

Decision No. 17759

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
KEY SYSTEM TRANSIT COMPANY,)
a corporation, for an order of the)
Railroad Commission of the State of)
California authorizing the issue)
and sale of \$1,500,000.00 of first)
mortgage six percent gold bonds,)
series "D".)

ORIGINAL

Application No. 13340.

Brobeck, Phleger & Harrison,
by W. I. Brobeck, for applicant.

BY THE COMMISSION:

O P I N I O N

Key System Transit Company asks permission to issue and sell \$1,500,000.00 of its first mortgage six percent gold bonds, series "D", due July 1, 1938, for the purpose of reimbursing its treasury for capital expenditures already made and for capital expenditures proposed to be made from time to time.

The bonds applicant proposes to issue are part of an authorized amount of \$10,000,000.00 of first mortgage bonds due July 1, 1938, of which \$5,500,000.00 have heretofore been issued under authority granted by the Railroad Commission.

Of the first mortgage bonds issued it appears that \$2,500,000.00

of series "A" six percent bonds were issued in connection with the refinancing of the properties formerly owned by San Francisco-Oakland Terminal Railways, \$500,000.00 of series "B" six percent bonds were issued to pay or refund divisional bonds amounting to \$465,000.00 and to finance the cost of extensions, additions and improvements, and \$2,500,000.00 of series "C" five and one-half percent bonds were issued to pay current indebtedness, reimburse the treasury and finance the cost of additions and betterments. Of these bonds, \$5,000.00 of the series "A's" were retired leaving \$5,494,000.00 now outstanding.

In addition to the first mortgage bonds applicant has outstanding \$8,951,000.00 of general and refunding mortgage bonds due July 1, 1938, consisting of \$1,365,800.00 of six percent bonds and \$7,585,200.00 of five percent bonds, all of which were issued in the refinancing of the properties now operated by applicant.

The total bonded indebtedness is \$14,445,000.00. The company has also guaranteed the payment of \$1,700,000.00 of five and one-half percent equipment trust obligations and had outstanding, as of September 30, 1926, \$825,000.00 of short term five and one-half percent notes and reports \$687,517.95 of other current liabilities.

Its total assets and liabilities, as

of September 30, 1926, are reported as follows:-

ASSETS

Investments:

Road and equipment	\$28,719,306.66	
Sinking funds	7,592.00	
Misc. physical property.	1,685,869.49	
Investment in affiliated companies.	<u>1,038,746.61</u>	\$31,451,514.76

Current Assets:

Cash	135,266.64	
Special deposits	337,009.83	
Loans & notes receivable.	201,587.50	
Accounts receivable	103,072.66	
Materials & supplies	659,905.81	
Other receivables.. . . .	<u>16,486.77</u>	1,453,329.21

Unadjusted debits 4,338,564.80

Total Assets \$37,243,408.77

LIABILITIES

Capital Stock:

Prior preferred 7% cumulative	\$7,537,200.00	
Preferred 7% cumulative	5,360,100.00	
Common	<u>3,512,500.00</u>	\$16,409,800.00

Premium on capital stock 1,175,836.29

Funded debt(including equipment trust obligations) 16,145,000.00

Current Liabilities:

Loans & notes payable	\$825,000.00	
Accounts payable	407,024.46	
Matured interest, etc. payable.	48,406.50	
Accruals.	<u>232,086.99</u>	1,512,517.95

Deferred liabilities. 43,163.00

Unadjusted credits:

Premium on funded debt	\$258,607.36	
Operating reserves (debit balance) 301,508.20		
Reserve for depreciation.	1,563,365.95	
Reserve for amortization of franchise	24,097.59	
Other unadjusted credits	<u>82,558.63</u>	1,627,121.33

Corporate surplus. 329,970.20

Total Liabilities \$37,243,408.77

Applicant has filed a statement showing its income account for the year 1925 and for the twelve months period ending September 30, 1926; together with a statement of its annual interest requirements on its first mortgage and general and refunding mortgage bonds and equipment trust certificates, as follows:-

	1925	12 mos. ending Sept. 30, 1926
Total operating revenue	\$7,289,871.48	\$7,498,235.26
Operating expenses, excluding depreciation.	5,189,352.88	5,145,612.93
Net revenue, railway and ferry operations.	2,100,518.60	2,352,622.33
Net revenue, auxiliary operations	43,896.19	
Net operating revenue	2,144,414.79	2,352,622.33
Less - taxes assignable to operations	444,032.83	468,110.48
Total operating income.	1,700,381.96	1,884,511.85
Non-operating income	167,664.17	173,708.42
Gross income	1,868,046.13	2,058,220.27
Deductions from income: exclusive of interest	35,139.19	52,406.28
Net income.	<u>\$1,832,906.94</u>	<u>\$2,005,813.99</u>

Interest on funded debt:

	Principal	Amt. of Int.
First mortgage bonds, Series "A"	\$2,494,000.00	\$149,640.00
First mortgage bonds, Series "B"	500,000.00	30,000.00
First mortgage bonds, Series "C",	2,500,000.00	137,500.00
First mortgage bonds, Series "D", proposed issue.	1,500,000.00	90,000.00
General & Refunding bonds, 6%.	1,355,600.00	81,336.00
General & Refunding bonds, 5%.	7,585,200.00	379,260.00
Equipment trust certificates	1,700,000.00	93,500.00
		<u>\$961,236.00</u>

As indicated in the statement, operating expenses do not include any amounts for depreciation. Further the record shows that applicant's operating expenses during the year ending September 30, 1926, were approximately \$245,000.00 in excess of the amount reported in the income statement. The \$245,000.00 is included in the company's balance sheet under the item of operating reserve and according to the testimony will be transferred

to operating expenses during October, November and December of this year. The operating reserve also includes moneys paid or to be paid on account of injuries and damages in the amount of about \$56,000.00. Moreover, it appears that applicant has included in its non-operating income during the twelve months ending September 30th, the sum of \$24,867.99 on account of amortization of premium on funded debt. This amount obviously does not represent any cash realized by the company. Without the above explanatory remarks we feel that the company's financial statements are misleading.

