

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1507

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.

Haven and Athearn and F. G. Athearn for applicant.

THELEN, Commissioner.

SUPPLEMENTAL OPINION.

In its order heretofore rendered on October 29, 1913, in the above entitled application, this Commission conditionally authorized Clear Lake Railroad Company to issue certain stock and bonds 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 applicant was directed to present to the Commission a detailed financial plan in accordance with the terms of the Commission's order, whereupon it was contemplated that the Commission would issue a supplemental order authorizing the issue of the required stock and bonds.

Applicant has now presented to this Commission a revised estimate of the amount of money necessary to complete and equip its line of railroad for operation. This estimate was prepared by F. T. Robson, was introduced at the hearing as applicant's Exhibit No. 1, and reads as follows:

Estimate to complete and equip for operation
the Clear Lake R. R. Co.
between Hopland and Lakeport.

Rights of Way	- - - -
Grading, Clearing, etc.	159,883.
Tunnels	78,000.
Steel Trusses	9,900.
Pile & Frame Trestles	28,590.
Culverts	1,948.
Ties 65,000 @ 45¢	29,250.
Rails	88,125.
Track Fastenings	3,000.
Track Laying & Surfacing	19,200.
Roadway Tools	- -
Fencing R of W	1,500.
Crossings & Signs	400.
Telephone	- -
Station Bldgs	2,000.
Platforms	400.
Shop Bldg & Eng. House	1,000.
Shop Machy & Tools	250.
Water Stations	2,000.
Fuel Tank	1,250.
Engineering & Supt.	5,000.
Law Expense	1,054.
Staty & Printing	100.
Insurance	- -
Taxes	- -
Overhaul	650.
Equipment, cost of	
1 Loco. 1 Comb. Car	
1 Coach	9,000.
2 Box Cars	
2 Flat Cars	2,500.
Contingencies	25,000.
	470,000.

Applicant's witnesses testified that it would be impossible to sell capital stock in excess of \$50,000, par value, and that such sales could be made only on the condition that payments on stock might be made in installments, the last installment to become due when construction on the railway should have been completed. Applicant asks authority also to issue stock of the par value of \$25,000 in exchange for a one half interest in the lake frontage on Clear Lake, in Lake county, belonging to the Yolo Water and Power Company. An agreement has been reached between the two companies by which this property is to be exchanged for capital stock of the par value indicated. Applicant is of the opinion that this property will be worth considerably over \$25,000 to the Railroad Company for its purposes.

Applicant states that it expects to be able to sell its bonds of the face value of \$500,000 so as to net not less than 84% of their face value. No sale of these bonds has as yet been consummated. The Northwestern Pacific Railroad Company has already agreed to take bonds at 84% of their face value up to the total face value of \$100,000, if necessary, in payment for second-hand rails and fastenings which it will furnish in an amount sufficient for the purposes of the Clear Lake Railroad Company. Applicant's witnesses testified that, in their opinion, the Company would be able to secure a guarantee of the payment of interest on the bonds during at least the first three years after the completion of construction.

The applicant expects to construct its railway on force account, paying to the contractor the cost of the work plus 12%, which percentage includes contractor's profits, engineering and the marketing of the bonds at at least 84% of their face value. Applicant is negotiating with a large construction company which has considerable equipment now lying idle, and which is desirous of putting its equipment to work in constructing this line of railway. In order to make sure that the money which applicant estimates will be necessary to complete and equip its line of railway will not measureably exceed

applicant's estimate of \$470,000, the contract for the performance of this work should include a provision for a maximum cost, which should not be exceeded. An adequate provision should be made for securing compliance with this condition.

