

Decision No. 17472

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE GOLDEN GATE FERRY COMPANY,)
a corporation, for permission to)
issue bonds to acquire additional)
ferry boats.)

ORIGINAL

Application No. 13124.

Devlin & Brookman; and Dudley D. Sales
by Douglas Brookman, for applicant.

BY THE COMMISSION:

O P I N I O N

The Golden Gate Ferry Company asks permission to issue and sell at not less than par \$2,260,000. face amount of bonds and \$540,000. par value of stock and use the proceeds to acquire and construct five ferry boats and its Berkeley terminal. It also asks permission to amend its mortgage and/or deed of trust executed under the authority granted by Decision No. 17185, dated August 2, 1926, as amended, in Application No. 12796, as follows:

- (1). To change the ratio of bonded indebtedness to applicant's properties to not exceeding 70 per cent in lieu of 50 per cent as now provided, so that bonds may be issued up to 100 per cent of additions or betterments until the 70 per cent ratio is reached, and thereafter up to 70 per cent of improvements and betterments;

(2). To change the sinking funds provided for future issues of applicant's bonds so as to require a sinking fund on each issue not less than that now in effect for the \$700,000. of bonds of applicant now outstanding;

(3). To change in certain details the provisions of sections 25 and 26 of said trust indenture relating to the construction of the Berkeley wharf, with the object of shortening and simplifying these provisions.

In Application No. 13124, as originally filed and amended at the hearing had on September 10, 1926, before Examiner Fankhauser, The Golden Gate Ferry Company asked permission to issue \$2,800,000. of its first mortgage seven per cent fifteen year bonds. On September 28 applicant filed its amended application in which it asks permission, as stated herein, to issue \$2,260,000. of said bonds and \$540,000. of common stock.

By Decision No. 16944, dated June 15, 1926, as amended, in Application No. 12796, the Commission authorized The Golden Gate Ferry Company to issue \$1,000,000. of stock and \$700,000. of seven percent fifteen year first mortgage bonds to qualify directors (\$1,000. of stock) and to acquire the properties of Golden Gate Ferry Company and finance the acquisition and construction of the new ferry boat M.S. "Golden State".

By Decision No. 17185, dated August 2, 1926, as amended, the Commission authorized applicant to execute a mortgage and/or deed of trust. This instrument secures the payment of an authorized bond issue of \$5,000,000. It appropriates \$700,000. of said bonds to pay in part for the properties of Golden Gate Ferry Company and for the acquisition and construction of the ferry boat M.S. "Golden State". It provides that \$300,000. of additional bonds may be issued up to but not exceed-

ing one hundred percent of the reasonable cost of purchase, construction or other acquisition of such pier (Berkeley), ferry boats, and/or betterments and improvements in respect to which the company proposes to issue such bonds, and no additional bonds over and above said \$500,000. in principal amount thereof shall be issued exceeding in aggregate or principal amount fifty percent of such reasonable cost. The mortgage further provides that no additional bonds shall be authenticated and delivered by the trustee except at a time when the net earnings of the company (including the earnings of its predecessor) for twelve consecutive months within the last fourteen calendar months preceding such delivery shall have amounted to at least one and three fourth times the annual interest upon all bonds then outstanding herein plus the additional bonds then proposed to be authenticated and delivered. Net earnings are to be determined by deducting from the gross earnings of the company all current operating and maintenance expenses paid or accrued, including taxes (except Federal income taxes) excises, license fees, rentals and adequate expenses or charges of proper current maintenance, but not including interest paid or payable on bonded indebtedness, Federal income taxes or any allowance for depreciation in value of company properties not preventable by current maintenance.

The Commission has upon two occasions investigated the rates of applicant's predecessor, Golden Gate Ferry Company. In each proceeding representatives of the company called the Commission's attention to a loss in revenue that would result from possible competition with the Northwestern Pacific Railroad Company. The Commission's attention also was directed to unusual hazards

that are involved in the operation of the company's business. Inasmuch as these matters were presented in a formal proceeding, we believe we can take judicial notice thereof as well as of the Commission's decisions.

In Decision No. 17030, dated July 2, 1926, in Case No. 2221, the Commission says,

"Although this latter estimated rate of return (10.9 percent) is quite liberal, there should be taken into consideration the fact that in addition to the general hazard of the business this carrier is faced with the possibility of more effective competition from another carrier serving this territory, in which event sufficient traffic might be deflected from The Golden Gate Ferry Company to materially reduce the rate of return as estimated. Under these circumstances it does not seem proper to find that this rate of return is unreasonably high. The conclusion is inescapable, however, that based upon the present facilities in service and the quality of service given with these facilities, the rates now charged by the company would be excessive, but, on the other hand, these same rates would be reasonable if sufficient money had been invested to provide adequate facilities and the higher grade of service were being rendered."

In its order in Decision No. 17030, the Commission directs the company to construct, purchase or acquire on or before February 1, 1927, at least two additional ferry boats of a capacity and design which shall meet the approval of the Commission and to thereafter operate said ferry boats together with the existing fleet or its equivalent in its service between San Francisco and Sausalito at all times that traffic requirements justify.

