

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the Application
of CLEAR LAKE RAILROAD COMPANY
for an order authorizing the issue
of bonds of the face value of
\$500,000 and capital stock of the
par value of \$200,000.

Application No. 651.

Herbert V. Keeling for applicant.
H. B. Churchill for certain stockholders.

TEELEN, Commissioner.

OPINION.

This is an application on the part of the Clear Lake Railroad Company for authority to issue bonds of the face value of \$500,000 and capital stock of the par value of \$200,000, or so much thereof as may be necessary, for the purpose of constructing a standard gauge railroad from a junction with the line of the Northwestern Pacific Railroad Company at Hopland, in Mendocino county, to Lakeport in Lake county.

The hearing on this application was held at Lakeport on October 10, 1913.

Applicant is a California corporation, and was incorporated on May 18, 1911. Applicant's purpose, as expressed in its articles of incorporation, is to construct a line of railway from Hopland to Lakeport, together with branch lines from Lakeport to Kelseyville and from Lakeport to Upper Lake, all in Lake county, and also to construct the necessary telephone and telegraph lines in connection with the railroad. The capital stock of the corporation is to be \$500,000, divided into 5,000 shares, of the par value of \$100 each. The articles show that at the time of incorporation, capital stock to the extent of \$70,000, par value, had been subscribed by some 196

persons, whose names appear in the articles.

After a number of preliminary surveys, applicant has adopted a route for its proposed line of railway, in effect, as follows:

Beginning at the station of Hopland on the line of the Northwestern Pacific Railroad Company; thence easterly across Russian River, just below its confluence with Dooley Creek; thence up Dooley Creek and through Sanel Valley; thence, crossing a dividing range of hills lying between Sanel Valley and McDowell Valley to a low pass near the stock farm of Colonel Dan Burns; thence easterly and crossing McDowell Valley to the foot of the main range, passing south of and near to McDowell Springs; thence ascending the mountain with a continuous maximum grade of 4 per cent for a distance of 6 miles to the grade summit; thence through a 1300 foot tunnel to the east side of the range; thence down the right bank of Highland Springs Creek to the bed of the stream, re-crossing the same; thence along much the same route as the Pieta toll road for a distance of some 2 miles, to Highland Springs; thence northerly through the western portion of Big Valley, skirting the low foothills, to Lakeport. The total distance from Hopland to Lakeport is 23½ miles. The line shows an unbroken 4 per cent grade for about 6 miles going east and for practically 3 miles going west. The route shows a maximum curvature of 24 per cent. It is proposed to operate the line by steam and to run two mixed trains per day, with such variations as may be necessary by reason of heavier traffic during certain seasons.

The railroad which it is now proposed to build represents the most recent attempt to construct a railroad into Lake County. For between 30 and 35 years, different railroads have been planned to enter this county. Some have been projected from the south and some from the west and there is some evidence of a survey from the east, up Cache Creek. One of these proposed lines, known as the Highland Pacific line, was projected from Santa Rosa to Lakeport at
for an electrically operated railroad,
an estimated cost of some \$2,775,000, over a distance of some 70 miles,

with a 4000-foot tunnel. Many years ago what is known as the McNulty-Pettibone Syndicate did some actual construction work on a route which was intended to run from Napa County through the Napa Valley, entering Lake County in the vicinity of Middletown. Later, W. B. King projected a railroad from Napa County over practically the same route. Thereafter, just prior to 1906, what is known as the Cloverdale and Lakeport Electric Road was projected from Cloverdale to Lakeport. What is known as the Hotaling Railroad was to be constructed from Napa into Lake County over what is known as the Butte Canyon route, but the evidence at the hearing showed that this proposition was supposed to cost several million dollars. At another time subscriptions amounting to \$150,000 were taken for a bond issue to build a railroad from Pieta, 6 miles below Hopland, into Lake County. This railroad was to be known as the Clear Lake and Northern. At another time it was contemplated to build a narrow gauge railroad into Lake County from Ukiah, north of Hopland. A survey has also been made up Putah Creek from Napa County, and another accredited to the Santa Fe, over the Blue Lakes Pass from the northwest, through Willits and Potter Valley. The history of Lake County largely centers around these various projects to construct railroads into the county. Up to the present time, however, not a single foot of rail ^{actually} has been laid in the county. After the disappointments and experiences of the past, the citizens of Lake County now desire to build a railroad over the shortest line of all, to a direct connection between Lakeport and the Northwestern Pacific Railroad Company, at the latter's station in Hopland.

