PENNSYLVANIA PUBLIC UTILITY COMMISSION

Uniform Cover and Calendar Sheet 106

1. REPORT DATE: September 29, 1994	**2. BUREAU AGENDA NO.** OCT-94-L-236*
3. BUREAU: Law	
4. SECTION(S): Motor Carrier	**5. PUBLIC MEETING DATE:**
6. APPROVED BY: **Director:** Povilaitis 7-5000 **Supervisor:** House 3-3713 HKH	October 13, 1994
7. PERSON IN CHARGE: John E. Herzog 3-3713	
8. DOCKET NO.: A-00107087, F.3000 ~~A-00110387, F.3000~~	

9. (a) CAPTION (abbreviate if more than 4 lines)
(b) Short summary of history & facts, documents & briefs
(c) Recommendation

(a) Joint Application of Independent Freightway, Inc., d/b/a Inway and Ranger Transportation, Inc. to act as self-insurers.

(b) On August 3, 1994, Inway and Ranger filed a joint application to act as self-insurers for bodily injury/properly damage liability for the first $1 million per occurrence, maintaining excess insurance coverage to $45 million. Inway and Ranger also seek to act as self-insurers for cargo damage liability.

(c) The Law Bureau recommends that self-insurer status be conditionally granted.

10. MOTION BY:	Commissioner	Chm. Rolka	Commissioner Commissioner	Quain - Yes Crutchfield - Yes
SECONDED:	Commissioner	Rhodes	Commissioner	Hanger - Yes

CONTENT OF MOTION: Staff recommendation adopted.

DOCKETED
NOV 08 1994

DOCUMENT FOLDER

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

OCTOBER 24, 1994

A-00107087,F.3000
A-00110387.F.3000

JAMES D CAMPBELL JR ESQUIRE
CLADWELL & KEARNS
3631 NORTH FRONT STREET
HARRISBURG PA 17110-1533

Joint Application of Independent Freightway, Inc.,d/b/a Inway and Ranger Transportation, Inc.

Joint Application for Approval to Act as Self-Insurers

To Whom It May Concern:

This is to advise you that an Order has been adopted by the Commission in Public Meeting on October 13, 1994 in the above entitled proceeding.

A copy of this Order has been enclosed for your records.

Very truly yours,

John G. Alford, Secretary

DOCKETED
NOV 01 1994

smk
encls.
cert. mail

DOCUMENT
FOLDER

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held October 13, 1994

Commissioners Present:

David W. Rolka, Chairman
Joseph Rhodes, Jr., Vice Chairman
John M. Quain
Lisa Crutchfield
John Hanger

DOCUMENT FOLDER

Joint Application of Independent Freightway, Inc., d/b/a Inway and Ranger Transportation, Inc.

Docket Nos.
A-00107087, F.3000

Joint Application for Approval to Act as Self-Insurers

A-00110387, F.3000

DOCKETED
NOV 01 1994

O R D E R

BY THE COMMISSION:

This matter comes before the Commission on a Joint Application for Approval to Act as Self-Insurers filed by Independent Freightway, Inc., d/b/a Inway ("Inway") and Ranger Transportation, Inc. ("Ranger"). Inway and Ranger seek Commission approval to act as self-insurers of their bodily injury, property damage, and cargo damage coverages.

Section 512 of the Public Utility Code, 66 Pa. C.S. §512, empowers the Commission to prescribe requirements for motor carriers as it may deem necessary for the protection of persons or property of their patrons and the public. This provision, inter alia, permits the Commission to prescribe the qualifications and conditions under which motor carriers whose current assets exceed their current liabilities by at least $100,000 may act as self-insurers.

Pursuant to Section 512 of the Public Utility Code, the Commission has promulgated regulations at 52 Pa. Code §32.1-§32.16 regarding motor carrier insurance. Specifically, 52 Pa. Code §32.12 provides requirements for property carrier insurance. This provision requires that motor carriers of property must have insurance for bodily injury, death, and the loss or damage to property of others resulting from the operation, maintenance or use of a motor vehicle in service in amounts not less than $300,000 per accident on each motor vehicle. Further, 52 Pa. Code §32.13 provides, in part, that a common carrier of property by motor vehicle shall carry cargo insurance in an amount satisfactory to the Commission, but not less than $5,000. Finally, 52 Pa. Code §32.15, concerning applications to self-insure, provides as follows:

