Exhibit ____, (WTB-T___)
Docket No. TC-001846
Witness: Weldon T. Burton, CPA

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Complaint Against Bremerton-Kitsap Airporter, Inc., C-903	**DOCKET NO. TC-001846**

TESTIMONY OF

WELDON T. BURTON, CPA

Q. Please state your name and business address.

A. My name is Weldon T. Burton. My business address is 1202 S.E. 103rd Avenue, Vancouver, Washington 98664-4738.

Q. By whom are you employed and in what capacity?

A. I am self-employed as a Certified Public Accountant, having been licensed in Washington in 1975, Certificate Number 4427, and Oregon in 1992, License Number 6983.

Q. What is your educational background?

A. I received a Bachelor of Business Administration Degree from Baylor University in 1970.

Q. Please state your experience and qualifications.

A. For the past almost three decades, my work as a C.P.A. has centered on the representation of companies regulated by the Washington Utilities and Transportation Commission ("WUTC"). From 1975 to 1984 I represented four independent logging companies that were regulated by the WUTC. From 1985 to the present the focus of my work has been the representation of various solid waste companies subject to WUTC regulation. I have also assisted in settling several solid waste companies settle annexation issues related to regulated territory.

Q. Have you prepared a resume to summarize your qualifications and experience as an exhibit in this proceeding?

A. Yes, and it is attached as Exhibit _____, (WTB-1.)

Q. What work were you asked to perform?

A. I was retained by the respondent and its counsel to provide accounting review and assistance and expert testimony in this case.

Q. What information have you considered?

A. (1) I reviewed the original filing by the Company on November 27, 2000. (2) I reviewed subsequent extensive correspondence and data by Larry Berebitsky of Cox and Lucy, P.S., on behalf of the Company. (3) I reviewed the Staff memorandum to the Commission included in the agenda package for December 27, 2000. (4) I reviewed the testimony and related exhibits of Mr. Robert Colbo served on or about October 3, 2001. I have also prepared various exhibits of my own which encompass much of my conclusions to date in this proceeding.

Q. Was there a particular document you reviewed from the information furnished to the Staff by Mr. Berebitsky?

A. Yes, a summary, by month, of the Company's financial statements. The monthly financials are compiled into a twelve-month income statement, which is the foundation for the pro forma "test period" income statement. The twelve-month income statement is used as pro forma "test period" income statement that sets the basis for "fair and just" rates. Each month Cox and Lucy, CPA's for the Company, prepare a compiled financial statement of the Company's operations. The monthly compiled financial statements form the nucleus of the compilation of information necessary for filing a rate case with the Commission.

Q. Did you find any "differences" between the information furnished by Mr. Berebitsky and that shown as Exhibit _____, (RC-6) to Mr. Colbo's testimony?

A. Yes, I did notice certain material differences between the information furnished by Cox and Lucy and Mr. Colbo's Exhibit _____, (RC-6).

Q. Please explain the differences you identified.

A. When I compared interest income between the per books amount and Mr. Colbo's interest income, I found a difference of $503, a difference of $2,345 in dividend income and a discrepancy of $8,346 in capital gain income.

Q. How do these charges affect the net income calculations?

A. Those figures must be included in the net income figure to properly calculate Federal Income Taxes that would be payable upon the Company's Net Income before Income Taxes. Federal Income Taxes are computed on the Company's entire income, not just net income computed under regulatory accounting methods.

Q. Were there any other differences you observed between the information furnished by Mr. Berebitsky and Mr. Colbo's Exhibit _____, (RC-6)?

A. Yes.

Q. Please explain these differences.

A. They are, in order of relative dollar importance: a) officers' compensation, b) affiliated rents, c) excess depreciation and gain/loss on sale of vehicles, d) refund from Department of Labor & Industries, and e) Federal fuel tax refunds.

Q. Please explain your calculation of the revenue, expenses and results of operations of Bremerton-Kitsap Airporter, Inc. on Exhibits ______, (WTB-2-4).

