

LEM

Decision No. 20294

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 YREKA RAILROAD COMPANY,)
 a corporation, for an order author-) Application No. 14955
 izing the issuance of bonds to the)
 amount of \$200,000.00.)

Donald McClure, for applicant.

BY THE COMMISSIONER

O P I N I O N

Yreka Railroad Company asks the Railroad Commission to make an order authorizing it to execute a mortgage or deed of trust on its property and to issue and sell bonds secured thereby in the principal amount of \$200,000.00 payable September 1, 1968, with interest at the rate of six percent per annum, for the purpose of obtaining funds to improve its facilities and service and to re-condition its properties.

Applicant is a corporation organized on or about May 22, 1888, under and by virtue of the laws of California for a term of fifty years. It owns and operates a line of standard gauge railway approximately eight miles in length extending from Montague, on the lines of the Southern Pacific, to Yreka, Siskiyou County. In its annual financial reports filed with the Commission it has shown the revenues and expenses from the operation of its road as follows:-

ITEM	1925	1926	1927
OPERATING REVENUES:			
Freight	\$13,823.29	\$18,106.12	\$18,036.93
Passenger	2,654.78	2,672.00	2,150.55
Express	3,202.23	3,645.32	3,590.55
Other	1,471.80	2,616.50	2,031.35
Total.....	\$21,152.10	\$27,040.44	\$25,809.38
OPERATING EXPENSES;			
Taxes	1,567.16	1,480.64	1,452.52
Rent for equipment	-	1,319.08	3,430.98
Uncollectible items	51.37	9.39	-
Total.....	\$ 24,911.73	29,942.67	36,140.17
Loss for year	\$ 3,759.63	\$2,902.23	\$ 10,330.79

In Exhibit "C" the company reports its investment in road and equipment, as of June 30, 1928, at \$144,801.94. It appears, however, that the properties are in a poor state of repair and that the entire line must be reconstructed. The control of the company was acquired during July of this year by the Klamath River Holding Company, a corporation, and it is reported that the new owner proposes to undertake such reconstruction and may, at a later date, extend the line to Scott Valley, a distance of approximately eighteen miles from Yreka.

The cost of re-conditioning the present facilities and acquiring additional equipment is estimated at \$173,951.00. Briefly, the proposed work includes the rebuilding of all bridges and structures, the laying of ninety pound steel rails in place of the present forty and sixty pound rail, and the placing of new six by eight pine ties and new ballasting of crushed rock. In Exhibit "E", as amended, the estimated cost is shown in some detail. Summarized, it is as follows:-

1.	Rebuilding of the track structure including one new siding and a wye at Montague	\$121,166.00
2.	Rebuilding of bridges	8,425.00
3.	Replacement of a wooden turntable at Yreka with a secondhand steel turntable	4,100.00
4.	Miscellaneous repairs and renewals at the roundhouse and freight shed in Yreka	5,235.00
5.	Repairs to present locomotive	2,500.00
6.	Purchase of additional equipment and tools including one locomotive, one combination passenger, express and mail car, one track motor, etc	23,325.00
7.	Engineering, supervision, etc	9,200.00
	Total.....	<u>\$173,951.00</u>

The testimony herein indicates that the only property the company now owns that will be of value after the reconstruction is the right of way, station grounds, grading and some ballast. It is estimated by N. A. Wood, one of the Commission's assistant engineers, that when the work has been completed and the proper retirements made, there will be charged to road and equipment accounts approximately \$217,000.

against which there would be outstanding, if this application is granted, \$200,000.00 of bonds.

The testimony herein clearly shows that in the past the railroad's business had declined on account of the poor physical condition of the road, the derailments that took place and the uncertainty of delivery of perishable goods. It is believed, however, that after the properties have been rebuilt and placed in a good, operating condition the revenues can be materially increased and the business developed to a point where the company could readily meet the interest requirements on the proposed bond issue. In Exhibit "1" the revenues and expenses, after the reconstruction work is completed, are estimated as follows;-

OPERATING REVENUES:	
Freight	\$55,826.93
Passenger	4,500.00
Express	4,000.00
Mail	3,000.00
Other	1,700.00
	<u>Total.....</u>
	\$69,026.93
Operating expenses	47,585.00
	<u>Balance.....</u>
	\$21,441.93
Interest on \$200,000 of bonds	12,000.00
	<u>Net income.....</u>
	<u>\$ 9,441.93</u>

It is clear that it is in the public interest for this road to be reconstructed and we believe that as a result of such reconstruction the revenues will be materially increased. There is some doubt in our minds, however, if the estimates of \$69,026.93 will be realized, at least during the first year of operation, due to the inclusion in that estimate of the sum of \$12,000.00 to be received from a box factory which has not yet been located at Yreka. Further, we do not believe that we should authorize the issue of \$200,000.00 of bonds against properties representing, according to the testimony herein, an investment of \$217,000.00. Giving full consideration to the record in this matter, the cost of the properties, the earnings, past and estimated, we believe that we should not authorize the issue of more than \$120,000.00 of bonds for the purposes set forth herein. We think, too, that the

company should dispose of its bonds at not less than 90 percent of face value, net.

Applicant proposes to issue a forty year bond though its corporate existence terminates in 1938. We believe that any bonds which applicant will issue should not mature at a date subsequent to the expiration of its charter. If applicant cannot finance its improvements with a ten year bond issue it should cause to be organized a new corporation and take the necessary steps to have its properties transferred to it. Thereafter the new company might file an application for permission to issue forty year bonds.

Applicant should file with the Commission a revised copy of its proposed mortgage or deed of trust. If we find the same in satisfactory form we will enter a supplemental order authorizing its execution.

ORDER

Yreka Railroad Company having applied to the Railroad Commission for an order authorizing it to execute a mortgage or deed of trust and to issue and sell \$200,000.00 of bonds, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the company should be authorized to issue not exceeding \$120,000.00 of bonds, and that the issue of such bonds 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, provided proper retirements are made in applicant's road and equipment accounts;

IT IS HEREBY ORDERED that Yreka Railroad Company be, and it hereby is, authorized to issue and sell, on or before March 31, 1929, at not less than ninety percent of face value plus accrued interest, \$120,000.00 of six percent bonds due May 1, 1938, and to use the proceeds to finance in part the expenditures referred to in the foregoing

opinion and set forth in applicant's Exhibit "E", as amended.

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of the remaining \$80,000.00 of bonds be, and it is hereby, denied without prejudice.

The authority herein granted is subject to the following conditions;-

1. 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.
2. The authority herein granted to issue bonds will become effective when the Commission by supplemental order has authorized the execution of a mortgage or deed of trust securing the payment of said bonds and when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$120.00.

DATED at San Francisco, California, this 3rd day of October, 1928.

Fee \$120 ⁰⁰/₁₀₀

RAILROAD COMMISSION
STATE OF CALIFORNIA

OCT 10 1928

SECRETARY

File # 25825

Leon White
C. L. Lewis
Edward
W. D. Lewis
W. J. Carr
Commissioners.