The testimony at the hearing showed that of the authorized capital stock, 354 shares, having a par value of \$85,400, have been issued. All the stock heretofore issued has been sold at par. The financial statement attached to the application shows that from the sale of its stock applicant has realized \$72,372.50 in cash and a note for \$500, secured by mortgage. Certain stock was issued prior to March 23, 1912, without having been fully paid for, but applicant is taking

steps to collect the unpaid balances. Applicant has also received \$3,525.00 as partial payment on subscriptions for 58 shares of capital stock, which shares have not as yet been issued.

On November 25, 1911, applicant authorized the issuance of 800 bonds in the aggregate sum of \$400,000, bearing interest at the rate of 5% per annum. None of these bonds have ever been issued. The bonds which applicant now desires to issue will bear interest at the rate of 6% per annum.

Applicant has outstanding four promissory notes in the sum of \$1000 each, payable to H. V. Keeling, dated December 4, 1912, due one day after date and bearing interest at the rate of 8% per annum. The proceeds of these notes were used for proper capital expenditures.

The following statement, appearing on pages 20 and 21 of the application, is a complete statement as of August 23, 1913, of all receipts and disbursements of applicant since its incorporation:

RECEIPTS:

From sales of capital stock, cash, -----	\$72,372.50
From sale of capital stock, identified by note and mortgage from subscriber to the Company, -----	500.00
Subscriptions for 58 shares of capital stock, (stock not issued) -----	3,525.00
Loans payable, amount received on corporation promissory notes, -----	<u>4,000.00</u>
Total receipts, -----	\$80,397.50

DISBURSEMENTS:

Construction accounts, I.C.C. Classification:

Acct. #2 Right of Way & Station Grounds, -----	\$ 4,320.47
" #4 Grading, -----	51,657.09
" #5 Tunnels, -----	903.27
" #6 Bridges, Trestles & Culverts, -----	2,605.27
" #7 Fies, -----	28.83
" #14 Fencing right of way, -----	<u>484.06</u>
Total 2 to 36 Inc.	\$60,498.99
" #1 Engineering, -----	<u>15,113.34</u>
Total 1 to 42 Inc.	75,612.33
" #43 Law Expenses, -----	939.25
" #44 Stationery & Printing, -----	270.78
" #46 Taxes, -----	<u>268.75</u>
Total forwarded, -----	\$78,091.11

Total forward, -----	\$78,091.11
#47 Acct./ Interest & Commission,-----	668.00
" #48 Other Expenditures,-----	<u>2,263.88</u>
Total 1 to 48 Inc.	\$80,022.99
Notes receivable,-----	<u>500.00</u>
Total,-----	\$80,522.99
Cash on hand in the Banks June 30, 1913,---	<u>347.54</u>
Total,-----	\$80,870.53
Vouchers and checks issued and unpaid at the close of accounts for the month of June, 1913,-----	<u>473.03</u>
Grand total,-----	\$80,397.50

The disbursements have been classified in accordance with the Interstate Commerce Commission's classification of railroad construction accounts.

As indicated by the statement of disbursements hereinbefore set out, the sum of \$80,870.53 has actually been spent by applicant on its proposed line of railway. Applicant's engineer has made some six or seven surveys between May, 1911, and November or December, 1912, for the purpose of securing the most available route between Hopland and Lakeport. Between six and seven miles from Hopland easterly--with the exception of two small gaps--have been graded. The necessary culverts have been installed throughout this distance and a considerable amount of timber and piling has been secured from local sources, for the construction of the proposed tunnel and certain trestles and bridges.