> §32.15. Applications to self-insure.
>
> (a) A common or contract carrier by motor vehicle may file an application with the Commission to act as self-insurer of all or part of its bodily injury, property damage or cargo damage claims. In support of its application, the applicant shall submit a true and accurate statement of its financial condition which establishes its capability to satisfy its insurance obligations as they become due, a self-insurance plan which includes adequate security to protect the public and a description of its safety program including its past accident record. An interstate carrier shall submit the approval of the Interstate Commerce Commission of its proposed self-insurance plan with its application. A self-insurance applicant shall agree in the application to grant the Commission authority to rescind approval of self-insurer status, without hearing, if the Commission determines that the public interest demands it.
>
> (b) In reviewing self-insurance applications the Commission will examine the following factors in determining whether approval will be granted:
>
> (1) The net worth of the motor carrier in relationship to the size of its operation and the nature and extent of its request for self-insurer status. The evidence shall demonstrate the carrier's financial capability to adjust and pay insurance obligations as they become due before approval will be granted.
>
> (2) The organization of the carrier's proposed self-insurance program including the adequacy of security to protect the public. Security may be in the form, but is not limited to, one or more of the following:

(i) Reserves.
(ii) Sinking funds.
(iii) Third party financial guarantees.
(iv) Parent company or affiliate sureties.
(v) Excess insurance coverage.
(vi) Other similar arrangements.

(3) The effectiveness of the motor carrier's safety program. The Commission will look closely at the average number and average cost of accident losses over the past 3 years in determining whether self-insurance is feasible.

(c) Commission approval of a self-insurance application may be made conditional on revisions in the applicant's proposed self-insurance plan or safety program as well as requirements of periodic financial filings with the Commission.

(d) Commission approval of self-insurance status is subject to the issuance of a self-insurance certificate to the motor carrier by the Department of Transportation as required by 67 Pa. Code §223.5 (relating to certificate) for vehicles registered in this Commonwealth.

Ranger and Inway are corporations organized under the laws of the State of Delaware. They are wholly owned subsidiaries of Landstar System, Inc. ("Landstar"), which also owns three (3) other motor carrier companies.[1] Landstar is a publicly traded company whose stock is listed on the NASDAQ National Market System. Both Ranger and Inway hold authority from the Commission to provide service as Class D common carriers of property.

Ranger and Inway also hold nationwide authority issued by the Interstate Commerce Commission ("ICC"). Ranger and Inway, as well as their three affiliates in the Landstar family, applied to act as self-insurers with the ICC, which application was conditionally granted. The ICC authorized Ranger, Inway and their affiliates to self-insure for levels of $1 million for bodily injury/property damage coverage and $10,000 for cargo insurance coverage. Inway and Ranger have attached a copy of the

[1]Only Ranger and Inway hold authority from this Commission.

ICC decision and their ICC self-insurance application to their current application.

Inway and Ranger have submitted various financial statements in support of their application. Some of these financial statements were also submitted by Ranger and Inway to the ICC in support of their application before that agency. Selected financial data from these statements as well as from the ICC application are as follows:

LANDSTAR SYSTEM, INC. (Consolidated)[2]
SELECTED FINANCIAL DATA
(000 omitted)

		Year ended 12/25/93	Year ended 12/26/92	03/28/91 through 12/28/91
I.	Profitability and Cash Flow			
1.	Operating Revenues	$780,520	$672,450	$453,591
2.	Operating Expenses	750,296	649,579	439,903
3.	Operating Income (1-2)	30,224	22,871	13,688
4.	Net Income (Loss)	11,728	6,350	2,201
1.	Net Income	11,728	6,350	2,201
2.	Plus Depreciation and Amortization	13,315	12,968	9,165
3.	Cash Flow from Operations (1+2)	25,043	19,318	11,366
4.	Debt Due Within One Year	11,628	10,838	9,022
5.	Cash Throw-Off-To Debt Ratio (3/4)	2.15	1.78	1.26

[2] Consolidated financial statements include the account of the company and all subsidiaries.

II. Liquidity	12/25/93	12/26/92	12/28/91
1. Cash & Investments	$ 15,120	$12,335	$ 5,642
2. Other Current Assets	109,318	86,416	76,138
3. Total Current Assets (1+2)	124,438	98,751	81,780
4. Current Liabilities	87,363	79,389	66,722
5. Working Capital (3-4)	37,075	19,362	15,058

III. Debt Structure	12/25/93	12/26/92	12/28/91
1. Long-Term Debt Due After One Year	$36,446	$57,469	$58,131
2. Stockholders' Equity (Tangible)[3]	47,364[4]	<4,427>	<16,409>
3. Total Debt Plus Equity (1+2)	83,810	53,042	41,722
4. Debt-to-Debt Plus Equity Ratio (1/3)	.43	1.08	1.39

[3]Excludes goodwill of $33,390; $34,284; $40,104 as of 12/25/93, 12/26/92 and 12/28/91, respectively.