A. Page one, Exhibit ___, (WTB-2), is a summary pro-forma income statement derived from the monthly financial statements of Bremerton-Kitsap Airporter, Inc. for the 12-months ended September 30, 2000. Column (a) is a listing of actual accounts from the general ledger of Bremerton-Kitsap Airporter, Inc., Column (b) is a listing of actual income and expenses from the general ledger of Bremerton-Kitsap Airporter, Inc., Column (c) lists adjustments that restate the actual operating results from the generally accepted accounting principles followed by the Company to appropriate regulatory accounting principles followed by the Commission.

Q. Please explain "Burton" Restating Adjustment 1 to the Pro Forma Income Statement which adjustment and others are summarized on Exhibit ___, (WTB-3).

A. The Company performs certain "non-regulated" services for its customers during the normal course of business. This unregulated activity is not subject to rate regulation by the Commission. Therefore this income is recorded separately on the Company's books. I have reclassified this de minimis income of $15,923 into the regulated rate base income because the amount of money is not significantly large enough to justify separate cost accounting.

Q. Please explain Burton Restating Adjustment 2.

A. During December 1999, the Company sold investments of common stocks, which resulted in a loss of $5,749. The loss calculation is shown on the Company's 1999 Federal Income Tax return Statement 11-Schedule D, Part II, Long-term Capital Gains and Losses. I found that this loss was inadvertently mis-posted by the respondent to the account for recording gains/losses from the disposition/sale of operating assets. This adjustment is to reclassify and correct the two related accounts.

Q. Please explain Burton Restating Adjustment 3.

A. As Mr. Colbo alluded to, the Company regularly replaces vehicles within the fleet by purchasing new vehicles and reconditioning used vehicles for sale. Any gain or loss on the sale of used vehicles should be recognized as income or expense within the regulated rate base. On Company books, gain of loss on the sale of assets is recorded using Federal Income Tax accounting methods and does not reflect gain or loss for regulatory accounting methods. I have recomputed gain or loss from sale of used vehicles using regulatory accounting methods, not Federal Income Tax methods. The calculation of gain or loss is shown on Exhibit ______, (WTB-5.) This exhibit shows Company operating asset number, date acquired, cost of acquisition, salvage value calculated at 33%, adjusted cost (acquisition cost minus salvage value), accumulated depreciation calculated on a straight-line basis over four years, adjusted basis (acquisition cost minus accumulated depreciation), sale date, and sales price. The gain on sale is calculated by using sales price minus adjusted basis. I calculated the gain from the sale of operating assets to be $5,579. This amount of $5,579 is included as a decrease of expense in the regulatory rate base.

Q. Is the gain of $5,579 different from the calculation Mr. Colbo has arrived at in his Exhibit ___, (RC-6)?

A. Yes. Mr. Colbo used a figure of $15,917 gain shown on Company books in his Pro Forma Income Statement, column B, Exhibit_____, (RC-6). I cannot determine if he reviewed the account shown on Company books to ascertain whether account mispostings occurred, or if the Company was recording gains on asset sales by using the Federal Income Tax method of accounting rather than regulatory accounting methods required for this proceeding. In Mr. Colbo's restating adjustment number 1, the $15,917 gain, per books, is moved from non-operating income to operating income. Mr. Colbo's restating adjustment number 3 removes $8,015 of income from the gain or loss on sale of operating assets, leaving a remaining gain of $7,902 as a reduction of the regulated expense ratebase. From the exhibits provided in Mr. Colbo's testimony, I cannot determine how Mr. Colbo arrived at his computation of gain totaling $7,902.

Q. Please explain Burton Restating Adjustment 4.

A. This adjustment is to revise the depreciation total recorded on the Company books from the Federal Income Tax method to the Regulatory Accounting method of recording depreciation. See, Exhibit _______, (WTB-6), the regulatory depreciation schedule for the Company. I used a four-year life for all vans and applied straight-line depreciation as prescribed in the Uniform System of Accounts. I imputed a 33% salvage value for all vans as did the staff. The Company has an established history of replacing vans after approximately a four-year service life; hence my revision of the staff's calculation.

