

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1428

In the matter of the application of
NORTHWESTERN PACIFIC RAILROAD COMPANY
for an order authorizing the issue of
bonds of the face value of \$5,534,000.

Application No. 1044.

Lilienthal, McKinstry & Raymond,
Jesse W. Lilienthal and
Albert Raymond for applicant.

THELEN, Commissioner.

O P I N I O N.

This is an application for an order authorizing the issue by applicant of its 4 1/2 per cent first and refunding mortgage gold bonds, of the face value of \$5,534,000.

Applicant was incorporated on January 8, 1907, under the laws of this State by articles of incorporation and consolidation of Northwestern Pacific Railway Company, The Eureka and Klamath River Railroad Company, North Shore Railroad Company, The San Francisco and North Pacific Railway Company, California Northwestern Railway Company, Fort Bragg and Southeastern Railway Company and San Francisco and Northwestern Railway Company. The railroad companies which were so consolidated owned lines of railroad partly constructed and partly projected from Sausalito north and from Eureka south. The railroads running from Sausalito north had been acquired by the Southern Pacific Company and those running from Eureka south had been acquired by the Atchison, Topeka and Santa Fe Railway Company. As Captain A. E. Payson testified in Case No. 333, the Southern Pacific and the Atchison, Topeka and Santa Fe Railway Company, after the one had acquired the railroads at the southern end of the territory between Sausalito and Eureka and the other the railroads at the northern end, were very busy for a while projecting rival railroads to be constructed between

Sausalito and Eureka. They finally realized that this territory would probably not support two parallel lines of railroad, and for that reason they agreed to unite their properties, each to own a one half interest in the new Northwestern Pacific Railroad Company.

This company was accordingly incorporated with an authorized capital stock of \$35,000,000, consisting of 350,000 shares, all common stock, at a par value of \$100 per share. 174,995 shares of this stock are owned by the Southern Pacific Company and the same number by the Atchison, Topeka and Santa Fe Railway Company. The remaining 10 shares are held by ten directors, five representing the Southern Pacific Company and five representing the Atchison, Topeka and Santa Fe Railway Company, each director holding one share. For the stock of the railroad companies which were thereafter consolidated, the Southern Pacific Company and the Atchison, Topeka and Santa Fe Railway Company paid something over six million dollars several years prior to the consolidation. At the time of the consolidation, each of the purchasers carried to its books the amount which it had paid for the stock of the companies which it had bought, together with interest from the time of the purchase. The amounts so carried to the books of these purchasers have remained constant ever since and are \$3,990,242.39 for the Southern Pacific Company and \$3,660,260.31 for the Atchison, Topeka and Santa Fe Railway Company. It thus appears that as against a par value of \$35,000,000, the capital stock is at the present time carried on the books of the owners thereof at the sum of \$7,650,502.70.

Applicant's outstanding funded debt is as follows:

Northwestern Pacific Railroad Company's first mortgage and refunding 4½% bonds.....	\$17,649,000
San Francisco & North Pacific Company's 5% first mortgage bonds.....	3,693,000
California Northwestern Railway Company Company's first mortgage 5% bonds.....	950,000
Eel River & Eureka Railroad Company's first mortgage 5% bonds.....	<u>313,000</u>
Total.....	\$22,605,000

The outstanding bonds of the Northwestern Pacific Railroad Company were all sold to the Southern Pacific Company at 95 per cent of their face value, plus accrued interest. Applicant was unable to furnish definite information with reference to the amount for which the bonds of the San Francisco and North Pacific Railway Company, the California Northwestern Railway Company and the Eel River and Eureka Railroad Company were sold. These bonds are all underlying bonds and were all issued before the present owners of applicant's property bought the same. Witnesses for applicant, however, were of the general impression that the San Francisco and North Pacific Railway Company's bonds were sold at par less a commission, and that the bonds of the California Northwestern Railway Company were sold at 98 per cent of their face value. No information could be secured with reference to the sale price of the bonds of the Eel River and Eureka Railroad Company.

