

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA:

In the Matter of the Application of  
 SAN FRANCISCO, NAPA and CALISTOCA  
 RAILWAY for authority to issue bonds  
 of the face value of \$55,000.

Application No. 299.

Guy C. Earl and Chaffee Hall for applicant.

THELEN, Commissioner.

O P I N I O N

This is an application for authority to issue bonds of the face value of \$55,000 to reimburse applicant for moneys heretofore expended from income not secured by or obtained from the issue of stocks or stock certificates or bonds, notes or other evidences of indebtedness, for the acquisition of property and the construction, extension and improvement of facilities.

Applicant was incorporated on November 8, 1911, for the purpose of acquiring, constructing and operating a line of railroad from San Francisco, thence by ferry to a convenient point in or near the city of Vallejo, county of Solano; thence running in a general northerly and northwesterly direction through the cities of Napa and St. Helena to a point in or near the town of Calistoga, in Napa county. Prior to applicant's incorporation, a line of railway between Vallejo and Napa had been constructed by the Vallejo, Benicia and Napa Valley Railroad Company, which company had issued capital stock of the par value of \$500,000 and bonds of the face value of \$500,000. Thereafter, a new corporation, called the San Francisco, Vallejo and Napa Valley Railroad Company took over the existing corporation and extended the line of railway to St. Helena. This latter company issued capital stock of the par value of \$1,500,000 and bonds of the face value of \$1,500,000. The corporation became financially embarrassed, with the result that on October 30, 1911,

foreclosure sale was duly and regularly held by the trustee under the trust indenture securing its bonds. On December 7, 1911, applicant acquired all the property of the San Francisco, Vallejo and Napa Valley Railroad Company. Applicant issued its first mortgage bonds of the face value of \$450,000, its debentures of the face value of \$599,000, and its capital stock of the par value of \$2,000,000 to take over these properties and to pay the outstanding indebtedness of the old company. It thereafter issued its first mortgage bonds of the face value of \$150,000, and with the proceeds thereof constructed an extension of the railroad from St. Helena to Calistoga.

The present condition of applicant's stocks and bonds is as follows:

Of the \$2,000,000, par value, of common capital stock heretofore issued there is now outstanding stock of the par value of \$731,700. The remaining capital stock failed to pay the assessment of \$5.00 per share, which was recently levied for the purpose of enabling applicant to pay damage claims resulting from a wreck on its line. Applicant has authorized the issue of its first mortgage, 6 per cent 25-year gold bonds of the face value of \$1,000,000, dated November 20, 1911, and secured by trust deed or mortgage to Mercantile Trust Company of San Francisco, Trustee. Of the amount so authorized, bonds of the face value of \$600,000, as hereinbefore indicated, are now outstanding. Applicant also entered into an agreement, dated November 20, 1911, with Mercantile Trust Company of San Francisco for the issue of unsecured debentures of the face value of \$610,000, bearing interest at the rate of 5 per cent per annum and payable on December 1, 1936. Of the debentures so authorized, debentures of the face value of \$599,900 have been issued and are now outstanding.

At the hearing applicant claimed a present value of its property amounting to \$1,374,144.63. The Commission has not undertaken to examine this valuation and does not in this proceeding pass

upon its correctness. I mention the matter simply as showing the value claimed by applicant.

Applicant now seeks authority to issue its first mortgage, 6 per cent bonds of the face value of \$35,000 in order to reimburse itself for on account of capital expenditures amounting to \$44,158.44 incurred between November 20, 1911 and June 1, 1913. The items of these expenditures are set forth on pages 6 and 7 of the petition herein and reference is hereby made thereto. Under the provisions of section 3 of article I of the mortgage or deed of trust securing applicant's bonds, it is provided that bonds shall from time to time be certified and delivered by the Trustee to an amount not exceeding in the aggregate 75 per cent of the actual and reasonable cash cost to the railway of permanent extensions and additions of and to its railway system, properties and equipment, made or acquired after the date of the indenture. The amount of bonds which applicant now asks authority to issue is somewhat less than 75 per cent of the capital expenditures incurred between November 20, 1911 and June 1, 1913, hereinbefore referred to.

The foregoing section of applicant's trust deed provides also that additional bonds shall not be certified

"unless and until the net earnings from the operation of the railway system and properties, at the time owned by the railway, for the period of twelve consecutive months ending not more than sixty days prior to the respective applications for the certification of bonds, after deducting from such earnings all operating expenses, including taxes, insurance and customary expenditures for current repairs and current maintenance ordinarily chargeable to operating expenses, shall have been in each case equal to at least twice the total annual interest charge on all bonds outstanding hereunder, together with the bonds for which application is made and any secured indebtedness, the lien, or liens, of which shall be prior to the lien of this indenture on any property hereafter acquired by the company."