Q. Please explain Burton Restating Adjustment 5.

A. The Company received a refund or premium adjustment from the Washington Department of Labor and Industries and C3HRM, a retrospective rating firm serving the Washington Airporter Owners Association totaling $10,767. The refund of $4,672.09 from C3HRM was received in April 2000, and the Washington Department of Labor and Industries refund of $6,095.38 was received in August 2000. These refunds relate to chronological periods outside the test period in the instant case. The refund from Washington Department of Labor and Industries was for the period July 1, 1998 to June 30, 1999 and the refund from C3HRM covered the period 1998-1999 Therefore, these refunds should be removed from the rate base for this proceeding.

Q. Please explain Burton Restating Adjustment 6.

A. This adjustment reduces officer's salary from the per books amount of $421,000 to $108,362.

Q. Please explain how you arrived at the $108,362 officer's salary computation adjustment.

A. On October 19, 1998, the Company filed a rate increase request under Docket TC-981332. This filing was withdrawn on November 23, 1998 by the Company. In response to Company Data Request No. 11 in this proceeding, WUTC Staff provided a copy of the draft staff report and pro forma results of operations from that earlier filing. On the pro forma, "salaries-officer" is shown per books at $256,000 with a restating adjustment reducing salaries-officer to $82,500. As the figure had been previously used by staff, I started with $82,500 as a base salary in 1998 and applied the Bureau of Labor Consumer Price Index-All Urban Consumers for the Seattle-Tacoma-Bremerton, WA area to "inflate" the base salary to today's dollars. See Exhibit______, (WTB-7), for calculation of the current officers salary of $88,459. I then added a benefits package allowance at 22.5% for a total of $19,903, which I added to the base compensation.

Q. Regarding the bonus paid to Mr. Asche during the test year, did you notice anything unusual about the calculation of overall officer compensation in the test period?

A. Yes, bonuses were paid at the end of the calendar year in 1999 and in May, 2000 which exaggerated the test period compensation, and which also meant that the test period compensation was the highest in the history of the company's existence.

Q. Have you also reviewed the historic compensation of Mr. Asche from 1979 to 2000?

A. Yes, I have.

Q. What have you found?

A. Similar to the chart attached to the testimony of Mr. Asche Exhibit____, (REA-5), I found his total compensation averaged $110,366, slightly above what I have pro formed in rates of $108,362.

Q. Regarding the comparisons the staff drew in their testimony to executive compensation and public transportation entities, do you have any thoughts?

A. Yes. I find the premise flawed. It is not the size of the revenues or the scope of the operations that should invoke the correlation, but the entrepreneurial risk factor and the day-to-day operations, profitability, performance and pressures on the business executive that should gauge the amount of the compensation. Simply pointing at total revenues oversimplifies the issues and ignores these significant factors.

Q. Can you elaborate on this parallel, please?

A. Yes. None of the public sector transit executives' compensation depends on the profitability or viability of the financial performance of their employer. If Bremerton-

Kitsap Airporter earns no income, neither does Mr. Asche, as demonstrated by the early years of the company's operations.

Q. Do you believe the scope and complexity of the public transit operations have any correlation with those of private, for-profit providers?

A. No. The array of offerings of the provider does not necessarily have relevance to the managerial responsibilities and individual burdens of the transportation executive. As can be seen in the description of Mr. Asche's duties in his testimony, the entire operational and financial responsibility for the company rests largely on his shoulders. In an economic downturn environment like today, the public transit executives will presumably continue to receive their paychecks while Mr. Asche's compensation will continue to depend completely on revenues, costs of service, bottom line profits and impacts of demands of the travel/leisure and military sectors. In short, the analogy to public transit agencies is not well taken as their operations are federally and locally funded by tax revenues while Bremerton-Kitsap Airporter's operations are supported by private resources and public demand.

Q. What are your thoughts regarding the comparisons drawn by staff to regulated private transportation company officer compensation?

A. It is hard to rely on those conclusions, as the WUTC annual report format for auto transportation companies aggregates all officer/executive salaries as one line item.

