preferred to an option which avoids this result. This is particularly so when the lower fare is available to all who wish to choose it and when it is not higher to a burdening degree than the lower fare available under the first alternative. We will, therefore, authorize an intra-District fare structure of 30¢ cash and 26.25¢ tokens, with tokens to be sold in multiples of 4 for $1.05.

One additional fare category requires comment, i.e., the interline ticket. When such tickets are used on D. C. Transit buses at present, the company receives an additional 5¢ payment from the rider. They propose raising this payment to 10¢. This would reduce the savings from use of an interline ticket in most cases to minimal levels. We believe that the interline ticket offers substantial benefits from the standpoint of maximizing the use of public transit and we are loathe to take a step which will practically eliminate those benefits. Hence, we will retain the present additional charge levied by D. C. Transit for use of an interline ticket.

Our conclusions on fare structure, therefore, are these: The increases proposed by D. C. Transit for Maryland intrastate, interstate local, Capitol Hill Express, interstate express and stadium service should be granted. The D. C. cash fare should be 30¢ and the token fare should be 26.25¢, with tokens sold in multiples of 4 for $1.05. The additional charge for use of an interline ticket should remain at 5¢. The fares in effect prior to this Order, the proposed fares, and the fares authorized herein are tabulated in Appendix A to this Order. With the fares we here authorize, we project the following results in the future annual period:

Projected Operating Statement
At Fares Prescribed by the Commission

Operating Revenues:		
Passenger Revenue		$35,695,256
Charter		2,104,578
Government Contracts		125,305
Station and Vehicle Privileges		171,904
Other		68,412
Total Operating Revenues		$38,165,455
Schoolfare Subsidy (7,145,551 rides at 16¼¢)		1,161,152
Total Revenues		$39,326,607
Operating Revenue Deductions:		
Operating Expenses	$34,367,584	
Taxes, Other than Income Taxes	1,303,702	
Depreciation	2,475,154	
Amortization of Acquisition Adjustment	(194,516)	
Total		37,951,924
Net Operating Income		$ 1,374,683

It should be noted that, in the foregoing table, the school fare subsidy payment is shown at $1,161,152 rather than the $1,100,000 discussed in Order No 880, p. 45. This is because, with the fare changes here authorized, the lowest adult fare becomes 26.25¢. Since the subsidy payment is based on the difference between the school fare and the lowest adult fare, the subsidy payment will now be 16.25¢ per child carried, rather than the 15¢ previously applicable.

As demonstrated by the foregoing table, these fares will enable the company to operate at a viable level, recovering its operating expenses and covering debt service while we give consideration to the issues involving the riders' fund arising from the recent decisions by the court of appeals. The net operating income of $1,374,683 will be used to meet interest expense totalling $1,346,000 in the future annual period.

FINDINGS OF FACT

We have stated our findings of fact on the issues in this proceeding in Order No. 880 and in the foregoing discussion in this Order.

CONCLUSIONS OF LAW

The Commission reached the following pertinent conclusions of law in Order No. 880:

1. That the present fare structure of applicant is unjust and unreasonable in that it will not produce sufficient revenues in the future annual period to enable the carrier to meet operating expenses and earn a reasonable return, thus imperiling the company financially.

2. That the issues regarding a riders' fund raised by the opinion of the U. S. Court of Appeals in Williams v. WMATC, require that no return on equity be allowed for the time being.

3. That a just and reasonable fare structure on an interim basis would be one which produces gross revenues, before the school subsidy payment, totalling $38,233,169 in that such revenues would enable the company to cover operating expenses and the cost of debt service.

4. That the fares proposed by applicant would be unjust and unreasonable in that they would produce gross revenues in excess of the amount set forth in paragraph 3 above.

The Commission here reaches the following additional conclusion of law:

1. That the fares authorized by this Order are, pursuant to the provisions of Article XII, Section 6(b) of the Washington Metropolitan Area Transit Regulation Compact, found to be just, reasonable, not unduly preferential nor unduly discriminatory either between riders or sections of the Metropolitan District, particularly in light of the issues pending as a result of the decisions of the court of appeals rendered on October 8, 1968, in Docket Nos. 20,200; 20,201; 20,202; 20,714; 20,744; 21,029; and 20,988, and particularly pending the results of a cost allocation study to be undertaken by the Commission.

THEREFORE, IT IS ORDERED:

1. That the fares proposed by D. C. Transit System, Inc., in tariffs filed July 17, 1968, and previously described in and suspended by Order No.854, be, and they are hereby, denied, except as otherwise herein prescribed.

2. That D. C. Transit System, Inc., be, and is hereby, authorized to file tariffs on October 29, 1968, to become effective at 4:00 A.M., October 31, 1968, except that the authority relating to tokens shall be effective 12:01 A.M., October 30, 1968, reflecting the fares prescribed hereinabove and as set forth in the Appendix attached hereto and made a part hereof; said tariffs shall specify a termination date of December 13, 1968.

3. That tokens outstanding on October 30, 1968, shall be honored as though purchased at the new rate prescribed herein.

4. 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, until the expiration of the suspension period set forth in Article XII, Section 6 (a)(2)of the Compact.

