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ORIGINAL

Decision No. 15015-

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PASADENA ELECTRIC EXPRESS COMPANY)
for an order authorizing the crea-)
tion of bonded indebtedness and the)
issue and sale of bonds.)

Application No. 11097

Hugh Gordon, for applicant.

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing Pasadena Electric Express Company to issue and sell, at 90 per cent of face value plus accrued interest, \$80,000.00 of 7 per cent ten year bonds due April 1, 1935 for the purpose of providing funds to pay outstanding indebtedness and to finance the cost of improvements and betterments to its operating facilities.

The company reports that, among other properties, it is the owner of certain real estate, in the City of Los Angeles, having a frontage of 100 feet on Commercial Street and extending back to a depth of 200 feet to Aliso Street. The improvements consist of a new four-story fire-proof Class "A" concrete warehouse building, 40 x 125 feet in dimension, with 20,000 square feet of floor space, which is located on the west side of the property and known as No. 447 Commercial Street, and a one-story

brick warehouse building located on the east side of the property and known as No. 453 Commercial Street, together with loading platforms, spur tracks and other facilities incidental to the business of a warehouseman. Applicant estimates the value of the real estate and improvements at \$165,000.00, which amount includes \$15,000.00 representing the cost of the brick warehouse, \$70,000.00 representing the cost of the new warehouse and \$80,000.00 representing the estimated market value of the land, it being valued at \$4.00 a square foot.

On May 1, 1924 applicant leased the new warehouse building for a term of five years to Central Warehouse and Storage Company, a corporation controlled by it through stock ownership. The agreement between the two corporations provides, among other things, for the payment to applicant, as rental, of all the net earnings received from the operation of the warehouse, such payments being made monthly. The business of Central Warehouse and Storage Company consists of general warehousing, flour being the principal commodity stored. For the twelve months ending April 30, 1925 the warehouse company reports its gross revenues at \$21,478.87, its operating expenses at \$14,246.53 and its net revenue payable to applicant under the terms of the lease at \$7,232.34.

Applicant reports outstanding a 7 per cent note due October 11, 1935 for \$48,500.00 in favor of Mortgage Guarantee Co. of Los Angeles secured by a first trust deed on the real estate and improvements referred to herein, and a 7 per cent note due October 11, 1925 for \$14,750.00 in favor of Hammond Lumber Company, secured by a second trust deed on the same properties. In addition, the company reports outstanding two three months 7 per cent notes in the aggregate amount of \$7,000.00 in favor of Pasadena National Bank.

Applicant now desires to pay its outstanding notes, which aggregate \$70,250.00, and to install, at an estimated cost of \$7,750.00, certain improvements in, and additions to, its warehouse equipment, consisting of a conveyor system, elevators, a garage and hand trucks. It is to obtain the moneys necessary to discharge its indebtedness and to finance in part the proposed improvements and additions that the present request is made for permission to issue and sell \$80,000.00 of bonds.

The \$80,000.00 of bonds will be dated April 1, 1925, bear interest at 7 per cent per annum, mature April 1, 1935, be callable at 105 and be secured by a first mortgage or deed of trust on the real estate and improvements referred to herein. The company reports that it has made arrangements to sell its bonds to Southwest Bond Company at 90 per cent of their par value plus accrued interest.

While a copy of the proposed mortgage or deed of trust has not been filed with the Commission, there is filed a copy of applicant's agreement with Southwest Bond Company in which applicant agrees, among other things, to pay to the trustee, in addition to the interest on the bonds, a sum sufficient to retire annually \$5,000.00 of bonds either through call at 105, or purchase in the open market at the best obtainable price, and also annually one-third of all net profits after deducting operating expenses, including depreciation, and payment of officers' salaries not exceeding \$15,000.00 per annum.

Applicant has agreed also to pay all costs incident to the issue and sale of the bonds, including engraving and printing, certificate of title, recording and trustees' fees, notary and escrow fees and attorneys' expenses and fees for approving the legality of the bonds. Applicant estimates these costs at about \$500.00, resulting in a net price to applicant for its bonds of about \$71,500.00 or about 89 per cent of face value. At 89, the effective interest rate on applicant's bonds, assuming they were not paid until maturity: to wit, April 1, 1935, would be

about 8.60 per cent. However, on account of the additional payments to be made by applicant to the trustee, at least \$5,000.00 of bonds will be retired annually and it is thought that the entire issue will be paid in about six years after issue. If paid at par in six years, the effective interest rate would be about 9.30 per cent. If the bonds were paid at 105, the call price, the effective interest rate, on bonds retired six years after issue, would be about 9.76 per cent. On bonds retired before six years the effective rate will be higher.

Should the \$80,000.00 of 7 per cent bonds be issued, applicant's annual interest charges would amount to \$5,600.00. This amount was earned about 1-1/3 times in the twelve months ending April 30, 1925, the first year of operation, the net income available for interest being reported at \$7,232.34. With the installation of the improvements and betterments it is thought the net income will be materially increased. Further, the \$80,000.00 of bonds will be a first lien on properties valued by applicant at \$165,000.00, or over twice the face value of the bonds.

In view of the showing made in this matter and of the statements herein, we do not believe that we are justified in authorizing the issue of the bonds at the price requested and under the conditions set forth in the agreement between applicant and Southwest Bond Company. The request of applicant for permission to issue \$80,000.00 of bonds will, therefore, be denied without prejudice.

ORDER

Pasadena Electric Express Company, having applied to the Railroad Commission for permission to issue and sell \$80,000.00

of bonds, a public hearing having been held before Examiner Williams and the Railroad Commission being of the opinion that for the reasons set forth in the foregoing opinion, this application should be denied without prejudice.

IT IS HEREBY ORDERED, that the application referred to herein be, and it is hereby, denied without prejudice.

DATED at San Francisco, California, this 1TH day of June, 1925.

H. B. ...

C. Seavey

Egerton Shaw

Commissioners.