[4]The substantial improvement in tangible equity is attributable to the public sale of common stock for $28.5 million. Cash proceeds from this sale of stock and from $18.8 million new financing were used to retire $15.2 million of certain debt and $38 million of 14 percent senior subordinated notes.

INDEPENDENT FREIGHTWAY, INC.
SELECTED FINANCIAL DATA
(000 omitted)

		Year ended 12/25/93	Year ended 12/26/92	03/28/91 through 12/28/91
I.	Profitability and Cash Flow			
1.	Operating Revenues[5]	$218,882	$184,772	$122,552
2.	Operating Expenses	208,624	176,167	117,378
3.	Operating Income (1-2)	10,258	8,605	5,174
4.	Net Income (Loss)	4,940	3,984	2,246
1.	Net Income	$4,940	$3,984	$2,246
2.	Plus Depreciation and Amortization	1,308	1,126	800
3.	Cash Flow from Operations (1+2)	6,248	5,110	3,046
4.	Debt Due Within One Year	799	464	17
II.	Liquidity	12/25/93	12/26/92	12/28/91
1.	Cash & Investments	$ 0	$ 0	$ 0
2.	Other Current Assets	55,397	47,066	41,169
3.	Total Current Assets (1+2)	55,397	47,066	41,169
4.	Current Liabilities	18,535	14,398	13,112
5.	Working Capital (3-4)	36,862	32,668	28,057

[5]Includes revenue from affiliates.

III. Debt Structure	12/25/93	12/26/92	12/28/91
1. Long-Term Debt Due After One Year[6]	$14,760	$14,186	$12,023
2. Stockholders' Equity (Tangible)	26,028[7]	21,002[8]	16,203[9]
3. Total Debt Plus Equity (1+2)	40,788	35,188	28,226
4. Debt-to-Debt Plus Equity Ratio (1/3)	.36	.40	.42

RANGER TRANSPORTATION, INC.
SELECTED FINANCIAL DATA
(000 omitted)

	Year ended 12/25/93	Year ended 12/26/92	Year ended 12/28/91
I. Profitability and Cash Flow			
1. Operating Revenues[10]	$304,127	$268,435	$188,046
2. Operating Expenses	292,931	258,448	180,779
3. Operating Income (1-2)	11,196	9,987	7,267
4. Net Income (Loss)	4,953	4,217	3,098

[6]Includes intercompany long-term debt of $12,023 for years ending 12/25/93, 12/26/92 and 12/28/91.

[7]Excludes Goodwill of $3,218.

[8]Excludes Goodwill of $3,304.

[9]Excludes Goodwill of $4,119.

[10]Includes revenue from affiliates.

1.	Net Income	$4,953	$4,217	$3,098
2.	Plus Depreciation and Amortization	2,241	1,692	1,509
3.	Cash Flow from Operations (1+2)	7,194	5,909	4,607
4.	Debt Due Within One Year	1,215	654	132

II.	<u>Liquidity</u>	<u>12/25/93</u>	<u>12/26/92</u>	<u>12/28/91</u>
1.	Cash & Investments	$ 59	$ 30	$ 26
2.	Other Current Assets	74,343	65,798	54,087
3.	Total Current Assets (1+2)	74,402	65,828	54,113
4.	Current Liabilities	28,650	24,784	18,794
5.	Working Capital (3-4)	45,752	41,044	35,319

III.	<u>Debt Structure</u>	<u>12/25/93</u>	<u>12/26/92</u>	<u>12/28/91</u>
1.	Long-Term Debt Due[11] After One Year	$21,371	$20,155	$18,213
2.	Stockholders' Equity (Tangible)	30,831[12]	25,750[13]	19,667[14]
3.	Total Debt Plus Equity (1+2)	52,202	45,905	37,880
4.	Debt-to-Debt Plus Equity Ratio (1/3)	.40	.43	.47

---

[11]Includes intercompany long term debt of $18,213 for years ending 12/28/91, 12/26/92 and 12/25/93.

[12]Excludes Goodwill of $4,784.

[13]Excludes Goodwill of $4,912.

[14]Excludes Goodwill of $6,778.

Beyond the financial statements, Inway and Ranger also submit a proposed self-insurance program in support of their application. It is each of the applicant's intention to self-insure for bodily injury/property damage in the amount of $1 million and cargo damage in the amount of $10,000. Landstar will maintain excess insurance coverage in the amount of $45 million. Each Applicant will obtain separate letters of credit in the amounts of $1 million and $10,000 for bodily injury/property damage and cargo damage coverages, respectively.

