

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**In the Matter of the Complaint Against
Bremerton-Kitsap Airpporter, Inc., C-903**

DOCKET NO. TC-001846

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TESTIMONY OF
RICHARD E. ASCHE

Q. State your name and current business address.

A. Richard E. Asche, 5748 Bethel Road SE, Port Orchard, Washington.

Q. What is your employment?

A. President and CEO of Bremerton-Kitsap Airporter, Inc.

Q. Have you prepared a written summary of your educational and employment history?

A. Yes, please see Exhibit _____, (REA-1).

Q. What are your duties and responsibilities at Bremerton-Kitsap Airporter, Inc.?

A. My duties and responsibilities encompass every facet of the business. I oversee all operations, personnel, safety, financial management, risk management, equipment purchase and maintenance, and long and short-term planning. In addition, I manage our investment portfolio.

Q. Are you involved in any trade associations?

A. Yes, I am an active member of the Washington Airporter Owners Association, the National Airport Ground Transportation Association, and the SeaTac Ground Transportation Association.

Q. What is the business structure of Bremerton-Kitsap Airporter, Inc.?

A. We are a "C" corporation.

Q. Who are the officers and Board of Directors?

A. I am President. Helen Asche is Secretary-Treasurer. Lynne M. Koll and Richard A. Asche are Vice Presidents.

Q. When did the company begin operations?

A. We formed a business plan in 1979 and filed for WUTC authority. Our application was protested and after hearing was granted. The final order which granted the application was issued October 4, 1979, and we began operations shortly thereafter.

Q. What currently is the nature of your business?

A. We provide passenger (and limited express) service to SeaTac Airport from Kitsap County, Purdy, Gig Harbor, northwest Tacoma, Ft. Lewis, McChord AFB and Madigan Hospital. We currently have twenty round trips a day between SeaTac and Kitsap

County and western Pierce County, and eight from Ft. Lewis/McChord. We operate 24 hours a day, seven days a week.

Q. Have you prepared a summary of your routes and fares?

A. Yes, please see Exhibit _____ (REA-2), which is a printout of the information available on our web site. Also, see Exhibit _____ (REA-3), which are schedules that are available at the airport and at our various stops. (The actual schedule is folded. It will be provided at hearing). We have 15 locations in Kitsap County and six at Ft. Lewis/McChord.

Q. How are reservations made?

A. We only take reservations for trips to the airport or round trips. Reservations can be made by phone (our office is open 24 hours a day), or on line via our web site. We have "walk-ons" at the airport who purchase tickets from the driver, but round trip ticket holders are boarded first, which increases speed and efficiency.

Q. How many employees do you have, and how are they compensated?

A. We have 30 drivers, two mechanics, nine office staff, and three maintenance persons who wash and clean the vans. All, except myself and the operations manager are paid hourly with a year-end bonus and two weeks vacation pay a year. There are no other benefits.

Q. Does the company provide you with any additional benefits such as health insurance, life insurance or a retirement plan?

A. No.

Q. Have you prepared a document showing current wage information for your employees?

A. Yes. Please see Exhibit _____ (REA-4).

Q. Has your salary and bonus changed since 1979 and, if so, how?

A. Yes. For the first two years of operation, I took no salary, and generated no bonus until our sixth year of operation. I have prepared a chart showing my salary and bonus history. Please see Exhibit _____ (REA-5).

Q. Have you calculated your yearly average salary and bonus for your years of operation?

A. Yes.

Q. What is average yearly compensation?

A. My average salary is \$43,570.00 and the average bonus is \$66,795.00, for a total average yearly compensation of \$110,365.00.

Q. For your company's operation, do you periodically calculate your cost per mile and compare that to rates of other airporters?

A. Yes. Under our current rates, our cost per mile averages \$.32 which I believe is the lowest in the state. Our fares also are significantly lower on a per mile basis than other airporters, as I will discuss below.