The proceeds of the bonds of the Northwestern Pacific Railroad Company have been used to reimburse the Southern Pacific Company, in the amount of five million dollars, for floating debts and other obligations of the consolidated companies, other than their funded debts; to purchase new equipment, for additions and betterments and for new construction; and to retire the bonds of the North Pacific Coast Railroad Company of the face value of \$1,498,000. In the construction of its extension between Willits on the south and Shively on the north, applicant has expended since its incorporation the total sum of \$10,437,097.18, of which amount all except \$187,429.91 has been secured from the proceeds of the sale of applicant's bonds.

The proceeds from the bonds of the San Francisco and North Pacific Railway Company were used to build the line between Cloverdale and Ukiah. The proceeds from the bonds of the California and Northwestern Railway Company were used to build the line between Ukiah through Willits to Sherwood. The proceeds from the bonds of the Eel River and Eureka Railroad Company were presumably used to construct that company's line of railroad from a point on the Van Duzen

river, in Humboldt county, to the city of Eureka.

On December 31, 1913, applicant showed current or working assets and current or working liabilities as follows:

Current assets.....	\$1,968,467.69
Current liabilities.....	1,051,002.93

Excess of current assets over current liabilities.....	\$ 917,464.76

Applicant now asks authority to issue its 4 1/2 per cent first and refunding mortgage gold bonds of the face value of \$5,534,000, consisting of 5,534 bonds, of the face value of \$1,000 each, which bonds are to be sold to the Southern Pacific Company at 95 per cent of their face value and accrued interest. This sale is to be made in accordance with the terms of an agreement entered into on March 1, 1907, between the Southern Pacific Company, the Northwestern Pacific Railroad Company and The Atchison, Topeka and Santa Fe Railway Company, which agreement provides in part that the Southern Pacific Company will purchase, at 95 per cent of their face value, together with accrued interest thereon, all of the bonds to be issued by the Northwestern Pacific Railroad Company, under the provisions of that company's deed of trust or mortgage to The Farmers' Loan and Trust Company, dated March 1, 1907, except the bonds referred to in Section 3 of Article II of the trust deed or mortgage. The bonds so excepted total \$6,676,000, and are to be used for the purpose of retiring the following underlying bonds:

San Francisco & North Pacific Railway Company, maturing January 1, 1919.....	\$3,880,000
North Pacific Coast Railroad Company, maturing January 1, 1912.....	1,498,000
California Northwestern Railway Company, maturing April 1, 1928.....	985,000
Eel River & Eureka Railroad Company, maturing October 1, 1914.....	313,000
Total.....	----- \$6,676,000

The bonds of the North Pacific Coast Railroad Company have been fully redeemed. While the agreement of the Southern Pacific Company does not cover the bonds of the Eel River and Eureka Railroad Company, the Southern Pacific Company is willing to include them in its agreement to purchase, with the understanding that the matter will be taken care of by some subsequent agreement between itself and the Santa Fe.

The proceeds from the sale of said bonds are to be used for the following purposes:

(1) For the additional cost of completing the railroad from Willits to Shively.....	\$1,803,912.95
(2) For the payment of interest on construction bonds already issued by applicant to March 1, 1914 and those to be issued to July 1, 1915	696,500.00
(3) For the reimbursement of moneys actually expended from income for the payment of new construction subsequent to March 31, 1909.....	497,078.72
(4) For the purchase of new equipment.....	1,236,700.00
(5) For the reimbursement of moneys actually expended from income for additions and betterments subsequent to November 30, 1911.....	709,935.28
(6) For the discharge and retirement of the outstanding bonds of the Eel River and Eureka Railroad Company.....	313,000.00
	<hr/>
Total.....	\$5,257,126.95

I shall now consider these purposes somewhat more in detail.

1. COMPLETION OF LINE FROM WILLITS TO SHIVELY.

As hereinbefore stated, applicant has already expended in the construction of the line from Willits to Shively the sum of \$10,437,097.18.