Q. Well, didn't the staff attempt to address this by including a spreadsheet at RC-9, p. 10?

A. Yes, but their reference to "Executive FTEs" is not only unclear, but the multiple sources of the conclusions about that number are not shown ("certain derived statistics for each company," Colbo testimony at 14), nor is there any indication of how those numbers were corroborated. Additionally, it is not apparent that any unspecified "analysis" of a regulated company by staff would necessarily result in accurate and documentable responses from unidentified sources at a company, nor is there any indication of when and how the "analysis" was initiated. Finally, as indicated in Richard Asche's testimony, there are unique aspects to his company's operations which make comparisons based on gross revenues difficult at best.

Q. Please explain Burton Restating Adjustment 7.

A. This adjustment is to recognize certain assets that were inadvertently charged to expenses by the respondent during the test period. They include a desktop computer for $1,842, a furnace replacement for $1,642 and $1,000 in travel expense in connection with a van acquisition. I thus concur with Mr. Colbo's recast of these expenses.

Q. Please explain Burton Restating Adjustment 8.

A. The Company qualifies for a Federal Income Tax credit for gallons of gasoline used in their vans. The credit is $.184 per gallon of gasoline consumed. The credit can be claimed on the Federal Income Tax Return during the year of purchase. The credit of $22,385 shown on Staff's Pro Forma Exhibit ______, (RC-6) was the credit earned by the Company during the 1999 calendar year. In calculating the credit for the test period I found the credit was actually $22,983.81. See Exhibit______, (WTB-8). I adjusted the regulated expenses accordingly.

Q. Please explain Burton Restating Adjustment 9.

A. This adjustment is to remove non-operating investment income from the pro forma consistent with staff's adjustment.

Q. Have you also made proforma adjustments in your income statement exhibit?

A. Yes, and they are summarized on Exhibit ____, (WTB-4).

Q. What are they generally?

A. These adjustments are in the areas of fuel surcharge and fuel expense, employee pay increases, and legal and accounting costs for this proceeding.

Q. Please explain Burton Pro Forma Adjustment 1.

A. This adjustment removes fuel surcharge revenue the Company collected from April 1, 2000 to September 30, 2000. The Commission has announced that fuel surcharges will not be allowed to auto transportation companies in the future. This adjustment removes revenue previously collected and is similar to that made by Mr. Colbo.

Q. Please explain Burton Pro Forma Adjustment 2.

A. This adjustment provides for pay increases to employees and related payroll tax expense associated with the payroll increase. Mr. Colbo and I also concur with respect to this adjustment.

Q. Please explain Burton Pro Forma Adjustment 3.

A. This adjustment reflects the anticipated increases in fuel cost for the future 12 months as calculated by the staff.

Q. What is Burton Pro Forma Adjustment No 4?

A. This proformas the estimated legal and accounting costs for this rate proceeding from May through the December hearings.

Q. Does this take into account any such legal and accounting cots prior to May 14, 2001 for this proceeding?

A. No.

Q. Why not?

A. Because, on that date, respondent requested withdrawal of its rate increase proposal and this proceeding was subsequently converted at a prehearing conference, and by order of Judge Schaer, to a complaint proceeding by the staff. We believe that all costs and professional fees incurred from the date of request to convert the proceeding forward should properly, and fully consistently with regulatory accounting principles, be included in the regulated company's rate base, as the Commission has historically permitted. We have not sought recovery of pre-May 14, 2001 rate case expenses.

Q. Have you calculated the legal and accounting expenses in this docket number that were incurred prior to May 14, 2001 to determine how much professional expense is not being sought for recovery in this proceeding?

A. Yes.

Q. And what is that figure, please?

A. I have reviewed and added invoices from Cox & Lucy, P.S., myself, Ryan Sells and Uptegraft and Williams, Kastner & Gibbs PLLC, and determined that figure to be $26,480.86.

Q. In your analysis of the testimony of Robert Colbo, did you also notice his proposal to raise the operating ratio to be derived from revised rates to a 97% level?

A. Yes.

Q. What is your response to this proposal?

A. I was astounded, particularly because the Commission has always regulated transportation companies to my knowledge on the basis of the Kosh operating methodology which seeks to achieve a 93% operating ratio and which has been reiterated countless times in Commission staff memos related to regulated transportation companies. In addition, it has been used as the benchmark standard for auto transportation company orders such as those provided in response to data requests to staff in this proceeding. Indeed, as the staff answered in response to the Company's Data Request No. 2 in the proceeding, "[t]he Commission consistently and repeatedly has used the 93% operating ratio to determine revenue requirements for the auto transportation industry in each case in which this issue was raised."

