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Decision No. 12584.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of LOS ANGELES JUNCTION RAILWAY COMPANY to issue and sell $1,000,000.00 par value of its capital stock and to issue promissory notes in the sum of $250,000.00.	Application Number 9205.

Leroy M. Edwards, for Applicant.

BY THE COMMISSION:

OPINION

LOS ANGELES JUNCTION RAILWAY COMPANY asks permission to issue and sell at par for cash $1,000,000.00 of common capital stock and to issue and sell at par for cash $250,000.00 of unsecured notes, bearing interest not to exceed seven percent. per annum and payable one or more years from date.

Los Angeles Junction Railway Company is a corporation duly organized and existing under the laws of the State of California. It is authorized to acquire, build, construct and operate a railroad for the purpose of carrying and transporting freight, passengers, packages, mail and express for hire. The corporation was organized in May, 1923, and has an authorized capital stock of $1,000,000.00 divided into 10,000 shares of $100.00 each.

The Los Angeles Junction Railway was organized by John S. Spoor, chairman of the Board of Directors of Chicago Junction Railway, and by his associates. It is of record that they have been to a large extent responsible for the development of the Central

Manufacturing District of Chicago, served by the Chicago Junction Railway. After an extended investigation they acquired a tract of land, some three hundred acres, located in San Antonio township, County of Los Angeles, lying adjacent to Downey Road and immediately east of the City of Vernon. They are undertaking to develop this tract of land as a Central Manufacturing District. To serve the industries that will locate in such district, they have organized applicant corporation which intends to acquire and construct a standard gauge railroad having its main switch yard located in the Central Manufacturing District and having spur tracks radiating and extending to all parts of the property comprising said Central Manufacturing District and other territory adjacent to its line. Applicant intends to connect with the Southern Pacific, the Union Pacific(Los Angeles and Salt Lake) Santa Fe and Pacific Electric tracks. It will operate primarily as a terminal switching carrier.

Applicant asks permission to issue and sell for cash at par $1,000,000.00 of common capital stock and $250,000.00 of unsecured notes. It intends to use the proceeds obtained from the sale of the stock and notes for the following purposes;-

a- To purchase 47-3/10 acres of land at $20,000.00 per acre	$946,000.00
b- To purchase approximately three miles of tracks and other improvements constructed	54,000.00
c- To construct additional tracks and purchase equipment and rights-of-way . . .	200,000.00
d- Working capital	50,000.00
TOTAL..........	$1,250,000.00

The testimony shows that applicant may have need for the 47-3/10 acres of land for right-of-way and terminal purposes. The land lies immediately adjacent to the Los Angeles River and consists of a strip about 200 feet wide, extending from Downey Road to about 392 feet west of Pasadena Avenue.

Applicant asks permission to issue and sell stock and use the proceeds obtained from the sale of its stock to acquire the land at a cost of $20,000.00 an acre. It justifies the payment of such price by offering evidence showing that the Central Manufacturing District had sold land at a price in excess of $20,000.00 an acre and that W.L. Brent, Vice-president of the Los Angeles Realty Board, had placed a value of $20,000.00 an acre on land in the district. Following the hearing, E. P. McAuliffe, an assistant engineer for the Commission, made an appraisal of the land in question. He reports that if the men behind the development of the Central Manufacturing District "have the ability to perform and the desire to perform and that the Central Manufacturing District will continue the development already started, then $20,000.00 an acre is a reasonable value for the land. If on the other hand the Central Manufacturing District stopped their development, or if their financial support was withdrawn, then $7,500.00 an acre would be a high value for the land." E. P. McAuliffe further reports that at the time he made his investigation, which was subsequent to the hearing, there was no written evidence of the sale of any property, no signed agreements, contracts or deeds. He was advised that only verbal offers and acceptances existed. There have since been filed with the Commission two preliminary agreements of sale and a lease agreement. The sale agreements provide that if the purchasers do not construct buildings before June 1, 1924, the seller has the option to buy back the land at any time within six months after June 1, 1924, at the same price at which it was sold. The record does not show whether there exists any inter-corporate relation, direct or indirect, between the purchasers and sellers of the property. It is clear that such a relation does exist between applicant and those who are developing the Central Manufacturing District.

