

Decision No. 17109

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
STOCKTON TERMINAL AND EASTERN RAILROAD,)
a corporation, for a certificate) Application No. 12952
authorizing it to issue capital stock.)

Wm. M. Abbott, for applicant.

BY THE COMMISSION:

O P I N I O N

The Railroad Commission is asked to make an order authorizing the Stockton Terminal and Eastern Railroad to issue one share of capital stock to each of its three directors to qualify them as such directors and to issue 2,997 shares (\$299,700. par value) of its capital stock to Frank A. Guernsey, George E. Catts and F. J. Dietrich, as members of the committee representing the depositors of the bonds of Stockton Terminal and Eastern Railroad Company in exchange for the property referred to in the written offer (Exhibit "B") of said Frank A. Guernsey, George E. Catts and F. J. Dietrich.

The properties of Stockton Terminal and Eastern Railroad Company were sold at foreclosure sale on November 8, 1918, (Action No. 12524 in the office of the County Clerk of the Superior Court of the County of San Joaquin, State of California).

The properties of that company were purchased by a committee representing the holders of bonds who deposited their bonds with the committee. This committee has operated the properties since it acquired the same.

It has now offered to sell the properties to the Stockton Terminal and Eastern Railroad, a new corporation, on condition that such company assume to pay and/or discharge all present liabilities against the properties. In applicant's Exhibit No. 3 the liabilities as of May 31, 1926, are reported at \$89,889.77 and cash on hand at \$20,938.15 and accounts receivable at \$1,648.73. A description of the properties is contained in Exhibit "B". It is of record that all the properties, except worn out equipment, acquired by the committee at foreclosure sale will be transferred to the new company.

From applicant's Exhibit No. 2 it appears that the line of railroad which applicant intends to acquire is a standard gauge steam operated line extending from Stockton in a westerly direction to Bellota, California. On December 31, 1925, the mileage was as follows:-

Main track	18.617
Yard tracks and sidings	<u>2.601</u>
Total	21.218

At Stockton the railroad has direct track and transfer connections for interchange of business with the Central California Traction Company, the Southern Pacific Company, The Western Pacific Railroad Company and with The Atchison, Topeka and Santa Fe Railway Company, by a bridge movement operated by The Western Pacific without charge to the Stockton Terminal and

Eastern Railroad Company.

Originally the road was operated to serve both freight and passenger business. Following the receivership and sale of the properties the passenger business was discontinued and at this time the road is operated for freight only.

In applicant's Exhibit No. 2, a report prepared by Thompson and Butler, consulting engineers, the value of the properties as of December 31, 1925, is reported at \$370,047., segregated as follows:-

Value of land	\$65,785.
Cost of reproduction less depreciation.	286,641.
Other elements of value (5% of above)	<u>17,621.</u>
Total.	<u>\$370,047.</u>

The Interstate Commerce Commission in its tentative valuation, dated April 16, 1926, finds the value of the properties of Stockton Terminal and Eastern Railroad Company as of June 30, 1916, for rate making purposes to be \$222,297. The \$222,297. includes an allowance of \$25,539.49 for land. The present value of land is reported in applicant's Exhibit No. 2 at \$65,785. The Interstate Commerce Commission in its tentative valuation states that except as to land, it used the 1914 level of prices, though its valuation is as of June 30, 1916. The Commission states that in its final report it will use a price level as of June 30, 1916. H. C. Butler, consulting engineer, witness for applicant, testified that the 1916 price level is about twenty five percent higher than the 1914 price level. The Interstate Commerce Commission did not include in its tentative valuation \$647.40 found to be the value of non-operative property, nor the cost of additions and betterments

from June 30, 1916, to December 30, 1926, which is reported at \$16,820.

We do not believe that the capitalization of the properties should be based on prices prevailing on December 31, 1925, or on any other particular date. Capitalization should be based on the cost of the properties. It is of record however that the original cost of the properties is not available. We are of the opinion that a valuation of this property based on the 1914 price level plus the cost of additions and betterments the increase in land values and the current assets affords a sounder basis for the issue of stock than a valuation as of today based on present prices. The order herein will authorize applicant to issue \$225,000. of stock.

ORDER

Stockton Terminal and Eastern Railroad having applied to the Railroad Commission for permission to issue \$300,000. of stock for the purposes stated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and that the Railroad Commission being of the opinion that applicant should be permitted to issue \$225,000. of stock and that the application insofar as it involves the issue of \$75,000. of stock should be dismissed, and that the money, property or labor to be procured or paid for through the issue of the \$225,000. of stock is reasonably required by applicant, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should

be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Stockton Terminal and Eastern Railroad may issue and shall sell for par three shares of its capital stock (\$300. par value) to its directors to qualify them as directors, and shall use the proceeds for working capital.
2. Stockton Terminal and Eastern Railroad may issue on or before December 15, 1926, not exceeding 2,247 shares (par value \$224,700.) of its stock to Frank A. Guernsey, George E. Catts and F. J. Dietrich as members of the committee representing the depositors of the bonds of Stockton Terminal and Eastern Railroad Company in exchange for the property referred to in Exhibit "B" filed in this proceeding, said applicant to agree to assume to pay and/or discharge all present liabilities against said properties.
3. This application insofar as it involves the issue of \$75,000. of stock is hereby dismissed without prejudice.
4. Stockton Terminal and Eastern Railroad shall keep such record of the issue, sale and delivery of the 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 insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 13th
day of July, 1926.

H. B. Brundage

Edward A. Tamm

Leon A. White

Commissioners.