126.31 acres of right-of-way have been donated. The testimony shows that this land has an approximate value of \$6,943.80. 22.4 acres have been purchased at a cost, including attorney's fees and recordation, of \$4,820.47. 119.28 acres consist of government land which have been covered by approved filing maps. The Company still has to acquire some 30.3 acres, estimated to have a value of between \$1,900 and \$2,000. After the hearing, applicant secured an

agreement to donate a right-of-way through what is known as the Platt property, which property is located in the town of Lakeport and is not included in the foregoing estimate. The right-of-way through this property is to contain some 2.7 acres and is valued at some \$5,400. It accordingly appears that applicant has acquired nearly all the right-of-way which it will need and that the expense to acquire the additional necessary right-of-way will be comparatively slight.

The other property which has been acquired and which has not been specifically referred to will be found in the statement of disbursements hereinbefore set forth.

Applicant's engineer presented an estimate of the amount of money necessary to construct the railroad, including that already spent, which estimate, as corrected, is the sum of-----\$540,476.52.

To this sum should be added----- 39,600.00

for equipment, making a total estimate on the part of

applicant's engineer of-----\$580,076.52.

The engineer's cost summary, exclusive of equipment, is as follows:

(1) Right of Way including legal expenses and commissions..\$	6,800.00
(3) Grading, including clearing right-of-way and building wagon roads.....	239,858.52
(4) Tunnels.....	74,253.00
(5) Steel bridges and trusses.....	23,040.00
(6) Pile and frame trestles.....	18,400.00
(7) Culverts.....	5,380.35
(8) Ties 63,360 at \$.40 Hopland(local timber).....	25,344.00
(9) Steel rail 65# Relay 2448 T. at \$35.00 Hopland.....	85,680.00
Two short sidings 50# Relay including frogs and switches..	800.00
Two Wyes 50# Relay including frogs and switches...	1,000.00
(11) Track fastenings, bolts, spikes, etc.....	12,480.00
(13) Track laying and surfacing at \$400 per mile.....	9,600.00
(14) Roadway Tools.....	600.00
(15) Fencing right of way.....	4,219.37
(16) Crossings and signs.....	806.00
(19) Telephone line.....	3,300.00
(20) Station Buildings (one only).....	3,500.00
(21) Platforms.....	400.00
(23) Shopbuilding and engine house (corrugated iron).....	4,500.00
(26) Shop machinery and tools.....	1,000.00
(27) Water station (one only, gravity supply).....	1,000.00
(28) Fuel Tank.....	1,250.00
(37) Engineering and superintendence.....	20,000.00
(50) Law Expenses.....	2,000.00
(51) Stationery and Printing.....	400.00
(52) Insurance (all liability insurance included above).....	500.00
(53) Taxes.....	600.00
	<u>\$546,711.24</u>
Error in estimate.....	6,234.72
	<u>\$540,476.52</u>

Applicant's engineer was carefully examined with reference to his estimate. This Commission's chief engineer has reached the conclusion that the estimate is too low with respect to certain items. The chief engineer has made the following increases in the estimate as presented by applicant:

Grading,	From \$239,858.52	to \$274,438.84
Tunnel,	" 74,253.00 "	97,500.00
Bridges, Trestles and Culverts,	" 41,440.00 "	43,636.35
Track laying and sur- facing (unballasted)	" 9,600.00 "	19,200.00
Engineering and super- intendence,	" 20,000.00 "	29,022.73

The chief engineer also added an item of 10% for contingencies, for which the applicant's engineer had made no allowance. It appears also that no allowance had been made for ballasting. The applicant's engineer testified that, in his opinion, it would cost about \$2,000 per mile to ballast the line. This Commission's engineer allowed \$1,000 as being a very low estimate. The net result of these changes is an estimate on the part of this Commission's engineer amounting to \$678,502.75, to which should be added \$39,600 for equipment and a minimum of \$24,000 for ballasting, making a total of \$742,102.75.

While it may be that applicant will be able to save on ~~xxxx~~ certain items of construction, I shall assume that it will cost the amount of this Commission's chief engineer's estimate to complete and equip the road. I think it far better to go on that assumption than to find out later that the amount of money which applicant contemplated raising is too little to complete the project.

As hereinbefore stated, the western terminus of applicant's ~~xxxx~~ proposed line of railroad is to be the station of Hopland, on the line of the Northwestern Pacific Railroad Company. This company has offered to supply all of the rails and fittings needed by applicant and to take bonds in payment therefor. It has also offered to enter into traffic arrangements with applicant. The Northwestern Pacific

will give to applicant the necessary use of its station facilities at Hopland without any charge for rental, as long as this can be done without inconvenience to the Northwestern Pacific's own business. If it becomes necessary to enlarge the premises, the applicant is to bear a proportional share of the expense.