Construction work started in the fall of 1907, at which time

some three miles were constructed northerly from Willits. For the next two years or so, the work was suspended. Subsequent to that time the work has been carried on without interruption. The total length of this portion of applicant's line of railroad when completed will be 106 1/10 miles. Of this total, 73 3/10 miles are now practically completed, and of the remaining 32 8/10 miles, approximately 50 per cent of the work has been completed. Applicant estimates that it will be able to complete this extension by July 1, 1915, and that the cost of completing the work will be \$1,103,912.95. The details of this cost appear in Exhibit "C" attached to the petition herein and in a report of this Commission's acting chief engineer, on file herein.

2. PAYMENT OF INTEREST ON CONSTRUCTION BONDS.

Applicant's Exhibit "D" attached to the petition herein, shows the bonds which applicant expects to be obliged to issue between April, 1914 and July 1, 1915, in payment of interest on outstanding bonds chargeable to the construction work between Willits and Shively. The items are as follows:

For interest from April 1, 1914 to December 31, 1914,	\$399,165.00
For interest from January 1, 1915 to July 1, 1915.....	279,335.00
For interest on bonds issued to pay interest....	<u>18,000.00</u>
Total.....	\$696,500.00

On the completion of the line of railroad the interest charge will cease to be properly chargeable to capital account and will be chargeable to operating expenses.

3. REIMBURSEMENT OF MONEYS EXPENDED FROM INCOME

FOR PAYMENT OF NEW CONSTRUCTION.

Applicant asks authority to issue bonds to reimburse itself in the sum of \$497,078.72 for moneys expended from income for the payment of new construction subsequent to March 31, 1909. In estimating the income applicant charged off 3 per cent for depreciation on its

equipment but has made no charge for depreciation on its other property. If the authority now asked is granted, applicant will use this money and also the money to be derived from the bonds issued to reimburse it for the moneys expended from income for additions and betterments for a fund to be drawn upon if necessary, to meet any possible deficit in its operating expenses when the Eureka line has been opened for traffic.

4. PURCHASE OF NEW EQUIPMENT.

Applicant's Exhibit "F" shows the new equipment which applicant desires to secure, partly in connection with its present operation and partly in connection with its proposed operation when the Willits-Shively extension has been completed. This equipment is as follows:

Locomotives.

4	Road locomotives, type E-63-19/26-100.....	\$	64,000
4	" " type T-63-20/28-130.....		76,000
4	" " type T-57-21/28-144.....		80,000
3	Switching " type S-50-19/24-124.....		45,000
	Total.....		265,000

Passenger Train Cars.

6	Vestibuled Mail and Express Cars	60'	steel.....	48,000
6	" Baggage "	60'	steel.....	42,000
6	" Coaches--smokers.....	60'	steel.....	63,000
20	" Coaches.....	60'	steel.....	220,000
6	" Chair cars, smoking compartment... ..	60'	steel.....	66,000
	Total..			439,000

Freight Train Cars.

100	Box cars, steel underframe, 100,000 lbs. capacity.....		130,000
60	Stock cars " " 80,000 lbs. "		63,600
100	Flat cars, wood, logging, 80,000 lbs. "		85,000
150	" " steel underframe 100,000 lbs. "		142,500
6	Cabooses " "		9,600
	Total,..		430,700

Electric motor cars and Trailers.

6	Conversion of six electric trailers into motor coaches, double end control--equipped with two - type "G.E.66" 125 H.P. Motors. Type "M" Multiple unit control, double end, seating 62 passengers.....		36,666
5	Electric trailer coaches, length in train 57'3", inside dimensions, 9' x 49'11" seating 66 passengers.....		35,334
	Total,..		72,000

Gasoline Motor Cars and Trailers.

2	Fifty passenger motor cars.....		30,000
	Grand total.....		\$1,236,700

Applicant has already ordered six locomotives and seventeen coaches for delivery this summer, and if the authority now asked is granted, will place orders for the delivery of the remaining equipment this winter or next spring. Applicant's president testified that the company had been short of equipment at both ends and that there is pressing need for all of the equipment which applicant now desires to purchase.