Q. Why is this?

A. We have been able to successfully enhance revenue and reduce expenses on a sustained basis. Some of the specific things we offer or do are as follows:

- Provide greater frequency of service; i.e., 20 daily trips
- Provide courtesy telephone calls for pick up at our stops and provide customers with taxi service which in turn discounts fares for them
- Operate clean and safe vehicles which are maintained by our own certified mechanics, who maintain complete computer maintenance records, in a fully equipped shop
- Our drivers are well trained and courteous, and average nearly four years with the company
- We do not provide home pick-up or delivery which allows for closer adherence to published schedules
- We take major credit cards by telephone
- Reservations may be made on line or by telephone at our office which is open 24 hours each day, all year round
- We have no debt. All equipment acquisitions are made with company cash reserves
- We schedule service so that the same vehicle which drops passengers off at the airport immediately picks up a return load, maximizing our operational efficiencies
- We use 21-passenger vehicles instead of 11-passenger vans which reduces the need for back-up drivers and additional vehicles during peak times. This also results in reduced insurance costs, as premiums are paid on a per vehicle basis

➤ We have reduced the office staff by use of automated voice mail

Q. Are you aware of any customer complaints concerning your level of rates?

A. As the staff indicates in their Answer to Data Requests, there has never been a customer complaint directed to our level of rates. In fact, we frequently have customers ask why our rates are so low as compared to other airports they have used.

Q. You have received fairly substantial bonuses in recent years. What are they used for?

A. I typically use these bonuses to pay off and/or avoid debt within the company. My wife and I personally borrowed funds which were used to finance a major expansion and remodel of the Bremerton-Kitsap Airporter, Inc. facility, which we own and lease to the company. The recent bonuses were largely used to retire that debt. In this manner, we have been able to keep the company itself debt free, and continue to do so.

Q. The company has generated significant retained earnings over the past few years. What do you do with that money?

A. We have been advised by our CPA that we cannot continue to maintain such retained earnings without attracting unwanted attention from the IRS. Thus, bonuses were paid to me to reduce retained earnings, and then are used to avoid the company incurring debt to finance renovation and new plant and equipment costs.

Q. Has Bremerton-Kitsap Airporter paid a market rate for the offices and terminals it leases from you and Mrs. Asche?

A. Yes. We recently had an independent appraiser review the arrangement based upon comparable properties, and in the test year we actually are renting it slightly below market value within the Kitsap County area. A copy of that appraisal is attached as Exhibit _____ (REA-6) and incorporated herein. Clearly, the company could not have found comparable suitable facilities at a lower price.

Q. Do you file annual reports upon the Commission summarizing the results of your operations?

A. Yes, we file each year as required since 1979.

Q. Prior to this action, have your present rates been challenged by the WUTC?

A. No.

- Q. How often, in the past ten years, has any WUTC staff member, other than Mr. Colbo, personally been to your headquarters, and what was the purpose of the visit?**
- A. Yes, approximately three years ago to investigate a customer complaint and recently for a vehicle inspection.
- Q. Has Mr. Colbo or any other WUTC auditor been to your business to conduct a review of your books and records in association with the pending complaint?**
- A. No, but I understand Mr. Colbo was at our CPA's office..
- Q. When were your present rates approved?**
- A. Our current rates have been in place for approximately ten years since fall, 1991 under Docket 910646.
- Q. During that decade, has anyone from the WUTC, until now, complained to you, formally or informally, that your rates were too high?**
- A. No.
- Q. Do you understand why the WUTC staff is now seeking to reduce your rates through this complaint?**
- A. While I understand that they opposed any rate increase by us, challenging our decade-long present rate structure is another matter. I cannot understand how rates which are effectively the lowest in the state airporter industry are not fair, particularly when our high level of service provided is considered. It appears to me that staff by this complaint, is not regulating rates at all, rather is attempting to punish us for increased profitability, which is something entirely different. Here we are apparently being "sanctioned" for running a business in an efficient, profitable manner. Our customers are satisfied with our rates and are undoubtedly expecting us to be profitable and maintain current high levels of service. I simply do not understand why the staff feels it necessary to proceed with an attempt to reduce existing rates which are already likely the lowest in the industry.
- Q. In staff's testimony, did you review their comparisons of your company's owner compensation versus other regulated companies?**
- A. Yes.
- Q. What is your reaction to that testimony?**