Lake County is located a distance of some 150 miles northeast of San Francisco Bay. The major portion of the county is almost entirely surrounded by mountains. In the plateau enclosed by these mountains lies Clear Lake, a body of fresh water some 25 miles in length and ^{from 2 to} 9 miles wide. A large number of mineral springs, both hot and cold, are found in different sections of the county, both on the east and the west side of the Lake, and large numbers of ~~xxxxx~~ people journey each year into Lake County to visit these springs. The county is one of the beauty spots of California, and if rendered more accessible, would doubtlessly attract very largely increased numbers of persons seeking health or recreation and would undergo a great agricultural development. It has been said, that if made accessible, this county will become one of the playgrounds of San Francisco and the communities located around the Bay of San Francisco.

I shall now consider the possible revenues and operating expenses in connection with the proposed line of railway and shall then address myself to the question of financing the same.

Referring first to passenger revenue, it appears that at present, people desiring to enter Lake County do so by automobiles, auto-stages or teams. From Pieta the round trip by auto-stage is \$6.50, and from Calistoga to Adams Springs, the rate is \$6.00 for the round trip. Applicant estimates that in 1911, 23,141 persons came to Lakeport, Upper Lake, Keelseyville and Lower Lake by stage or auto-stage. These figures do not include any persons going to Bartlett Springs, east of Clear Lake. The testimony shows that in 1913, some 2500 persons traveled to and from Bartlett Springs by stage line and that during the months of June, July and August, 1913, some 3,170

guests by stage arrived at Adams Springs. In addition to these two resorts there are quite a number of others in the county. The managers both of Bartlett Springs and Adams Springs, the one lying to the east of Clear Lake and the other in the southern portion of the county, testified that if the proposed line of railway were built, practically all of the passengers who now come to their resorts by stage or auto-stage would come in by the railroad, and that, in their opinion, the number of passengers would increase very largely. The evidence seems to show that practically all persons who now come into any portion of Lake County by stage or auto-stage, would use the railroad, and that the number of persons coming into the county to visit the springs alone would be very largely increased.

All freight at present must be hauled in and out of the county by means of teams and auto-trucks. Auto-trucks have not proved much of a success because of the heavy grades and poor condition of the roads. It costs all the way from \$5.00 to \$8.00 per ton to haul out the fruit and other traffic and a like amount to bring in such freight as comes into the county. The chief products of the county are pears, grapes, prunes, grain, alfalfa, hay, cattle, hogs, turkeys, canned string beans and hops. The incoming freight consists of merchandise, building material, machinery and articles of general consumption. The transportation of freight in and out of the county is slow, expensive and extremely unsatisfactory. Thus, traffic which moves to and from Bartlett Springs is hauled by freight teams from and to Williams, in Colusa County, a distance of some 44 miles. It takes 12 or 14 mule teams six days for the round trip. Freight to and from Adams Springs moves via Calistoga, a distance of 29.3 miles, over three mountains, by teams, at the rate of \$8.00 to \$10.00 per ton. Freight to and from Lakeport, Kelseyville, Upper Lake and Lower Lake moves largely over the Hopland, Ukiah and Pieta toll roads, and is hauled out by teams at from \$5.00 to \$8.00 per ton. The time consumed by the trip, as well as the rough journeys, makes it impossible for Lake County at present

to produce small fruit, vegetables and other perishable produce for the market. Intensive farming is made impossible. During the height of the fruit season, when it is desired to ship out the fruit, it is often impossible to secure enough teams. Prompt deliveries cannot be made. A large amount of fruit is left to rot on the ground or is fed to hogs. The testimony shows that the greater portion of the freight which moves in and out of Lake County would move over the proposed railroad if constructed.