Inway and Ranger will use the services of Risk Management Claims Services, Inc. ("RMCS") to manage claims. RMCS is also a wholly owned subsidiary of Landstar which is devoted entirely to risk management and related claims activities on behalf of the Landstar motor carriers. RMCS's activities include evaluation and placement of insurance and claims and litigation management of all automobile and general liability claims. RMCS administers the current insurance policies for Inway and Ranger, which insurance policies carry $1 million and $100,000 deductibles for bodily injury/property damage and cargo damage liabilities, respectively.

Ranger and Inway also submit a copy of their safety programs currently in effect. These programs are independent programs. Landstar also has a safety program applicable to all its subsidiary motor carriers. The Landstar program is headed by a safety council, made up of senior management personnel from Landstar and each of its motor carrier subsidiaries. The purposes of the council are to achieve compliance with the U. S. Department of Transportation ("USDOT") safety regulations, to provide the Landstar companies with information concerning the nature and extent of exposures and the effectiveness of loss control practices, to inform each subsidiary of Landstar's minimal loss control standards and the actions each company must take to achieve and maintain those standards, and to assist each subsidiary in the maintenance and improvement of its loss control procedures. Landstar attempts to meet USDOT driver qualification standards. It also has established driver eligibility requirements, a road driving skill test, and a drug testing policy. Landstar encourages its subsidiaries to establish a fleet maintenance program in compliance with USDOT regulations.

Ranger and Inway attach a list of accident claims for recent years as follows:

Automobile Liability Claims
Within $1.5 Million Deductible Limits

	Open Claims	Closed Claims	Total Claims	Paid To Date	Outstanding	Total Incurred
			Inway			
4/1/90-4/30/91	10	533	543	4,638,010	717,846	5,355,856
5/1/91-4/30/92	17	377	394	1,506,995	382,272	1,889,267
5/1/92-4/30/93	71	353	424	542,876	918,559	1,461,435
			Ranger			
4/1/90-4/30/91	10	647	659	3,385,086	432,163	3,817,249
5/1/91-4/30/92	30	515	545	1,261,561	695,593	1,957,154
5/1/92-4/30/93	164	477	641	1,037,831	1,352,378	2,390,209

NOTE: Excludes non-trucking liability losses which are insured under first dollar policy with Lloyds of London and funded by independent contractors.

Cargo Liability Claims
Within $100,00 Deductible Limits

	Open Claims	Closed Claims	Total Claims	Paid To Date	Outstanding	Total Incurred
			Inway			
4/1/90-4/30/91	0	408	408	1,013,003	0	1,013,003
5/1/91-4/30/92	3	394	397	888,875	23,634	912,509
5/1/92-4/30/93	132	282	414	547,438	382,012	929,450
			Ranger			
4/1/90-4/30/91	2	755	757	1,232,382	3,731	1,236,113
5/1/91-4/30/92	22	578	600	1,236,458	30,875	1,267,333
5/1/92-4/30/93	290	309	599	407,018	763,129	1,170,147

Analysis of Claims Exceeding Proposed Self-Insurance Limits
Automobile Coverage Liability Claims
In Excess of $1.5 million per Occurrence

	Open Claims	Closed Claims	Total Claims	Paid To Date	Outstanding	Total Incurred
			Inway			
4/1/90-4/30/91	0	1	1	114,758	0	114,758
5/1/91-4/30/92	0	0	0	0	0	0
5/1/92-4/30/93	0	0	0	0	0	0
			Ranger			
4/1/90-4/30/91	0	0	0	0	0	0
5/1/91-4/30/92	0	0	0	0	0	0
5/1/92-4/30/93	0	0	0	0	0	0

Analysis of Claims Exceeding Proposed Self-Insurance Limits
Cargo Coverage Liability Claims
In Excess of $100,000 per Occurrence

	Open Claims	Closed Claims	Total Claims	Paid To Date	Outstanding	Total Incurred
			Inway			
4/1/90-4/30/91	0	0	0	0	0	0
5/1/91-4/30/92	0	0	0	0	0	0
5/1/92-4/30/93	0	1	1	67,035	0	67,035
			Ranger			
4/1/90-4/30/91	0	0	0	0	0	0
5/1/91-4/30/92	0	0	0	0	0	0
5/1/92-4/30/93	0	0	0	0	0	0

Based on the foregoing, we find that Inway's and Ranger's financial health and that of their parent weighs in favor of granting the joint application to self-insure. Inway's current assets significantly exceeded its current liabilities for each of the last three years by a minimum of $28 million. Ranger and Landstar also established significant working capital in each of the last three years. Further, both Ranger and Inway had significant net worth in each of the last three years. While Landstar had negative net worth in 1991 and 1992, this was bolstered by a public stock offering in 1993.