Q. In your experience have you ever seen such punitive operating ratio recommendations?

A. Absolutely not.

Q. Do you think that a recommended revenue margin of 3% provides incentive to owners of auto transportation companies to invest in plant and equipment?

A. No.

Q. Do you feel that a 3% revenue margin sufficiently rewards owners of auto transportation companies for the risk they assume in owning and operating such companies?

A. Absolutely not, particularly since the September 11 terrorist attacks, when the travel industry and the overall economy have been so hard hit and red ink has characterized so much of the industry.

Q. Do you also find any practical limitation on operations in the staff's 97% operating ratio recommendation?

A. Yes. One also needs to consider the operating fleet of vehicles in the ratebase and the effect of such a proposal on prospective company operations. The company is currently operating a fleet of 14 vehicles, approximately three years old, and replacing the entire fleet on a four-year cycle. An individual van can cost at least $45,000 to replace. Mr. Colbo's proposed revenue margin would not allow sufficient operating net income to provide one replacement van per year. I am also concerned that such a drastic revenue margin could ultimately adversely affect passenger comfort and safety, as planned maintenance and replacement of vehicles would likely be deferred as the company cash position erodes. In other words, at Mr. Colbo's 97% operating ratio proposal, the Company could not continue operating profitably with the high level of service they currently offer, and there would be much less available funding for investment in equipment. A 97% operating ratio simply provides insufficient net operating income to maintain the current capital expenditure and maintenance program.

Q. Staff alluded to the solid waste collection industry in its discussion of comparative operating ratios and profitability. Does that regulated industry use the Kosh 93% operating ratio methodology as well?

A. No, in the solid waste field the Commission utilizes a modified operating ratio, "Lurito-Gallagher" methodology. The Commission, in applying the Lurito-Gallagher formula in the solid waste collection industry, uses an operating ratio different than a target 93%. The Lurito-Gallagher formula takes into account risk and invested capital necessary for operating profitability, and derives an individual revenue requirement based on a regulated company's unique balance sheet.

Q. Have you, in your pro forma income statement, calculated a different operating ratio than that propounded by the staff?

A. Yes, as you can see, my proposed pro forma operating ratio with revised expenses yields a revenue margin which is much more consistent with historical Commission and staff policies and which allows a revenue margin sufficient for this company to grow and continue to provide an optimal safety level in service to the public.

Q. What experience do you have in reviewing results of operations of regulated transportation companies which achieve lower than 97% operating ratios?

A. As you can tell from Exhibit ___, (WTB-1), I have had many experiences with regulated transportation company rate filings at the WUTC and have never experienced the staff advocating such a high operating ratio for proposed revenue requirements of a transportation company with positive equity and plant and equipment. Even under solid waste rate regulation, and the Lurito-Gallagher methodology, some recommended revenue margins result in revenue requirements exceeding a 7% profit.

Q. What is your opinion about Mr. Colbo's 97% operating ratio recommendation in the form of reduced revenue requirements for this company?

A. Well, as indicated above, I believe it is unprecedented and punitive. It certainly sends the wrong signals to the regulated industry. If staff has its way, an operator that is successful in achieving operating efficiencies and profitability will be rewarded by drastically lowered rates and lower operating profits. The 97% operating ratio fails to provide any incentives for efficiency, fails to sufficiently reward risk, and punishes the individual owners of regulated transportation companies for achieving healthy bottom lines. In short, it is the wrong signal at the wrong time and has no precedent or basis in either the circumstances of this filing or any other principle of regulated ratemaking of which I am familiar.

Q. Have you employed any alternate form of calculating the revenue requirement for Bremerton-Kitsap Airporter?

A. Yes, I used the Lurito-Gallagher methodology in an alternate calculation.

Q. Is there any precedent for this?

A. Yes, despite the fact that the Commission has not applied this methodology to the auto transportation industry. I identified that on least one occasion the staff had referred to the calculation in analyzing Bremerton-Kitsap Airporter's proposed revenue requirement.