At the hearing, applicant presented a statement prepared in 1910, and collated from cards which were signed by all the individual shippers of Lakeport, Upper Lake, Kelseyville and Lower Lake and vicinity, purporting to show the tonnage of freight shipped or received by each of the signers in the preceding year. The total tonnage so shown amounted to 42,374 tons. I tried at the hearing to check up this total, but was unable to do so. The above estimate was prepared under the direction of Mr. W. A. Cattell, consulting engineer, who was working on one of the propositions to build a railroad into Lake County. The testimony shows that freight moving in and out of the county and thence by railroad, moves partly through Ukiah, Hopland and Pieta, on the line of the Northwestern Pacific Railroad Company, partly via Calistoga, on the lines of the Southern Pacific Company and the San Francisco, Napa and Calistoga Railway Company and partly via Williams, on the line of the Southern Pacific Company. Subsequent to the hearing, I secured statements from the Northwestern Pacific and the Southern Pacific Company, showing the amount of freight moving through Ukiah, Hopland and Pieta on the one hand and Calistoga on the other, together with an estimate of the percentage of this freight attributable to Lake County. The statement filed by the Northwestern Pacific Railroad Company shows that for the fiscal year ending June 30, 1913, the following total amounts of freight were forwarded, and received through Pieta, Hopland and Ukiah:

<u>Forwarded:</u>	<u>Tons</u>	
Pieta-----	46	
Hopland-----	6500	
Ukiah-----	<u>8462</u>	15,108 tons

<u>Received:</u>		
Pieta-----	84	
Hopland-----	7057	
Ukiah-----	<u>15593</u>	<u>22,734 "</u>
Grand total,		37,842 tons

Of this total tonnage, the Northwestern Pacific estimates that of the forwarded tonnage, 2984 tons is attributable to Lake County and of the received tonnage, 3172 tons, making a total of 6156 tons for Lake county.

Referring to the Lake county shipments moving in and out of Calistoga over the line of the Southern Pacific Company, this Commission is in receipt of a statement prepared by the Southern Pacific Company, stating that for the year ending May, 1912, the tonnage handled through Calistoga was as follows:

	<u>Carload</u>	<u>L C/L</u>
Received-----	2273 tons	2609 tons
Forwarded-----	4685 "	637 "
Total,-----	<u>6958 "</u>	<u>3296 "</u>

The statement prepared by the Southern Pacific Company adds that of the above tonnage about 1700 tons L.C/L freight inbound and about 35 tons outbound is Lake county freight, and that 5% of the carload business or about 115 tons per year would cover the inbound carload business, and that practically none of the outbound carload tonnage originates in Lake county.

Reference has already been made to the fact that some 3300 tons move through Williams from and to Bartlett Springs. No estimate has been received as to the amount moving via Calistoga over the line of the San Francisco, Napa and Calistoga Railway.

In addition to the freight which appears in the records of these various railroads, a considerable amount of freight moves out of Lake County for local consumption in Ukiah, Hopland, Cloverdale and other points. For instance, a considerable amount of hay moves to Ukiah for consumption there. Hogs and cattle, and even turkeys are driven out of Lake County, and a portion thereof do not appear in the railroad records to which we have referred. Again, a considerable ~~xxxxxx~~ tonnage of grapes is hauled to Ukiah for use in the winery at that point.

The testimony shows that a considerable acreage of land is being planted to trees, which are not as yet in bearing, and that if the railroad were constructed, the production of fruit in the county would largely increase. To illustrate the possibilities of increased production, I will refer to the Lake County Canning Company, which grows and cans string beans at Upper Lake. During the present season, the company had 90 acres under cultivation and shipped 19,000 cases of canned beans, representing a weight of somewhat less than 400 tons. Within the next year or two, the company will have 250 acres under cultivation. The company was unable to secure enough teams last year to haul out its freight, and tried motor trucks, but this experiment was not successful, for the reason that some 8 tires were lost during seven weeks, representing a cost of \$800. Reference might be made to other industries, and particularly to the increased acreage now being planted to fruit, and which would be planted if the railroad were constructed, but I think the foregoing statement will show in a general way the possibilities of present and probable future freight moving in and out of the county.

I cannot undertake to make an estimate of the revenue which would be secured from either passenger or freight traffic if the railroad were constructed, but it is evident that there is considerable traffic at present and that there will be considerably more traffic if the applicant should be successful in its enterprise. It will probably be necessary for applicant to charge relatively high rates at

at first for both passengers and freight, so as to meet its operating expenses and interest on such securities as it may issue, as well as sinking fund to retire the bonds and the percentage for depreciation.

