

Decision No. 1266**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)
 Southern Pacific Company for authority)
 to issue \$55,000,000 five per cent)
 bonds.)

Application No. 982

Guy Shoup for applicant.

EDGERTON and LOVELAND, Commissioners.

O P I N I O N

This is an application for an order authorizing the issue by Southern Pacific Company of \$55,000,000 five per cent 20 year bonds.

Applicant's financial condition is reviewed and set out in the order made in application No. 585, wherein applicant was authorized by this Commission to issue \$30,000,000 of gold notes.

It is proposed now to issue \$55,000,000 of bonds and offer the same to the stockholders of applicant at par and accrued interest, the owners of these bonds to have the right to convert bonds into stock of applicant within 10 years at par, applicant to have the right of redeeming these bonds at any time after 5 years at 105 per cent and accrued interest.

Applicant proposes to enter into a contract with a responsible bank or syndicate for the purchase of all of said bonds at par, or so much thereof as the stockholders fail to take, the bank or syndicate to be paid for this underwriting 3 per cent upon the aggregate par value of the total issue, one per cent of which shall be paid to the bankers, and 2 per cent to the syndicate which said bankers form to execute the underwriting contract.

The railroads owned and operated by applicant are located in five states, and the proceeds from the sale of the bonds herein asked to be authorized are to be used in additions and betterments to various parts of this railroad system and for the purchase of additional equipment, as more specifically set out in the order herein.

It is impossible for this Commission, acting within the jurisdiction of one State, to investigate or supervise completely, the issuance of securities by a corporation such as applicant operating through and between five separate states of the Union where the lien of the securities extends over all of its property and the expenditures are to be scattered over its entire system. The best that can be done is to conclude generally whether the proposed bonds are reasonable in amount, reasonably secure as to payment of principal and interest, and that the proceeds are to be used for proper purposes.

We think it is evident from an examination of the accounts and other data of applicant on file with this Commission, that the Southern Pacific Company will be able to meet the principal and interest of these bonds, and that the amount thereof is not unreasonable in comparison to the property and business of the company.

It is proposed that a portion of the proceeds from the sale of this bond issue to pay off indebtedness of \$26,000,000, represented by notes of the company due June 15, 1914, and a loan due May 29, 1914, of \$4,500,000. This indebtedness was incurred for the following purposes:

1. Advances to Pacific System proprietary companies for:
A - Construction work.

Fernley to Lassen	\$3,164,000
Oregon Eastern	153,000
Willamette Pacific	3,502,000
Colusa & Hamilton	434,000
Hanford & Summit Lake	114,000
Tucson & Nogales	25,000
Salem to Durbin	7,000
Sacramento Southern	11,000
Miscellaneous Surveys	66,000
	<u>\$7,476,000</u>

B- For additions and betterments as follows:

Double track work,	\$3,056,000	
Increased weight of rail	84,500	
New depot and tracks Los Angeles	83,500	
Goeber New Terminal Yards	97,300	
Installation signals Tracy to Mendota	71,200	
Miscellaneous A & B work	<u>1,713,000</u>	
	\$5,105,300	\$12,581,300

2- Additions and Betterments:		
Electric lines Oakland, Alameda and Berkeley	681,000	
3- Purchase of real estate	250,000	
4- Advances to Atlantic SS Lines	645,000	
5- Purchase of equipment	3,535,000	
6- Advances for purchase of bonds	3,153,500	
7- Advances to following companies:		
Salem Falls City & Western	\$ 194,000	
Pacific Railway & Navigation Co.	131,000	
Coos Bay Roseburg & Eastern	17,000	
Corvallis & Eastern	58,000	
Pacific Fruit Express	1,359,000	
Portland Eugene & Eastern	2,834,000	
Arizona Eastern	<u>391,000</u>	4,984,000

8- Advances to Sunset Central Lines:		
Louisiana and Texas	6,301,000	
	<u>6,301,000</u>	\$32,130,800
	Total	

We therefore recommend that the application be granted, and submit herewith the following form of order:

ORDER

Application having been made by Southern Pacific Company for an order authorizing the issue of \$55,000,000 five per cent 20 year bonds, and a public hearing having been hold and it appearing to the Commission that the money to be secured by the issue of said bonds is necessary and reasonably required by said company for the construction and purchase of additions and betterments to its railroad property and the acquisition of equipment for the operation thereof, and the payment of its obligations, and that the purposes for which the proceeds of the sale of said bonds are to be used, 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 does hereby authorize the issue by Southern Pacific Company of \$55,000,000 face value of 5 per cent 20 year

bonds, said bonds to be convertible by the owners thereof within a period of 10 years from and after the issuance of said bonds into common capital stock of applicant at par.