In Decision No. 17897, dated July 7, 1926, in Application No. 12661, the Commission declares that the present and future public convenience and necessity require the operation by The Golden Gate Ferry Company of vessels across the inland waters of the State of California between the City and County of

San Francisco and the City of Berkeley, the operation of said vessels to be limited to the transportation of vehicles together with the occupants thereof and the freight thereon and grants to said company a certificate to operate said vessels. From the Commission's decision it appears that the company proposes to build a pier three and one half miles long from the foot of University Avenue in Berkeley and to operate three boats on a twenty minute schedule between 6:30 a.m. and 7:00 p.m. and thereafter on a schedule of greater intervals. After a consideration of the evidence the Commission concluded that the company should provide itself with four boats instead of three boats to accommodate properly the traffic. In that decision it further appears that the probable rate base necessary to provide the four boat operation would be approximately \$2,565,000. and the estimated return for 1927 to be as follows:

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|---------------------------------|------------|
| Operating revenues | \$732,000. |
| Operating expenses | 545,000. |
| Net Operating Revenue | \$189,000. |
| <u>DEDUCT:</u> | |
| Taxes | \$ 26,000. |
| Net income. | \$163,000. |

This net income of \$163,000. represents a return of about 6.4 per cent on a rate base of \$2,565,000. It further appears from the Commission's decision that five boats will be required in 1928 which would make the probable rate base \$2,992,000. This operation would yield a net income of \$193,000. which would be a return of 6-1/2 percent on that rate base.

Applicant reports that it intends to forthwith proceed with the acquisition and construction of five additional ferry

boats and with the construction of the Berkeley pier and terminal. The five additional ferry boats which applicant proposes to acquire are to be of the type of the M.S. "Golden State" recently put into operation in applicant's service between the City and County of San Francisco and the City of Sausalito. Each boat is to be equipped with three full Diesel engines of 400 horsepower each; is to be constructed of wood of an approximate length of 240 feet and with a beam of approximately 64 feet and a net tonnage of 560 tons. Boats of the type of the M.S. "Golden State" are satisfactory. It is estimated that the cost of each of the five additional boats will be \$380,000. or a total cost of \$1,900,000. It is further estimated (applicant's Exhibit No. 1) that the cost of the Berkeley pier and terminal will be \$908,000., which added to the \$1,900,000. makes a total of \$2,800,000. To finance the acquisition and construction of properties costing \$2,800,000. the company proposes to issue at not less than par \$2,260,000. of its first mortgage seven percent fifteen year bonds and \$540,000. of common stock. We believe that the proposed bond issue is excessive and that the company should not be permitted to issue bonds in excess of \$1,550,000. The remainder of the moneys that may be necessary to acquire and construct the five vessels and the Berkeley pier should be obtained from the issue of common stock or from the income of the company as said term "income" is used in Section 52 of the Public Utilities Act. The company in this application asks permission to issue only \$540,000. of common stock. This request will be granted. But, inasmuch as applicant asks permission to issue only \$540,000. of stock, we cannot at this time authorize it to issue additional stock to offset the amount of bonds which applicant will not be permitted

to issue. If applicant desires to issue additional stock, it should file a supplemental application.

We believe that the provision of the existing mortgage and/or deed of trust of The Golden Gate Ferry Company limiting the issue of bonds to not exceeding fifty percent of the cost of properties is so sound and so much in the public interest, particularly for companies of this kind, that it should not be changed. The request of the company in this particular, therefore, will be denied. Its request to modify the sinking fund provision and Sections 25 and 26 of said mortgage and/or deed of trust will be given further consideration if applicant will file with the Commission a complete copy of the changes it proposes to make in said sinking fund provision and in said Sections 25 and 26 and its reasons for wanting to make such changes.

O R D E R

The Golden Gate Ferry Company having applied to the Railroad Commission for permission to issue \$2,260,000. of bonds and \$540,000. of common stock and to make certain changes in its proposed mortgage and/or deed of trust, a public hearing having been held and the Commission being of the opinion that the company should be granted permission to issue \$1,550,000. of first mortgage seven percent fifteen year bonds and \$540,000. of stock and that this application should be denied insofar as it involves the issue of \$710,000. of bonds and modify the company's mortgage and/or deed of trust so as to permit the issue of bonds up to seventy percent of the cost of new properties, and the Commission being further of the opinion that the money, property or labor to be procured or paid for by the issue of the bonds or stock herein

authorized is reasonably required by applicant for the purposes specified in this order and that the expenditures for said purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. The Golden Gate Ferry Company may issue and sell at not less than par on or before April 1, 1927, \$1,550,000. of its first mortgage fifteen year seven percent bonds and \$540,000. of its common stock.
2. The Golden Gate Ferry Company shall use the proceeds from the sale of the bonds, other than accrued interest, and stock herein authorized to pay in part the cost of the construction of the ferry boats and the Berkeley pier and terminal, referred to in this application; said boats, pier and terminal to be constructed in accordance with the plans and specifications now on file in this proceeding. The accrued interest may be used for general corporate purposes. Any proceeds not needed for any of the aforesaid purposes may be expended only for such purposes as the Commission will authorize in a supplemental order or orders.
3. This application, insofar as it involves the issue of \$710,000. of bonds and the modification of the company's mortgage and/or deed of trust so as to permit the issue of bonds up to seventy percent of the cost of properties, is hereby denied without prejudice.

4. The authority herein granted to issue bonds will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$1,275.
5. The authority herein granted to issue stock will become effective upon the date hereof.
6. The Golden Gate Ferry Company shall keep such record of the issue and sale of the stock and bonds 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 October, 1926.

H. A. Brandeis
W. S. Brown
Ernest W. Hart
Leon Whitell
Thos. S. Rowan

Commissioners.