No estimate of operating expenses was presented by applicant. The records of the Interstate Commerce Commission show that the average ratio of operating expenses and taxes to gross revenue is 70.8%. The percentage on applicant's line of railroad will probably be somewhat higher because of the 4% maximum grade and the maximum curvature of 24 degrees. The relatively high operating expenses which will result from these conditions suggests the advisability of giving serious consideration to the question whether it would not be more advisable to operate the line by electricity. The Commission endeavored at the hearing to ascertain the possibilities of such operation, but it appears that while electric energy may be secured at Hopland, and possibly elsewhere, applicant has not given thorough consideration to this method of operation. I suggest to the directors of the company that before making their final plans as to construction and operation, they secure such information as may be available on this question.

The Commission has done its best to ascertain such facts as may be relevant on the question whether or not applicant's proposed line of railroad, if constructed, will be able to earn operating expenses and interest on the securities, as well as to lay aside a fund for depreciation and for retiring the securities. On the one hand are the failures of the past, the relatively small present population and the relatively high operating expenses due to the grades and curves. On the other hand, consideration must be given to the large amount of present freight and passenger traffic and to the certainty of a large increase therein if this railroad is constructed. It is the policy of this Commission to encourage in so far as possible the development of this State by public utility enterprises. This is particularly true where xxx no utility of a like character at present serves the field and where the utility has no elements of a promotion scheme, but is an earnest and bona fide effort of the citizens of the community to

develop their portion of the State, and thereby to increase the wealth and prosperity of the entire State. The present enterprise is of this character. Under these circumstances, this Commission will resolve every reasonable doubt in favor of the enterprise, and see to it that reasonable conditions are prescribed in the order, so as to safeguard the enterprise in so far as possible.

Applicant now asks authority to issue bonds of the face value of \$500,000 and its stock of the par value of \$200,000. The bonds are to be in the denomination of \$500.00 each and to bear interest at the rate of 6% per annum. They are to run for a period of 25 years and are to be secured by a deed of trust, a form whereof is attached to the application and marked Exhibit "C". The bonds are to provide that no recourse shall be had against the stockholders and directors for the payment of the principal or the interest thereon.

It is proposed to issue the stock at par and the bonds at not less than 80% of their face value. No definite plan for the disposition of the stock and bonds has as yet been adopted by applicant's directors. An offer to dispose of the bonds, with a stock bonus, on certain designated terms and another offer to build the railroad, on the condition, among others, that the contractors would take in part payment bonds of the face value of \$50,000 were read at the hearing, but it is not necessary to pass on either of these offers.

The Northwestern Pacific Railroad Company has offered to furnish to applicant suitable rails and fittings at the same price that it would charge for the same rail to itself and to take payment therefor in bonds at the same figure at which they are disposed of to other parties. It is evident that something in excess of \$100,000 face value, of bonds will be necessary for this purpose. Applicant's directors are confident that they will be able to raise additional money by stock subscriptions among property owners in Lake County, particularly if the money is not to be paid in until the enterprise is completed or if it is to be paid in promptly but placed in escrow or

if some similar arrangement is made so as to guarantee the success of the enterprise as a condition precedent to the use of the money so derived. Judging from the great interest taken in this matter in Lake county and the apparent tendency on the part of all of its inhabitants to work together to secure the consummation of this project, I am of the opinion that a large amount of the additional sum necessary to be secured can be raised from Lake county property owners.

As hereinbefore stated, the Commission's engineering department estimates that with the addition of \$24,000 for ballast, it will cost \$742,102.76 to build and equip this road. Of this amount, including the proceeds from the notes amounting to \$4,000, \$80,397.50 has already been spent, leaving a balance of \$661,705.30 which must be secured from the sale of stock and bonds. Applicant has asked authority to issue bonds of the face value of \$500,000.00. This Commission cannot on this project authorize bonds in any larger amount. If these bonds sell at 80% of their face value, \$400,000.00 will be derived from this source. This would leave a balance of some \$261,705.30 to be secured from the sale of stock at par.