The application to the Trustee in this case was made on July 28, 1913. The annual report of applicant for the year ending June 30, 1913, as filed with this Commission, shows net earnings, before the payment of interest on the funded debt, amounting to \$87,751.75. As bonds of the face value of \$600,000 of this issue are now outstanding, it is

evident that if an additional \$33,000, face value, of this issue be now authorized, applicant will still be able to comply with the above quoted provisions of its trust deed.

In ascertaining the real net earnings of applicant, attention should be drawn to the fact that no charge has been made for depreciation. Applicant takes the position, however, that a portion of the charge which should properly be made for depreciation is taken care of under the head of operating expenses. Applicant's attention should be drawn to the necessity of setting up a proper depreciation account.

Applicant desires to use the bonds which it now asks authority to issue for the purpose of pledging them to secure the payment of the promissory notes aggregating \$58,600 which are set forth in Exhibit "B", which is attached to the petition herein, and to repledge them from time to time as security on further short-term obligations, but not to a greater extent than at the ratio of \$2.00 X of bonds to \$1.00 of indebtedness. These promissory notes were in large part given to secure money to pay the damage claims resulting from the accident to which reference has hereinbefore been made. The amount so paid has been charged to operating expenses, as is proper. These notes have been guaranteed without further consideration by private individuals who now desire to be released of their liability. Applicant also asks authority to sell these bonds from time to time, but does not specify the price which it hopes to be able to secure for the same. Applicant states that it does not regard the present time as propitious for selling long term securities such as those which it now asks this Commission's authority to issue.

Under all the circumstances of this proceeding, I recommend that the application be granted, subject to the conditions specified in the order.

I submit herewith the following form of order:

O R D E R.

SAN FRANCISCO, NAPA AND CALISTOGA RAILWAY having applied to the Railroad Commission for an order authorizing the issue by said company of bonds of the face value of \$33,000, said bonds to be payable on the first day of December, 1936, and to bear interest at the rate of 6 per cent per annum, payable semi-annually, and secured by a trust deed or mortgage upon all the property of the company, and a public hearing having been held upon said application, and the Commission finding that the money to be secured by the issue of said bonds is necessary to and reasonably required by said company for the reimbursement of moneys actually expended from income within five years next prior to the filing of the application herein, for the acquisition of property and the construction, completion, extension and improvement of its facilities, and that the purposes for which said moneys are to be expended are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California hereby authorizes the issue by San Francisco, Napa and Calistoga Railway of thirty-three thousand dollars (\$33,000), face value, of principal of bonds of said company, maturing the first day of December, 1936, bearing interest at the rate of six (6) per cent per annum, payable semi-annually, on the first day of June and the first day of December of each year, under and in pursuance of the terms of the trust deed or mortgage heretofore and on the twentieth day of November, 1911, made and executed by said San Francisco, Napa and Calistoga Railway to Mercantile Trust Company of San Francisco, as Trustee, upon the following conditions and not otherwise, to-wit:

1. San Francisco, Napa and Calistoga Railway may pledge said bonds at the ratio of not to exceed two dollars (\$2.00) in bonds to one dollar (\$1.00) of indebtedness to secure the payment of the promissory notes set out in Exhibit "B", attached to the petition.

herein, and aggregating the total sum of fifty-eight thousand six hundred dollars (\$58,600) or such amount thereof as applicant desires to secure in this manner. As said notes are paid and said bonds returned to applicant's treasury, they may from time to time, until the further order of this Commission, be pledged on the same terms to secure other indebtedness of applicant, on condition that in each such case applicant shall write to the Commission a letter stating the amount of indebtedness which it desires to secure, the purpose for which said indebtedness was incurred, the person to whom the indebtedness is owing, the instrument or instruments, if any, evidencing such indebtedness, and the numbers and amounts of the bonds issued as a pledge to secure the same.

2. San Francisco, Napa and Calistoga Railway may, as an alternative to the authority granted in the preceding paragraph, sell said bonds or any thereof, within the term of two years from the date of this order, but only after it shall first have secured from this Commission a supplemental order specifying the minimum price at which the bonds may be sold. The proceeds from such sale shall be used to reimburse applicant for the expenditures heretofore made from income, as specified in the opinion which precedes this order.

3. San Francisco, Napa and Calistoga Railway shall keep separate, true and accurate accounts showing the disposition in detail of the bonds issued hereunder, and on or before the 25th day of each month the company shall make a verified report to the Commission stating the pledge of said bonds during the previous month, the terms and conditions of the pledge, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

4. The authority hereby given to issue bonds shall not become effective until applicant has paid the fee specified in Section 57 of the Public Utilities Act, as amended.

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 17th day of January, 1914.

Railroad Commission of California

RECEIVED  
JAN 22 1914  
Assistant Secretary

John W. Esbleman  
A. J. Toland  
Wm. J. Heelan

Commissioners.