

ORIGINAL

Decision No. 19411

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA TELEPHONE)
 COMPANY,)
 a corporation, for an order of the)
 Railroad Commission of the State of)
 California authorizing it to assume)
 payment of a certain outstanding)
 promissory note in the sum of)
 \$450,000.00 and the trust deed en-)
 cumbrance securing the payment of)
 said note, and authorizing it to)
 execute and deliver three pro-)
 missory notes in the face amount)
 of \$114,000.00 each and to encumber)
 its operative property by a trust)
 deed to secure the payment of its)
 promissory notes, and of THE)
 PACIFIC TELEPHONE AND TELEGRAPH)
 COMPANY, a corporation for author-)
 ization to guarantee the payment)
 of said promissory notes.)

Application No. 14316.

J. G. Marshall, for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to make an order authorizing:

1. Southern California Telephone Company to assume the payment of a promissory note in the principal amount of \$450,000.00 payable on April 1, 1935 with interest at the rate of 5.5 percent per annum secured by a deed of trust on certain real estate and improvements located at 740 South Olive Street, Los Angeles;

2. Southern California Telephone Company to execute its deed of trust on said real estate and improvements and to execute and deliver to Morgan Adams Inc. three promissory notes secured thereby in the principal amount of \$114,000.00 each, and due September 15, 1929, September 15, 1930 and September 15, 1931, respectively, with interest thereon at the rate of seven percent per annum;
3. The Pacific Telephone and Telegraph Company to guarantee the payment of the aforesaid promissory note of \$450,000.00 secured by said deed of trust and to agree to hold the grantor harmless from any and all loss, cost and damage on account thereof, and to guarantee the payment of the three notes for \$114,000.00 each to be executed and delivered by Southern California Telephone Company.

The record shows that under date of October 28, 1921, Southern California Telephone Company entered into a lease (Exhibit "A") with James H. Adams and Lillian T. Adams whereby it leased certain premises together with a ten story building to be constructed thereon by the lessor. The premises are located on South Olive Street, Los Angeles, between Seventh and Eighth Streets, and are described in the application as follows:-

"Lot 'C' Heinzeman property in the City of Los Angeles, County of Los Angeles, State of California, as per map recorded in Book 7 Page 47 of Maps, in the office of the County Recorder of said County, and a portion of Lot 'C' of Tract No. 2252, in said City, as per map recorded in Book 22, Page 53 of said Map Records, described as a whole as follows:

Beginning at the Southwest corner of said Lot 'C' Heinzeman Property, said corner being in the east line of Olive Street, 80 feet wide, distant North 37°54' East 95 feet from the North line of Eighth Street, 70 feet wide; thence along said South line of Heinzeman Property being also the North face of a three story brick building and a 5 story reinforced concrete building, South 52°14'30" East 135.39 feet to the West line of the West wall of a three story brick building; thence along said West line North 37°37'30" East 7 feet to the Northwest corner of said last mentioned building; thence along the North line of said building, South 52°14'30" East 30.71 feet to the East line of said Lot 'C'; thence along said East line of Lot 'C' North 37°37'30" East 75.42 feet to the Northeast corner of said Lot; thence along the East line of said Lot 'C' Tract No. 2252, North 38°22'30" East 24.62 feet to the Easterly prolongation of the North face of the North wall of a ten story reinforced concrete building; thence along said prolongation and North face and prolongation thereof, North 52°14'30" West 165.95 feet to a point in the East line of Olive Street, said point being distant south 37°54' West 232.70 feet from the South line of the 20 foot alley along the North line of said Tract No. 2252; thence along Olive Street, South 37°54' West 107.04 feet to the point of beginning.

It appears that under and by virtue of said lease the lessors agreed to construct on the premises a ten story building. The building was completed in 1922 and has since been used by applicant for office purposes. Under the terms of the lease applicant, among other things, is given the option to purchase the real property and building at any time during September, 1927, by the payment of the sum of \$426,400.00 plus an amount equal to the cost of the new building less one percent per annum for depreciation computed from the date of the completion of the building to the date of the exercising of the option. It is provided that upon exercising the option the lessee, in payment for the properties, shall assume the payment of any encumbrances upon it and, at the option of the lessor, pay in cash an amount not to exceed twenty percent of the balance of the option price, after deducting the indebtedness assumed, and to execute, in evidence of the remaining eighty percent of said balance, its four negotiable promissory notes,

each being for a sum equal to one-fourth the option price after deducting from the option price the amount of the indebtedness assumed and the amount of the cash payment, the notes to mature one year, two years, three years and four years, respectively, after date, with interest at seven percent per annum, and to be secured by a deed of trust. It is further provided that The Pacific Telephone and Telegraph Company shall guarantee the payment of the indebtedness assumed and of the four notes thereafter issued.

It now is reported that on September 15, 1927, Southern California Telephone Company elected to exercise its option to purchase the properties as of that date. On that date they were encumbered by a deed of trust by and between Morgan Adams, Inc. as grantor, Title Insurance and Trust Company, as trustee, and the Metropolitan Life Insurance Company, as beneficiary, and a note secured thereby for \$450,000.00 payable April 1, 1935, with interest at 5.5 percent per annum in favor of Metropolitan Life Insurance Company. A copy of the deed of trust and note is filed as Exhibit "B".