BY DIRECTION OF THE COMMISSION

George A. Avery

GEORGE A. AVERY
Chairman

DOUB, Vice Chairman, concurring.

I concur in the conclusions reached by the majority of my colleagues in Order No. 882. I necessarily disagree with the majority in their continuing treatment of the schoolfare subsidy. My reasoning in this regard was the subject of a separate opinion entered with Order No. 880 on October 18, 1968. I am pleased to note that at the hearing on October 25, 1968, my position was supported by the representative for the Federation of Citizens Associations of the District of Columbia, which group presumably is among those that the majority decision was intended to favor; and also, by the views of the Commission's staff that the present relationship of Maryland fares to D. C. fares is proper.

I also take exception to the majority's conclusion as to the relative merit of an on-peak/off-peak alternative fare structuring technique under the circumstances present in this case. It is my understanding that this approach has frequently been found to be undesirable in other jurisdictions from the carrier's point of view, of no real benefit to transit riders as a group, and accordingly deserves little weight in the disposition of this matter.

Without reviewing all the objections to the on-peak/off-peak alternative, it can be said with considerable justification that fortuitous circumstances as to the requirement of use of transportation during on-peak hours would prevent a substantial number of riders from the benefits of the lower off-peak rates. However, the majority, in implementing the cash token differential has provided a reduced cost of fare to all riders subject only to their individual acceptance of the option.

Such objections as I may have to the conclusions reached in Order No. 882 are overcome by the knowledge that the fare structure adopted will produce additional revenues from Maryland riders that bears reasonable relationship to those fares to be derived from D. C. riders. I am also persuaded to concur with the majority at this time inasmuch as the Commission will shortly have before it the benefit of a comprehensive study implemented with the view to establishing on a sound basis a proper relationship among all the fares charged by the company. In short substance, I believe that the end result of the fare structure ordered by the majority opinion is the best that can be achieved at this time under these circumstances.

APPENDIX

ORDER NO. 882

	Fares in Effect Prior to This Order	Transit's Proposed Fares	Fares Authorized Herein
District of Columbia			
Cash	$ .27	$ .30	$ .30
Token	.25 (4/1.00)	.30 (4/1.20)	.26¼ (4/1.05)
Interline	.35 +5¢	.35 +10¢	.35 +5¢
Capitol Hill Express	.60 (a)	.65 (a)	.65 (a)
Minibus	.10	.10	.10
School	.10	.10	.10
Transfer	Free	Free	Free
Maryland			
Intrastate Local			
Zones 1	.27	.30	.30
2	.27	.30	.30
3	.35	.40	.40
4	.45	.45	.45
5	.50	.50	.50
6	.55	.55	.55
7	.60	.60	.60
8	.65	.65	.65
9	.70	.70	.70
10	.75	.75	.75
11	.80	.80	.80
12	.85	.85	.85
Interstate Local			
Zones 1	.40 (c)	.40 (b)	.40 (b)
2	.50 (c)	.50 (b)	.50 (b)
3	.60 (c)	.60 (b)	.60 (b)
4	.65 (c)	.70 (b)	.70 (b)
5	.70 (c)	.75 (b)	.75 (b)
6	.75 (c)	.80 (b)	.80 (b)
7	.80 (c)	.85 (b)	.85 (b)
8	.85 (c)	.90 (b)	.90 (b)
9	.90 (c)	.95 (b)	.95 (b)
10	.95 (c)	1.00 (b)	1.00 (b)
11	1.00 (c)	1.05 (b)	1.05 (b)
12	1.05 (c)	1.10 (b)	1.10 (b)

Interstate Express

Md. - D. C. Line	.35 (c)	.40 (b)	.40 (b)
Zones 1	.50 (c)	.50 (b)	.50 (b)
2	.60 (c)	.60 (b)	.60 (b)
3	.70 (c)	.70 (b)	.70 (b)
4	.80 (c)	.80 (b)	.80 (b)
5	.85 (c)	.85 (b)	.85 (b)
6	.90 (c)	.90 (b)	.90 (b)
7	.95 (c)	.95 (b)	.95 (b)
8	1.00 (c)	1.00 (b)	1.00 (b)
9	1.05 (c)	1.05 (b)	1.05 (b)
10	1.10 (c)	1.10 (b)	1.10 (b)
11	1.15 (c)	1.15 (b)	1.15 (b)
12	1.20 (c)	1.20 (b)	1.20 (b)

Other

Silver Rocket	.35 3 zones .10 ea addl zone Transfer Privilege	.35 3 zones .10 ea addl zone Transfer Privilege	.35 3 zones .10 ea addl zone Transfer Privilege
Stadium	.60	.75	.75
Virginia Interstate Zone (Rt C-1 Langley)	.10 (d)	.10 (d)	.10 (d)

(a) or valid transfer plus 35¢ cash
(b) valid transfer or token has 30¢ value toward total cash fare
(c) valid transfer or token has 25¢ value toward total cash fare
(d) available only in addition to D.C. - Md. Interstate or Md. Intrastate fares