Applicant asks permission to issue $250,000.00 face value of notes. It appears to us that no need for the issue of the notes exists at this time. Applicant reports that it has made arrangements for the sale of its stock for cash at par. Inasmuch as the Commission is of the opinion that applicant should not pay more than $7,500.00 per acre for the 47.3 acres of land, it is not necessary to authorize the issue of all the stock and notes applied for. The 47.3 acres of land will cost applicant $354,750.00. Allowing $285,000.00 for purchase and construction of tracks, locomotives, freight facilities, rights of way and working capital, makes a total capital requirement of $639,750.00. The evidence shows that applicant will realize more than $639,750.00 from the sale of stock, making the issue of notes unnecessary.

O R D E R

LOS ANGELES JUNCTION RAILWAY COMPANY having applied to the Railroad Commission for permission to issue $1,000,000.00 of common capital stock and $250,000.00 of notes, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that applicant should be authorized to issue $1,000,000.00 of stock and forthwith sell $639,800.00 of such stock, that the application to issue notes should be dismissed and that the money, property or labor to be procured or paid for by the issue and sale of $639,800.00 of stock is reasonably required for the purpose or purposes specified in this order,

IT IS HEREBY ORDERED that the LOS ANGELES JUNCTION RAILWAY COMPANY be, and it is hereby, authorized to issue $1,000,000.00

It appears to us that the Commission is asked to permit the capitalization of a potential value. We are, in effect, asked to consider the value of the land, as it would be with the district de-
the railroad constituting part of the improvements in the district
veloped. We cannot in this proceeding consider the increase in land values because certain buildings may be constructed and certain industries may locate in the district. We think such a procedure would result in the same form of over-capitalization as though stock were sold at exorbitant discounts or given away as a bonus. For the purpose of this proceeding we will assume the land which applicant asks permission to buy to have a value of $7,500.00 per acre. This will be the maximum we will allow applicant to pay for the land through the issue of stock or evidence of indebtedness.

The evidence submitted at the hearing shows approximately three miles of standard gauge track constructed at a cost of about $54,000.00. An examination made, after the hearing by the Commission's Engineering Department shows 2.77 miles of track constructed at a cost of $34,814.29 and $27,127.64 of materials and supplies on hand. Counsel for applicant explains this discrepancy by stating that he obtained the $54,000.00 from the Chicago office which had assumed more track laid, than was actually laid at the date of the hearing. The track constructed will be acquired by applicant at cost. Within the near future, three miles more of track must be built. In addition, applicant will have to purchase locomotives, freight facilities, housing and repair facilities for the locomotives. Additional rights of way must be acquired to connect with the Southern Pacific and Santa Fe tracks. Such rights of way must be purchased from third parties who have no interest in the Los Angeles Junction Railway or in the Central Manufacturing District. The exact location of the right of way to connect with the Santa Fe and Southern Pacific has not been determined. Applicant estimates that for the construction of the additional three miles of track, the purchase of locomotives, freight facilities and the housing and repair facilities, rights of way, it will have to expend at least $200,000.00.

of stock and sell $639,800.00 of such stock for cash at not less than par.

IT IS HEREBY FURTHER ORDERED that this application in so far as it involves the issue of $250,000.00 of notes be dismissed without prejudice.

The authority to issue stock and notes is subject to the following conditions;-

1. The proceeds obtained from the sale of the stock shall be used for the following purposes;-

To purchase 47-3/10 acres of land described in this application	$354,750.
To purchase approximately three miles of track and improvements constructed and described in this application, approximately	34,815.
To construct additional tracks, purchase locomotives, freight facilities, housing and repair facilities and rights of way described in this application, approximately	200,000.
Working capital, approximately....	50,235.
TOTAL..............	$639,800.

2. Los Angeles Junction Railway shall keep such record of the issue and sale of stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order in so far as applicable, is made a part of this order.

3. The authority herein granted to issue stock will become effective upon the date hereof. The authority herein granted to issue stock will expire on March 1, 1924.

IT IS HEREBY FURTHER ORDERED that $360,200.00 of stock herein authorized to be issued, may be sold only upon such terms and conditions and for such purposes as the Commission will authorize by a supplemental order or orders.

DATED at San Francisco, California, this 7th day of September, 1923.

C L Seavey

H W Brundige

Egerton Shore

J. C. Whitsell

Commissioners.

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