The purchase price to be paid by the company under the option by the company is \$1,019,574.08. It is reported in this connection that the building was constructed at a cost of \$623,573.26 and that accrued depreciation, at the rate of one percent per annum, to September 15, 1927, amounted to \$30,399.18, leaving a balance of \$593,174.08. This added to the \$426,400.00 to be paid for the real property, results in the total purchase price of

\$1,019,574.08, which is payable as follows:

1. In cash	\$113,574.08
2. By the assumption of the present out- standing deed of trust and note. . . .	450,000.00
3. By the issue, secured by deed of trust, of four promissory notes for \$114,000.00 each	<u>456,000.00</u>
Total	<u>\$1,019,574.08</u>

A copy of the proposed deed of trust by and between Southern California Telephone Company, as trustor, Title Insurance and Trust Company, as trustee, and Morgan Adams, Inc., as beneficiary, securing the payment of the four notes for \$114,000.00 each, is filed herein as Exhibit "C". One of the \$114,000.00 notes, by the terms of the lease agreement, is payable one year after date so accordingly in making this application, the request is made to issue only those maturing more than one year after date, namely: those maturing two years, three years and four years, respectively, after issue.

In support of the application herein it is alleged that the acquisition and use of the premises by Southern California Telephone Company is necessary in the performance of its duties to the public and that the ownership thereof by applicant in lieu of its continued leasing will be beneficial and economical to it. It appears that by the terms of the lease the telephone company at present pays a monthly ground rental of \$2,123.33, - amounting to \$25,479.96 annually - and a sum equal to nine percent of the cost of the building, which amounts to approximately \$56,000.00, and that in addition it pays all taxes, assessments, insurance, repairs, etc. Upon buying the properties it appears from the testimony herein, that assuming interest at seven percent on the cash payment of \$113,574.08, applicant's fixed charges on account of the purchase

of the properties will be about \$64,600.00, an amount considerably less than it otherwise would have to pay. Further, it appears that the value of the real property is in excess of the price (\$426,400.00) which the telephone company must pay under its option.

After due consideration we are inclined to approve this application. Ordinarily we would question the issue by Southern California Telephone Company, at this time, of seven percent notes and it should be said, in this connection, that the mere fact that in 1921 applicant executed an instrument providing for the issue in 1927 of seven percent notes is not in itself sufficient reason for this Commission to now authorize the issue of the notes. However, in view of the present value of the real estate and the savings that evidently will accrue as a result of the purchase of the properties under the terms outlined herein, we will grant the application. Such action on our part, however, is not to be considered as an obligation on the Commission to recognize, in the future, the interest rate on the notes as indicative of the cost to Southern California Telephone Company of its borrowed money.

ORDER

Application having been made to the Railroad Commission for an order authorizing the guarantee and assumption of indebtedness and the execution and delivery of a deed of trust and promissory notes, as indicated in the foregoing opinion, 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 assumption and execution of indebtedness is reasonably required for the purpose specified herein, and that the expenditure for such purpose is not, in whole or in part, reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that Southern California Telephone Company, in part payment for the real property and improvements referred to in the foregoing opinion, be, and it hereby is, authorized to assume the encumbrance of the deed of trust dated February 12, 1925, now on said properties, a copy of which is filed as Exhibit "B", and to assume the payment of the outstanding promissory note, secured thereby, in favor of Metropolitan Life Insurance Company in the amount of \$450,000.00, payable on April 1, 1935, with interest at the rate of 5.5 percent per annum, and to execute a deed of trust substantially in the same form as that filed as Exhibit "C" and to issue to Morgan Adams, Inc. its three promissory notes each in the face amount of \$114,000.00 and due September 15, 1929, September 15, 1930 and September 15, 1931, respectively, with interest at the rate of seven percent per annum.

IT IS HEREBY FURTHER ORDERED that The Pacific Telephone and Telegraph Company be, and it hereby is, authorized to guarantee the payment, in the form filed herein as Exhibit "D", of the \$450,000.00 note, the payment of which Southern California Telephone Company is herein authorized to assume, and the performance of the terms and conditions of said deed of trust dated February 12, 1925, securing the payment of said note, and to agree to hold Morgan Adams, Inc., the grantor under said deed of trust, harmless from any and all loss, cost or damage on account therefor, and, in addition, to guarantee the payment of the three notes in the face amount of

\$114,000.00 each, which Southern California Telephone Company is herein authorized to execute.

The authority herein granted is subject to the following conditions:

1. The authority herein granted to execute a deed of trust is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said deed of trust as to such other legal requirements to which said deed of trust may be subject.
2. Applicants, or either of them, shall not hereafter urge the Commission or other public body or court having jurisdiction to consider the rate of interest on the three notes herein authorized to be issued as indicative of the cost to applicants of borrowed money nor shall the authority herein granted be considered as obligating the Commission or other public body or court to so recognize said rate of interest as indicating the cost of borrowed money.
3. Southern California Telephone Company shall keep such record of the issue of the notes and the assumption of the indebtedness, as herein authorized, and of the disposition of the proceeds as will enable it to file, within thirty (30) days thereafter, 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.

4. The authority herein granted shall become effective when Southern California Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Seven Hundred and Ninety Two (\$792.00) Dollars.

DATED at San Francisco, California, this 21st day of February, 1928.

Leon Whiteall

Clarence

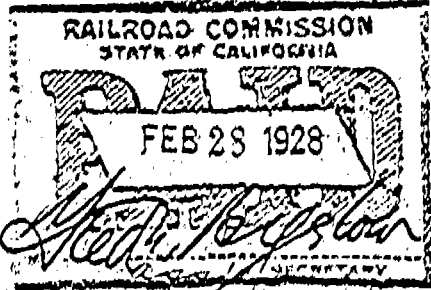
Ernest

David

M. J. C.

Commissioners.

Fee \$ 792.⁰⁰/₁₀₀



Fee # 1001