Q. Where was that please?

A It was in a staff memorandum prepared and presented in an Open Meeting Agenda in February, 1998 under TR-980036, where Mr. Peter Caballero referred to such a calculation that had apparently been faxed the company to persuade it to withdraw its filing.

Q. What are the assumptions you made in deriving your calculation under Lurito-Gallagher?

A. I input the various data into the calculation and added my pro forma current revenue and expenses, average investment, assumed equity of 60% (the maximum allowed by staff), cost of debt assumed at 7%, and a Federal Income tax rate of 15%.

Q. And what did the Lurito-Gallagher model calculate under these variables as an operating ratio for this company?

A. As shown on Exhibit ____, (WTB-9), the calculation yielded a 94.06% operating ratio.

Q. Have you also reviewed the staff's recommendation that the company be barred from issuing bonuses to owners and place any revenue that exceeds what would be required to generate a 97% operating ratio into a "special credit account" to be used to lower rates in the future?

A. Yes I have, which testimony begins at page 36 of Mr. Colbo's filing.

Q. What is your response to the staff's advocacy of absolute salary limits and a ban on issuance of any bonuses to its officers?

A. I am unaware of any precedent for such a recommendation and believe it is contrary to ratemaking policy which generally frees a regulated company to make day-to-day management decisions as to how to spend revenues within an allowed revenue requirement level.

Q. What is your reaction to the "special credit account proposal?"

A. Well again, this is an unprecedented and extraordinary remedy sought by the staff. It not only sets a punitive 97% level as an operating ratio for excess revenues to be siphoned out of the company into this account, but apparently acts as an automatic operating fund diversion once the supposed revenue margin is achieved.

Q. Do you see any practical constraints on the operation of such an account?

A. Yes, first to start out with, I do not know when this threshold profitability level would be triggered, i.e. every month, every quarter, every year, and do not know what reporting mechanisms it should be purportedly based on.

Q. Did you see in the staff's testimony specifics about how this fund would be administered?

A. No.

Q. Did you see where it would be maintained?

A. No.

Q. Did you see any standards articulated by which the account would be operated?

A. No, other than there would be an automatic diversion of operating funds once this recommended 97% operating ratio was bettered.

Q. Do you also see some practical limitations or constraints in the creation and operation of such a fund?

A. Absolutely. Staff has not apparently developed how this fund would be created, administered and wound up over the approximate three year period that they propose it to be in existence.

Q. Did you even see an explanation of who would administer or steward this fund?

A. No, although I assume the staff of the Commission or the state would somehow supervise and maintain this fund. That raises significant concerns in my mind as to the public/private operation of Bremerton-Kitsap Airporter, Inc. and just who would be ultimately responsible for running the company. Further, it suggests to me that state employees will be involved in day-to-day, or at least quarter-to-quarter or year-to-year, operating and cash management decisions involving this company which I view as intrusive and overreaching.

Q. Have you formed any other conclusions on review of the staff's final recommendations?

A. Yes, while staff indicates they are not trying to retroactively rate make by this 97% operating ratio and trust fund scenario, it's clear that is exactly what they are trying to do. They also appear to be punishing Bremerton-Kitsap Airporter, Inc. for some previous "ill-advised rate applications" (Colbo's testimony at page 37), which the company either withdrew on further reflection, or compromised. In either event, this complaint is not a forum to sanction and otherwise penalize a successful regulated transportation company for past practices. Such unprecedented punitive remedies should not be espoused in the name of public service regulation.

Q. Based on the foregoing testimony, do you believe the present rates of Bremerton-Kitsap Airporter should be subject to reduction or are otherwise based on an excessive revenue requirement?

A. Absolutely not. As my review of the company's financial data and evaluation of the staff's adjustments suggest, I do not believe any rate reduction from present levels is warranted. Thus, I have not performed separate calculations for the Kitsap and Pierce County operations of Bremerton-Kitsap Airporter as did staff, as I do not advocate any reduction in the company's overall revenue requirement or present rate levels.

Q. Does this conclude your direct examination testimony at this juncture?

A. Yes it does.