

Docket TC-170681,
Application
Cruising Transportation Review by Mike Young 7/6/2017

Conclusion

Staff has reviewed the company's financial information submitted in Docket TC-170681 and concludes the company has made reasonable efforts to estimate its finances under the proposed operations. The company asserts that it will have the necessary vehicles and drivers to provide the transportation service. Ridership estimates appear to be somewhat optimistic as they were not adjusted for a start-up period. However, if the company meets only 80% of its projected ridership it would still earn a profit given no change to projected costs. Based on the company's overall projections, operations would result in a net profit. In the event of a net annual loss, the company does not appear to have enough liquid assets to maintain operations, but the company may have access to loans or other capital. Therefore, staff concludes the company is financially fit to provide service.

The balance sheet review:

- Assets, \$18,184;
- Liabilities, \$0;
- Net Worth, \$18,184

Applicant has a positive net worth. \$2,500 of assets is cash and very liquid;

The company currently owns a single vehicle, a Ford E350 van seating 20 passengers. The van was purchased in 2016 at a cost of \$6,400. Because the balance sheet represents the point in time the company starts operations, no accumulated depreciation is recorded on the balance sheet, but depreciation expense is recorded on the pro-forma income statement. The company anticipates purchasing additional vehicles in the spring of 2018, which would be within the first 12 months of operation. The company did not indicate a source of funds for purchasing additional vehicles-it is assumed it would be additional paid-in capital.

The company lists \$9,284 as a pre-paid expense, and as an account payable. This represents the annual insurance premium, and because it has been paid by the owner before the commencement of operations, it will be allowed as a pre-paid expense on the balance sheet. It is also appropriately listed on the pro forma Income Statement as an annual cost for purposes of this review. Adjusted assets are now \$18,184 of which \$2,500 is cash. Refer to the attached Staff Adjusted Balance Sheet.

The Pro-forma Income Statement:

- The company projects \$124,800 annual revenue (6,240 passengers
*Average Round Trip fare of \$20)
- The company projects \$94,500 of annual operating expense before taxes.

If the company projections are correct, it will have a net operating profit of \$30,300 annually.

The company's expense projections look reasonable for the assets and service described. Currently the other certificated companies providing door-to-door service in Thurston, Pierce, or King Counties are much larger operations so comparisons are not practical.

In projecting ridership the company did not make any allowances for decreased ridership during the startup period, but did include some seasonal fluctuation-higher ridership during summer months. The applicant's proposed tariff rates are generally lower than existing tariff rates, which may attract more customers. Based on annual report data from existing companies providing door-to-door service in the territory requested in this application, all the companies carry more than the average 17 passengers per day estimated by the applicant.

Further, with only one driver and one vehicle, the company runs the risk of having to cancel service, or make other arrangements in case of vehicle breakdowns or driver illness. When asked about contingency plans, the company responded that it is looking for another vehicle (47 passenger bus) and also plans to hire additional drivers with backgrounds in the charter bus industry. It would have to

be assumed the company would not employ more than one driver at a time, as the estimated wage expense appears to be realistic for only one driver. It is possible the company could be profitable enough in the early stages of operation that it could expand its fleet and hire additional drivers. The company's plan seems reasonable, but is not without some risk.