In order to give security to the bonds, it is necessary that the stock be subscribed for and secured before the bonds issue. Applicant's directors will be expected to present to the Commission a plan for accomplishing this end.

The remaining serious question arises from the possibility of applicant's inability to be able to earn both operating expenses and interest on the bonds. If bonds of the face value of \$500,000 are issued, this will mean an annual outlay for interest amounting to \$30,000. This matter was gone into at the hearing and I suggested the possibility of either securing from the purchasers

of the bonds a waiver of the interest during say the first five years or a guarantee from responsible parties satisfactory to the Commission that such interest as was not waived would be paid. The order will contain a condition to this effect. If the proper amount of stock is subscribed and such guarantee is secured, the sale of the bonds should be made much easier. A considerable portion of these bonds ought to be taken by local people, who should pay par for them. If this is done, a considerably smaller amount of stock need be subscribed for. The Commission's order will not at this time prescribe all the details in connection with the financing of the railroad, but the directors will be expected to present to the Commission within a reasonable time a plan under which they believe that they can avail themselves of the Commission's authorization.

I find that the moneys to be procured from the sale of the stock and bonds herein authorized are not properly chargeable to operating expenses or to income and recommend that the application be granted subject to the conditions prescribed in the order. In doing so, I desire to express my admiration for the pluck and perseverance of the people of Lake county and to express the earnest hope that the present enterprise may be successful. It must be understood, however, that this Commission cannot be expected to stand sponsor for the success of the enterprise. The matter rests with the people of Lake county.

I recommend the following form of order:

O R D E R.

CLEAR LAKE RAILROAD COMPANY Having applied to the Railroad Commission of the State of California for an order authorizing the issue by said Company of two thousand (2,000) shares of its capital stock of the par value of one hundred (\$100) dollars each, making a total of two hundred thousand (\$200,000) dollars, and

first mortgage gold bonds of the face value of five hundred thousand (\$500,000) dollars, to bear interest at the rate of six (6%) per cent per annum and to be secured by trust deed or mortgage upon all the property of the company and to execute said trust deed or mortgage, and a public hearing having been held upon said application, and the Commission finding that the purposes for which the proceeds of said stock and bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

Clear Lake Railroad Company is hereby authorized to issue two thousand six hundred and seventeen (2,617) shares of its capital stock, having a par value of one hundred (\$100) dollars each, and five hundred thousand (\$500,000) dollars, face value, of bonds to bear interest at the rate of six (6%) per cent per annum, and to be secured by deed of trust or mortgage upon all the property of the company, upon the following conditions and not otherwise, to-wit:

1. Clear Lake Railroad Company shall sell its said capital stock so as to net said company not less than the par value thereof.

2. Clear Lake Railroad Company shall sell said bonds so as to net said company not less than eighty (80%) per cent of the face value thereof, together with accrued interest.

3. Clear Lake Railroad Company shall use the proceeds of said stock and bonds only for the purpose of constructing its proposed line of railroad ^{between} ~~from~~ Hopland and Lakeport for the items which appear in the cost summary prepared by applicant's engineer and appearing in the opinion in this proceeding as modified by the estimate of the Railroad Commission's chief engineer, also referred to in the opinion.

4. Before any of said stock or bonds are issued, Clear Lake Railroad Company shall present to the Railroad Commission for its approval a plan by which all or the major portion of such capital stock as it may be necessary to issue shall be paid for

or subscribed and secured prior to the issue of the bonds hereby authorized, and also a plan by which the interest on the bonds hereby authorized may be waived or guaranteed for a period of five (5) years in case and to the extent that applicant's line of railroad may be unable to earn both operating expenses and interest on the outstanding bonds, if there be such inability.

5. Before Clear Lake Railroad Company may issue any of the bonds hereby authorized, it shall present to the Railroad Commission and secure its approval of a trust deed or mortgage of its property to secure said bonds.

After Clear Lake Railroad Company shall have presented to the Commission a satisfactory plan for complying with the conditions hereinbefore specified the Commission will issue its supplemental order specifying the necessary conditions and containing the usual provisions with reference to accounting, time limit for issue of stock and bonds and payment of fee on bonds.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 29th day of October, 1915.

Alex Gordon
Mar. Thelen
Edwin O. Edgerton
Commissioners.