In making the present request to issue additional first mortgage bonds the company asks permission to sell them at not less than 96 percent of face value plus accrued interest, which seems to be the best price it has been able to obtain for them. A contract has been made, with Bond & Goodwin & Tucker, Inc. for the sale of the bonds at that price with the additional agreement that in the event the price at which the bonds are offered to the public is above ninety-nine and one-half, the Key System Transit Company will receive the difference between the offering price and ninety-nine and one-half.

The company seeks authority to use \$770,161.77 of bond proceeds to reimburse its treasury on account of expenditures for additions, betterments and improvements made up to October 31, 1926, as shown in some detail in Exhibits "3" and "4" filed in this proceeding. The testimony submitted does not warrant the Commission to authorize applicant to use \$770,161.77 to reimburse its treasury. No conclusive testimony was submitted to show the amount of income, as that term is defined in Section 52 of the Public Utilities Act, the company expended for additions and

betterments. It does not follow that the company is, because it has expended moneys for additions and betterments, entitled to reimburse its treasury. The moneys so expended may represent loans of one kind or another. Applicant's financial statement shows that it had on September 30th, \$825,000.00 of notes and \$455,430.96 of accounts payable. Upon inquiry as to how the \$770,161.77 would be used by the company, the Commission was advised that \$650,000.00 would be applied to the payment of notes. We believe that all of the \$770,161.77 should be used to pay indebtedness.

The remaining proceeds, which will amount to approximately \$662,838.23, applicant proposes to use to finance capital expenditures to be made. Its Exhibit "5" shows estimated expenditures for work in progress since October 31st to be completed on or before April 30, 1927, of \$724,200.00, consisting of the following:

Purchase of 14 28-passenger busses	\$136,500.
Reconstruct Track on Hopkins Street - Champion to Peralta	17,300.
Reconstruct Track on Hopkins Street - 14th Ave. to Excelsior.	45,000.
Reconstruct Track on East 18th Street - 4th to 14th Avenues.	79,000.
Construct Additional Train Shed - Pier Terminal	20,600.
Reconstruct Track on Foothill Blvd. - Fruitvale Ave. to 35th Ave.	25,800.
Reconstruct Track on San Pablo Ave. Thru Emeryville Grand Ave. - Embarcadero to Cottage - Reconstruct Track.	54,000.
Sacramento Street - Rose St. to South Berkeley City Line - Install Curbs, etc.	32,000.
Key Division Cars - Automatic Couplers	14,000.
Key Division - Additional Automatic Flagmen and Crossing Protection	35,000.
Other Miscellaneous jobs of Plant Additions and Betterments under \$10,000. each	43,000.
	<u>222,000.</u>
Total	<u>\$724,200.</u>

Applicant reports, however, that some of these expenditures are of a tentative nature and it may be that later it will find it expedient to substitute other expenditures for some of those listed in the exhibit. It therefore asks the Commission not to authorize the use of the proceeds from the sale of the bonds to finance the specific expenditures outlined in Exhibit "5", it being its intention to withdraw the proceeds over and above the \$770,161.77, from time to time as it proceeds with its construction work upon receiving supplemental orders in this proceeding. This procedure is satisfactory to us. We will at this time not approve any of the expenditures reported in Exhibit "5".

O R D E R

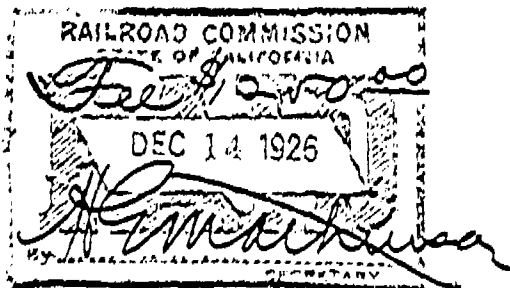
Key System Transit Company having applied to the Railroad Commission for permission to issue \$1,500,000.00 of bonds, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the application should be granted as herein provided and that the money, property or labor to be procured or paid for through such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that Key System Transit Company be, and it hereby is, authorized to issue and sell for cash on or before April 30, 1927, at not less than ninety-six percent of face value plus accrued interest, \$1,500,000.00 of its series "D", first mortgage six percent bonds, due July 1, 1938, and use

\$770,161.77 of the proceeds to pay indebtedness referred to in applicant's balance sheet on file in this proceeding and in the testimony herein. The remainder of the proceeds may be expended only for such purposes as the Commission will authorize in a supplemental order or orders in this proceeding.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$1,250.00, and further, that applicant shall keep such record of the issue and sale of the 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 December, 1926.



Fee # 23626

H. B. Burdige
C. Seavy
Frank G. ...
Leon ...
Thos ...

Commissioners.