A. I do not think it is reasonable or fair because they implicitly suggest we are completely comparable operations. As I have previously indicted, we have no door-to-door service, and we have a large military customer base. This concentrates our customer base configurations and involves significantly different demographics, markets, and operational considerations.

Q. Regarding the latter, have you done a comparison using airporters relied on by staff in their testimony to demonstrate the differing dynamics of these operations?

A. Yes. I have prepared an exhibit which graphically shows that other referenced airporters have significantly higher revenue yields per passenger mile than do we. Please see Exhibit ____ (REA-7)).

Q. What does that data suggest to you?

A. That, despite considerably lower revenue per mile yields, our company, through good business practices and operating efficiencies, has achieved success despite our materially lower rates.

Q. What would be the effect of implementation of staff's recommendation in this complaint proceeding to substantially reduce revenues on your operations?

A. I am not entirely certain at the present, but most likely we would have to drastically reduce the number of trips and/or other services we offer. Certainly, we would also have to lay off a number of employees.

Q. Wouldn't you expect lower rates to attract more customers to your operation?

A. Normally one would expect ridership to increase with lower rates, but that is not necessarily the case in this business. People either take an airporter, get a ride from someone, or drive to the airport and park their vehicle without a great deal of comparison shopping of the relative expenses. Thus, if our ridership remains stable, all that will happen from this is that our profit will be substantially reduced (WUTC staff apparently wants it set at 3%), possibly to the point that it no longer makes financial sense to stay in business. Again, the marginal cost analysis of lower rate here is really one of fuel, parking costs, and convenience versus cost of the scheduled airporter ticket.

Q. Are you aware that staff is proposing some sort of "credit account" into which revenue that results in less than a 97% operating ratio would be placed to be used to lower rates potentially even further in the future?

A. Yes.

Q. What do you think of that proposal?

A. Frankly, I think it is just plain silly. Who would maintain and invest the account? How can past customers be compensated, credited or refunded when we do not know who most of them are or how many trips they may have taken? How would the funds be used to "reduce" future rates? What happens to the fund if we go out of business or do not file a future rate case? I am not being facetious when I say that I have absolutely no confidence in the staff's ability to maintain or invest revenues generated by our private company.

Q. What other impacts of the excess profit fund do you envision?

A. It may be too obvious to state, but this and staff's other draconian proposals, if adopted, remove any incentive to improve service or even to maintain current levels of service. Staff may well be very good utility regulators, but that does not qualify them to run this, or any other, regulated transportation company which is essentially what the "excess profit" trust fund would entail.

Q. Staff has focused on your compensation as being excessive. Do you believe it is and, if not, why?

A. I do not believe it is excessive. My wife and I started this business from nothing. My compensation for many years was either nothing, or slightly better than minimum wage level. The business has prospered and shows a profit because of good management practices and, of course, good people from top to bottom. I essentially perform all management functions; functions that in other businesses this size would be done by three or four, or even more, people. As I indicated in our answer to Staff Data Request No. 3, I have direct responsibility for all aspects of management, safety, financing planning, risk management, long and short-range business planning, governmental relations; although some of our employees have titles such as CFO and Safety Training Officer. In fact, I am the CFO, regulatory relations person, investment advisor, safety officer and, on occasion, even find myself driving a van. My salary and bonus structure cannot be reasonably compared with a CEO who has other salaried persons doing these tasks. Rather, it should be compared with the total salaries for all persons in a company who perform all the tasks that I do personally.