5. REIMBURSEMENT OF MONEYS FROM INCOME FOR ADDITIONS AND BETTERMENTS.

Applicant desires authority to issue bonds to reimburse its treasury in the amount of \$709,935.28 expended from income for additions and betterments subsequent to November 30, 1911. The details of the expenditures appear in Exhibit "G" attached to the petition herein.

6. RETIREMENT OF BONDS OF EEL RIVER AND EUREKA RAILROAD COMPANY.

As hereinbefore stated, these bonds mature on October 1, 1914. Applicant desires authority to issue sufficient of its first and refunding mortgage gold bonds to retire this issue.

If the authority now asked is granted, applicant's total indebtedness will be as follows:

Present outstanding bonds.....	\$22,605,000.00
Proposed bond issue.....	5,534,000.00
Total.....	28,139,000.00
Less Eel River & Eureka R.R.Co. bonds to be refunded.....	313,000.00
Total bond issue.....	27,826,000.00
Add current liabilities.....	1,051,002.93
Total.....	28,877,002.93
Subtract current assets.....	1,968,467.69
Net indebtedness.....	\$26,908,535.24

Consideration must now be given to the relationship between the value of applicant's property and the amount of the present and the proposed funded indebtedness, so as to ascertain whether the additional amount of bonds now asked for may reasonably be authorized. This question cannot be answered with entire satisfaction until this

Commission knows the value of applicant's entire property. The Commission has been trying for several years to secure this valuation from the applicant. The company itself offered to have this valuation complete by April 1, 1913, but the Commission at that time stated that it would not be possible to grant this length of time, and that the valuation would be expected to be in the Commission's hands by October, 1912. It thus appears that under the company's own estimate, this valuation is now more than one year overdue. Applicant was taken to task at the hearing for its failure to comply with its promises in this regard and for the protracted delays in filing its valuation report. Applicant's president thereupon promised that the valuation would be complete and in the Commission's hands within 90 days. The Commission expects applicant to comply with this promise.

Applicant's president presented at the hearing a rough summary of the value of applicant's property, based on such material as has been gathered in connection with the valuation of its property, totalling some \$36,849,860.18. This total represents to a considerable degree merely rough estimates, and it has been impossible to check over the same. A rough approximation of the value of applicant's property may be secured in another way, as follows:

Cost of stock to owners.....	\$ 7,650,502.70
Funded debt outstanding.....	22,605,000.00
Advanced from income for construction work, additions and betterments.....	1,207,008.00

Total investment March 1, 1914.....	\$31,462,510.70

The foregoing total assumes that the stock of the constituent railroads was worth what the Southern Pacific Company and the Santa Fe paid for it, at a time of keen rivalry of these railroads for the acquisition of certain of applicant's present underlying properties, and also assumes that the bonds were sold for somewhat less than par. It should be borne in mind, however, that to the present value of this property, whatever it may be, there must be added the proceeds to be secured from the bonds which applicant now desires to issue.

Referring now to applicant's ability to meet interest and sinking fund payments on the bonds which applicant now desires to issue, in addition to those already outstanding, it appears that for the year ending June 30, 1913, applicant had available for the payment of fixed charges the sum of \$1,070,421.75, and that if the bonds now applied for are issued, the interest charges of applicant would be as follows:

5% interest on \$3,693,000 of San Francisco and North Pacific Railway Company's bonds...	\$184,650
5% interest on \$950,000 of California and Northwestern Railway Company's bonds...	47,500
4 1/2% interest on \$23,183,000 of Northwestern Pacific Railroad Company's bonds.....	1,043,235
Total.....	<u>\$1,275,385</u>

While the sum available for the payment of interest charges for the year ending June 30, 1913, would not be sufficient to pay the interest obligations after the Eureka extension has been completed, applicant's president testified that he expected that the increased earnings would be sufficient to take care of applicant's fixed charges and that, in any event, the company would have a surplus in its treasury sufficient to tide it over the first few lean years in connection with the Eureka extension.