The financial health of the applicants' and their parent, the safety record of applicants, the limited scope of the applicants' request to self-insure, and the maintenance of letters of credit persuade us that Inway and Ranger have adequate resources to self-insure. Therefore, we find that Inway's and Ranger's joint application to self-insure their bodily injury/property damage and cargo liabilities should be granted, subject to our conditions, since there is adequate protection for the public. THEREFORE, IT IS ORDERED:

1. That the Joint Application to Self-Insure filed by Independent Freightway, Inc. and Ranger Transportation, Inc. is hereby granted to allow each applicant to self-insure the first $1 million per occurrence bodily injury/property damage liability and $10,000 cargo insurance coverage. The grant is conditioned on the following:

a. Independent Freightway, Inc. and Ranger Transportation, Inc., each must maintain an irrevocable $10,000 letter of credit for cargo liability and a separate $1 million irrevocable letter of credit for bodily injury and property damage liability. Applicants must submit, within sixty (60) days of the date of service of this Order, a copy of each of these documents to the Commission. The Commission must approve the terms of the letters of credit prior to any effective date for activation of the letters of credit or self-insurer status. Any changes in their terms must be given prior approval by the Commission. Applicants must have unrestricted access to the letters of credit and drawdowns may be made only to satisfy claims for cargo or bodily injury and property damage liability. Any drawdown from the letters of credit must be reported immediately to the Commission, along with an explanation as to how the particular Applicant proposes to respond to additional liability claims. Any drawdown from the letters of credit must be replenished within thirty (30) days, and any failure to replenish the amount of a drawdown within thirty (30) days also must be reported immediately to the Commission.

b. Each Applicant must maintain a net worth of at least $2 million at all times and must notify the Commission immediately if, at any time, its net worth falls below this level.

c. Each Applicant must submit quarterly and annual financial statements to the Commission, within sixty (60) and ninety (90) days, respectively, after the end of the quarterly or annual period. These statements must be verified by an appropriate company official. The annual statements must be audited. The statements should include statements for each Applicant and Landstar System, Inc.

d. Each Applicant must file with the Commission quarterly claims reports detailing the number and aggregate dollar amount for both its Pennsylvania and non-Pennsylvania operations. These reports should also detail pending court cases or other actions which relate to or arise from their claims experience. Appropriate company officials must verify these reports.

e. Each Applicant must notify the Commission immediately of any pending or contingent bodily injury and property damage liability claims which exceed $100,000 per occurrence or any cargo liability claims which exceed $10,000 per occurrence for that particular applicant.

f. Each Applicant must notify the Commission no later than ninety (90) days prior to the effective date of any change in the terms or cancellation of the letters of credit and must notify the Commission of the renewal of the letters of credit no later than six (6) months prior to their expiration date.

g. Landstar System, Inc. must file a formal written agreement with the Commission guaranteeing payment of the self-insurance obligations of each Applicant.

h. Landstar System, Inc. and each Applicant must submit additional information that the Commission may deem necessary upon the request of the Commission.

i. The Commission may rescind approval of self-insurer status, without hearing, if the Commission determines that the public interest demands it.

j. Commission approval of Applicants' joint self-insurance application is subject to the issuance of self-insurance certificates to each Applicant by the Department of Transportation as required by 67 Pa. Code §223.5 for vehicles registered in this Commonwealth.

k. This decision is effective as of the date of entry. However, neither Applicant may activate its self-insurance program less than thirty (30) days after submitting documents to the Commission demonstrating that the required letters of credit have been established. Each Applicant must also notify the Commission of the date they will activate their self-insurance authority.

BY THE COMMISSION,

John G. Alford
Secretary

(SEAL)

ORDER ADOPTED: October 13, 1994

ORDER ENTERED: OCT 24 1994

Is your RETURN ADDRESS completed on the reverse side?

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

A-88157087, F-3000
A-00116387, F-3000
James S. Campbell, Jr., Esq.

4a. Article Number
044549

4b. Service Type
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery
10/25/94

5. Signature (Addressee)

6. Signature (Agent)

8. Addressee's Address (Only if requested and fee is paid)

AMI

PS Form **3811**, December 1991 ★U.S. GPO: 1993—352-714 **DOMESTIC RETURN RECEIPT**

Thank you for using Return Receipt Service.