

To: Danny Kermode
From: Greg Hammond
Date: October 12, 2018
Subject: **Financial Review** - TS-180677, Backcountry Travels LLC

Recommendation

Staff finds the company is financially fit to provide ferry service for at least 12 months required in RCW 81.84.020, there is no financial reason preventing the issuance of the company requested certificate of convenience and necessity (CC&N).

Discussion

On September 8, 2018, Backcountry Travels LLC (Backcountry or company) filed with the Utilities and Transportation Commission an application to obtain a CC&N to provide ferry service on Lake Chelan located in Chelan County. Staff is required by RCW 81.84.020(2) to determine whether the company has the financial resources to operate its proposed service for at least 12 months. Staff has reviewed the filed financial information and has concluded that the company does have the resources to operate the proposed service for the twelve month period.

Company Structure:

Backcountry started business in Washington on November 13, 2017, according to the Washington Secretary of State's Corporations Division website and registered with the Department of Revenue on January 1, 2018. The company's application indicates that Backcountry is wholly owned by Colter and Lindsey Courtney. The company indicated on its application that it has no prior commercial ferry experience. The company proposes to offer 353 round trips per year, originating in Stehekin, and traveling to Fields Point, with stops along the way by reservation, then returning to Stehekin.

The company does not currently own any ferry vessels, but has stated that an agreement is in place to lease a 50 foot catamaran with a capacity of 32 passengers. The catamaran is under construction and anticipated to be completed, delivered, and Coast Guard inspected by November 15th, 2018.

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In its application, the company states it will pay the lease holder \$175 per round trip, which under the proposed schedule would equal \$61,775 per year. Staff was unable to obtain a copy of this lease agreement, and it is unclear whether the company will have to begin lease payments prior to beginning operations should the certificate be granted. If that is the case, this potential timing issue could begin to erode the company's cash balance prior to beginning operations.

Balance Sheet Review:

- Assets, \$483,600
- Liabilities, \$163,000
- Equity, \$320,600

The applicant reports \$68,600 of cash on hand in its application. Additionally, the applicant reports \$350,000 in real estate, attributable to Colter and Lindsey Courtney's residence in Stehekin. The applicant also reports \$65,000 in other assets, with \$50,000 attributable to a 50% ownership stake in Stehekin Outfitters LLC, and \$15,000 in vehicles. On the liabilities side, the company has reported \$163,000 in notes payable. This represents the outstanding debt attributable to the purchase of Courtney's home residence. While not stated on the financial statement shown on item 12 of the application, according to generally accepted accounting principles, total equity is equal to \$320,600.

Pro forma Income Statement:

- Revenue, \$355,084
- Expenses, \$331,320
- Net Income, \$23,764

The company estimates a total revenue of \$355,084. This is comprised of an estimated 9,056 full price one way tickets at \$39 each, and an additional \$1,900 in freight revenue. The company stated in its response to Staff's data request that the ridership numbers were estimates based on discussions with local Stehekin residents and business owners, and that it is "impossible to predict ridership on a seven day per week year round service to Stehekin because there has never been one before".

At this time, Staff does not have access to detailed ridership numbers from the current service provider in the area, Lake Chelan Boat Company. However, based on Lake Chelan Boat Company's 2017 annual report, the company served 57,029 one way passengers, which shows that Backcountry's estimated ridership is within reason. Based on Staff's calculations, the ridership estimate projects that the boat would use an average of 40% of its 32 passenger capacity for each trip over the 12 month period. The company estimates the percentage of total capacity used would fluctuate from a high of 63% in the busy summer months, and roughly 31% in the slower off-season months.

It should be noted that the estimated revenue figure only accounts for riders paying the full price adult ticket rate of \$39 per one-way trip. The proposed rate table also includes commuter tickets, which provides a 10% discount per one-way trip when purchasing 10 or more one-way tickets at a time. The company argues in its petition that much of its customer base will come from Stehekin residents who will be able to use the daily round-trip service from Stehekin to get supplies or run errands in Chelan without having to wait overnight, or up to a few days before returning to Stehekin. It is reasonable to assume a portion of this customer base would take advantage of the discounted commuter tickets. Also unaccounted for in the provided ridership estimate is the number of children under 12 years old, who would pay only \$20 per one-way ticket.

Total expenses of \$331,320 are estimated by Backcountry. The expenses listed seem appropriate for the type of business when compared to other regulated commercial ferry operations. Some expense items have the potential to fluctuate outside of the company's control, for example fuel and maintenance costs; while others, like wages and lease costs, should remain relatively static. The company estimates a net income of \$23,764 after its first year of operations.

Based on Staff's calculations, the company needs to reach approximately 93.3% of its projected ridership to break even over its first 12 months. The company would expend its \$68,600 cash balance if it does not exceed 73.8% of its estimated ridership in the first year. These calculations do not include the effect of passengers using commuter tickets or children tickets, which could further reduce ticket revenues, albeit to a lesser degree than a drop in total ridership.

The company's owners do have other non-liquid personal assets available should cash reserves be used up during its first year of operations. The equity in the Courtney's home residence¹ and the ownership interest in Stehekin Outfitters LLC may enable the company to access additional capital to cover its operating expenses should cash flow issues arise.

Conclusion

Staff has reviewed Backcountry Travels LLC's financial information submitted in Docket TS-180677 and concludes the company has made reasonable efforts to estimate its finances under the proposed ferry service application. Based on the company's financial records provided, the company has adequate resources and therefore staff concludes Backcountry Travels LLC has the financial resources to operate the proposed service for at least twelve months.

¹ Chelan County assessor lists the assessed value for this home at \$290,042. County assessed values are typically below market value, but it is unclear if the true market value of the home is \$350,000 as stated in the application. Even using the assessed value in excess of the outstanding loan balance, the total available equity would equal approximately \$127,000.