

T/DML/TCG/WPSC

ORIGINAL

Decision SS 11 104 NOV 30 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of VALLEY PARCEL)	
SERVICE, INC. for authority to)	
encumber its public utility)	Application 83-08-28
property pursuant to Section)	(Filed August 9, 1983,
851-854 of the Public Utilities)	Amended November 4, 1983)
Code.)	

O P I N I O N

Valley Parcel Service, Inc. (Valley), a California corporation, seeks authority to increase the limit it is authorized to borrow from \$400,000 to \$750,000. Notices of the filing of the application and its amendment appeared on the Commission's Daily Transportation Calendar of August 15, 1983 and November 9, 1983, respectively. There are no protests.

Applicant holds a highway common carrier certificate of public convenience and necessity granted under Public Utilities Code Section 1063.5 and highway contract carrier and agricultural carrier permits under File T-90,282. It also holds operating authority issued by the Interstate Commerce Commission under MC 142129. All outstanding stock is owned by Henry A. Heintz of Fresno.

The application states that Valley maintains terminals in Sacramento, Fresno, Bakersfield, and in Reno, Nevada. It provides daily pickup and delivery service to and from approximately 300 communities in central California and northwestern Nevada, as well as daily inter-terminal service and daily service to and from the San Francisco, Los Angeles, and other airports. Applicant states that approximately 60% of its revenues are from its air freight operations, 10% are from interstate operations, and 30% are from California intrastate operations.

By Decision (D.) 83-03-020 in Application (A.) 83-01-32, dated March 2, 1983, Valley was authorized under Public Utilities (PU) Code Sections 851-854 to encumber certain revenue and operating equipment as security for the establishment of a line of credit not to exceed \$400,000 with Trefoil Capital Corporation of California, Inc. (Trefoil). The purpose of this application is to raise the credit limit authorized in D.83-03-020 from \$400,000 to \$750,000. Valley states that while the company is currently profitable, its business is increasing and its accounts receivable totals and daily working capital needs continue to escalate. It estimates that in the near future, the \$400,000 credit line will no longer meet the company's needs. Valley states that Trefoil is willing to continue to extend additional working capital under the terms and conditions of the existing agreement. Applicant states that while the terms of the existing agreement do not now qualify

Valley for the full credit limit of \$750,000 as requested, it does now qualify for a credit line in excess of the \$400,000 originally granted and is requesting authorization for the full credit limit of \$750,000 at this time in order to allow for the expansion of its business and to avoid additional costly and time consuming applications for further credit authorizations. As justification for the granting of this application, Valley states the following circumstances:

Since the filing of its initial application (A. 83-01-32), Valley's business has remained profitable and has expanded. Total transportation revenue for the eleven months ending August 31, 1983 was \$3,733,650, or approximately \$339,423 per month. This represents an average increase of about \$37,000 per month over the twelve-month period ending September 30, 1982.

While Valley's operations are currently profitable, earning \$27,403 net profit in the first eleven months of the fiscal year ending September 30, 1983, that profitability is not yet sufficient to erase the substantial loss sustained in 1981. Net profit in the fiscal year ending September 30, 1982 was \$49,210. While these two years of profitable operations demonstrate the company is capable of servicing its debts and producing a profit, it does not eliminate the need for borrowed funds at the present time or in the foreseeable future.

Valley's balance sheet dated August 31, 1983 shows its current assets exceed current liabilities by \$270,693 for a current ratio of 1.42 to 1.0. Valley's only long term liability consists of an unsecured note in the amount of \$365,000 from its sole stockholder. Since this amount is willingly subordinated to the loan agreement in question, Valley states that it is considered as part of the owner's equity in the company and alleges that the granting of this application will allow Valley to protect that substantial investment and enable Valley to continue to provide the valuable public service that is evidenced by its steadily increasing patronage and revenues.

Valley's balance sheet dated August 31, 1983 indicates \$730,342 in accounts receivable, which is approximately 80% of Valley's total current assets. Although the accounts receivable are considerable, the applicant states that their greater share is due from exempt air-related movements, which are not subject to the 7-day net term credit rules of regulated intrastate highway carrier transportation. Further, the accounts receivable include amounts earned but not yet invoiced. It is customary in the air freight business to invoice customers on a monthly basis rather than on a shipment-by-shipment basis. Also, it is common practice to finance such short term cash needs with a revolving credit line of the type proposed in this application as amended.

A summary of the accounts receivable aging schedule as of August 30, 1983 was attached to the amendment of the application.

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It reflects a rather balanced picture, with only about \$30,000 or 5% of the total receivables over 120 days past due. Non-collectible accounts are reviewed annually for eligibility as bad debts.

The balance sheet of June 30, 1983 shows the ratio of total debt (\$508,226) to the net worth plus the subordinate debt (-\$67,558 + \$350,000) is not excessive. The working capital (current assets minus current liabilities) is positive.

Details of the security given to Trefoil to guarantee repayment of amounts borrowed under this line of credit appear in the Loan and Security Agreement and its Addendum, filed as Exhibit 2 of the amendment. The agreement will have a term of two years from its effective date and shall be automatically renewed for successive periods of one year unless terminated by either party on the anniversary of its effective date. Interest will be determined on the average daily balance only, at the rate of 5% above prime. In exchange for the extension of credit, applicant has agreed to pledge certain of its accounts receivable and operating equipment as collateral. A schedule of depreciation listing the operating equipment to be pledged is filed as Exhibit 5 of the amendment to the application.

This order did not appear on the Commission's public agenda; however, an emergency exists sufficient to justify our action today under Public Utilities Code Section 306(b) without this notice.

Findings of Fact

1. Valley operates under a highway common carrier certificate of public convenience and necessity.
2. Valley has an immediate need for daily working capital to meet current operating expenses.
3. Valley proposes to enter into an agreement with Trefoil to increase its credit line limit to \$750,000.
4. Valley will pledge certain of its accounts receivable and operating equipment as collateral.
5. The proceeds from the proposed line of credit are for lawful purposes.
6. A public hearing is not necessary.
7. Because of the immediate need for the working capital, the effective date of the order which follows should be the date it is signed.

Conclusion of Law

The application should be granted to the extent set forth in the following order.

The authority granted by the decision is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

On or after the effective date of this order, but before March 1, 1984, for the purposes specified in the application, Valley Parcel Service, Inc. may enter into the Loan and Security Agreement with Trefoil Capital Corporation of California, Inc., shown as Exhibit 2 of the amendment to the application, encumbering certain revenue and operating equipment as security for the establishment of a line of credit not to exceed \$750,000.

This order is effective today.

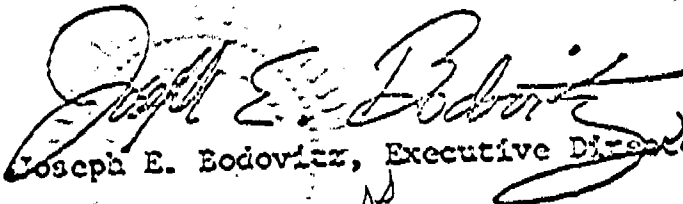
Dated NOV 30 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. CREW
WILLIAM T. BAGLEY
Commissioners

Commissioner Donald Vial, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director