Said bonds to be issued upon the following conditions, not otherwise:

1. Southern Pacific Company may sell the bonds hereby authorized to its stockholders at not less than par.

2. Southern Pacific Company may enter into an agreement with responsible parties, whereby said parties shall agree to purchase at par all of the bonds hereby authorized, or so much thereof as may not be purchased by stockholders. And Southern Pacific Company may pay such parties entering into such agreement a sum not to exceed 3 per cent of the face value of the bonds hereby authorized.

3. The proceeds from the sale of the bonds hereby authorized shall be used for the following purposes:

1- Expenses of underwriting		\$1,650,000
2- Equipment notes maturing next two years		2,426,000
3- Advances to be made to proprietary companies covering balances necessary:		
A- Complete following construction work now under way		
Fernley & Lason Railway	\$2,065,840	
Colusa & Hamilton Railroad	643,854	
Mojave & Bakersfield Railway	13,995	
Willamette Pacific Railroad	2,989,075	
Sundry small items allocating to Hanford & Summit Lake R.R. Pacific Ry. & Nav. Co., and three other branch lines	25,515	
Oakland, Alameda and Berkeley electrification	914,887	
Willamette Valley Electric lines	1,425,478	
Sunset Lines construction	709,366	
Atlantic SS Lines	<u>41,049</u>	8,829,059
B- To complete A&B-		
Sunset Lines	1,512,676	
Pacific System Right of Way	4,846	
Widening cuts and fills and filling bridges, trestles and culverts	58,689	
Protection of banks and drainage	33,817	
Tunnel improvements	48,927	
Bridges, trestles and culverts	241,369	
Improvements of grade crossings	135,630	
Increased weight rails, frogs, switches and track fastenings	595,337	

Ballast	172,860	
Grade reductions and changes of line	10,915	
Additional main tracks	1,222,561	
Sidings and spur tracks	361,851	
Fencing right of way	7,072	
Snow and sand fences and snowsheds	3,360	
Roadway, machinery and tools	1,490	
Section houses and other M/W service, buildings and improvements ✓	1,315	
Shop buildings, grounds and other M/P service improvements	272,856	
Shop machinery and tools	122,329	
Electric light and power plants	13,803	
Station buildings, grounds and other transportation service improvements	1,019,780	
Dock and wharf property	56,721	
Fuel and water stations	191,200	
Gas producing plants	4,340	
Telegraph and telephone lines	1,700	
Interlocking, block and other signal apparatus	157,250	
Real estate	79,479	
Other improvements general service	36,776	
Additions and improvements to existing equipment	251,572	
Electrification of lines	56,272	
Other floating equipment	615,854	
Total		<u>7,298,647</u> 20,203,706

4- For additions and betterments for Sunset Lines \$5,346,789

5- For as many of the following additions and betterments as should be made in the next two years, contingent on money available:

Right of way	312,800	
Protection of banks and drainage	5,600	
Tunnel improvements	13,930	
Bridges, trestles and culverts	125,450	
Increased weight of rail frogs, switches and track fastenings	150,810	
Ballast	55,055	
Grade reductions and changes of line	257,450	
Siding and spur tracks	612,870	
Section houses and other M of W buildings and improvements ✓	146,630	
Shop buildings, grounds and other M/P service improvements	2,331,480	
Machinery and tools	2,053,180	
Electric power transmission	2,500	
Station buildings, grounds and other transportation service improvements	973,876	
Dock and wharf property	137,310	
Fuel and water stations	543,710	
Telegraph and telephone lines	22,500	
Interlocking block and other signal apparatus	896,344	<u>13,988,344</u>
Total		\$34,192,050

4. Southern Pacific Company is hereby further authorized to issue such amount of its common capital stock at par as may be necessary to exchange for the bonds herein authorized, and which are offered for conversion.

5. Immediately upon the execution of any agreement or agreements under which said bonds are issued, a true copy of said agreement or agreements shall be furnished this Commission.

6. Before any of the money derived from the sale of said bonds shall be spent in California, full and detailed estimates of the additions and betterments and improvements proposed to be made in California shall be furnished for the approval of the Commission.

7. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said bonds hereby authorized to be issued, and on or before the 25th day of each month the company shall make a verified report to the Commission in accordance with the Commission's General Order No. 24, stating the sale or disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the numbers of the bonds disposed of, the moneys realized therefrom and the use and application of such moneys.

8. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 1st day of March, 1915.

9. This order shall not be effective until applicant shall first have paid the fee prescribed by section 57 of the Public Utilities Act.

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 9th day of February, 1914.

Railroad Commission State of California
FEB 9 16,750 00
FEB 14 1914
H. M. Johnson
Assistant Secretary

John W. C. C. C.

H. D. Foulard

Max Thelen

Edwin C. Edgerton

Commissioners.