While recommending, after a careful consideration of all the facts in this proceeding, that the present application be granted, I also recommend that no further securities be authorized to be issued by this company until it has completed and filed with the Commission a valuation of its property.

I submit herewith the following form of order:

O R D E R.

NORTHWESTERN PACIFIC RAILROAD COMPANY having applied to the Railroad Commission of the State of California for an order authorizing the issue by said company of its first and refunding mortgage gold bonds of the face value of \$5,534,000, said bonds to be payable on March 1, 1957, and to bear interest at the rate of 4 1/2 per cent per annum,

payable semi-annually, under and in pursuance of the terms of a deed of trust or mortgage from Northwestern Pacific Railroad Company to The Farmers' Loan and Trust Company, Trustee, dated March 1, 1907, and a public hearing having been held upon said application, and the Commission finding that the money to be procured by the issue of said bonds is necessary to and reasonably required by said company for the acquisition of property, the construction, completion, extension and improvement of its facilities, the improvement and maintenance of its service and the reimbursement of moneys actually expended from income within the five years next prior to the filing of the petition herein, for proper capital purposes, and that said purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED as follows:

Northwestern Pacific Railroad Company is hereby authorized to issue five million five hundred and thirty-four thousand dollars (\$5,534,000), face value of principal of bonds of said company, or so much thereof as may be necessary for the purposes hereinafter stated, maturing March 1, 1957, bearing interest at the rate of four and one half ($4\frac{1}{2}$) per cent per annum, payable semi-annually, on the first day of March and the first day of September in each and every year until the payment of the principal sum, under and in pursuance of the terms of deed of trust or mortgage to The Farmers' Loan and Trust Company, Trustee, dated March 1, 1907, upon the following conditions and not otherwise, to-wit: *Pacific*

1. Northwestern Railroad Company shall sell said bonds hereby authorized so as to net said company not less than ninety-five (95) per cent of the face value thereof, together with accrued interest.

2. Northwestern Pacific Railroad Company shall apply the proceeds from said bonds to the following purposes and not otherwise, to-wit:

(a) For the additional cost of completing applicant's line of railway from Willits to Shively, for the items specified in Exhibit "C" attached to the petition herein, not to exceed the sum of..... \$1,303,912.95

(b) For the payment of interest on construction bonds heretofore issued by applicant and on those to be issued by it up to July 1, 1915, as appears from Exhibit "D" attached to the petition herein, not to exceed the sum of.....696,500.00

(c) For the reimbursement of moneys actually expended from income for the payment of new construction subsequent to March 31, 1909, as appears from Exhibit "E" attached to the petition herein, not to exceed the sum of..497,078.72

(d) For the purpose of new equipment, for the general items specified in Exhibit "F" attached to the petition herein, not to exceed the sum of..... 1,236,700.00

(e) For the reimbursement of moneys actually expended from income for additions and betterments subsequent to November 30, 1911, as appears from Exhibit "G" attached to the petition herein, not to exceed the sum of..... 709,935.23

(f) For the discharge and retirement of the outstanding bonds of the Eel River and Eureka Railroad Company, not to exceed the sum of..... 313,000.00

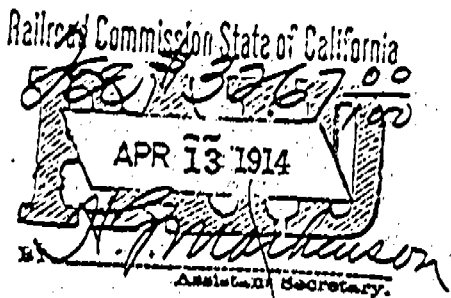
3. Northwestern Pacific Railroad Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued, and on or before the 25th day of each month the company shall make verified reports to the Railroad Commission, stating the sale or sales of said bonds during the preceding month, the terms and conditions of sale, 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. This order shall not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, as amended.

5. The authority hereby given to issue bonds shall apply only to bonds issued on or before the first day of July, 1915.

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 11th day of April, 1914.



John M. Gehlman
H. L. Loveland
W. Gordon
Max Thelen

Commissioners.