On the basis of a cost of \$470,000 or thereabouts to complete the work, and equip the railroad, the relation between the value of the property and the face value of the bonds should be reasonable, provided that arrangements are made to retire ~~the~~ bonds of the face value of \$100,000 within the first five years after completion of the railway. The Northwestern Pacific Railroad Company has agreed that it will sell to Clear Lake Railroad Company within the first five years after construction is completed, the bonds to be issued to Northwestern Pacific Railroad Company at exactly what they cost the Railroad Company, not to exceed 84% of their face value, together with any accrued interest. The order in this proceeding will contain a provision for the retirement of bonds of the face value of \$100,000, within the first five years after construction is completed.

I submit herewith the following form of supplemental order:

SUPPLEMENTAL ORDER.

CLEAR LAKE RAILROAD COMPANY having applied to the Railroad Commission of the State of California for a supplemental order in the above entitled proceeding, and a public hearing having been held and the Commission finding that the purposes for which the proceeds of the stock and bonds hereinafter authorized to be issued are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Clear Lake Railroad Company is hereby authorized to issue 750 shares of its common capital stock, having a par value of \$100.00 each, and \$500,000, face value, of bonds, to bear interest at the rate of 6% per annum, to be secured by a 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 in the amount of fifty thousand dollars (\$50,000) so as to net said company not less than the par value thereof, and may issue its said capital stock of the par value of \$25,000 in exchange for property of the Yolo Water and Power Company, as hereinafter indicated.

2. Clear Lake Railroad Company shall ^{sell} its said bonds so as to net said company not less than eighty-four (84) per cent of the face value thereof, together with accrued interest.

3. Clear Lake Railroad Company shall use the proceeds of said stock of the par value of \$50,000 and of said bonds only for the purpose of constructing its proposed line of railroad between Hopland and Lakeport for the items which appear in the cost summary prepared by applicant's engineer and appearing in the supplemental opinion which precedes this order, and shall issue said stock of the par value of \$25,000 only for the purchase of a one half interest in the lake frontage of Clear Lake, in Lake county, California, belonging to the Yolo Water and Power Company.

4. Before any of said stock or bonds shall be issued, Clear Lake Railroad Company shall present to the Railroad Commission for its approval, a plan by which \$50,000 of its capital stock shall be subscribed and paid for in full prior to the completion of applicant's line of railroad, which amount of capital stock shall be in addition to the capital stock already subscribed prior to the date of this order, and shall also be in addition to the capital stock to be issued to the Yolo Water and Power Company.

Clear Lake Railroad Company shall also present a plan by which the interest on the bonds herein authorized to be issued may be waived or guaranteed for a period of not less than three 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 necessity.

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

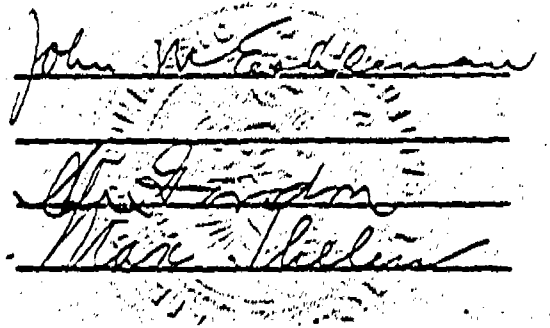
to secure said bonds, which trust deed or mortgage shall, among others, contain satisfactory provisions for the retirement within the first five years after construction shall have been completed, of applicant's bonds of the face value of one hundred thousand dollars (\$100,000).

6. Before Clear Lake Railroad Company may issue any of the stock or bonds hereby authorized, it shall present to this Commission for its approval a contract with a responsible contractor, agreeing to fully complete and equip applicant's contemplated line of railroad, on force account, on a commission of not to exceed twelve (12) per cent of the cost, this commission to include contractor's profit, engineering and sale of the bonds to net applicant not less than eighty-four (84) per cent of their par value plus accrued interest, and this contract shall contain a provision for a maximum sum satisfactory to this Commission, which the contractor agrees, under sufficient surety, to represent the maximum cost of the railroad.

7. After Clear Lake Railroad Company shall have presented to the Railroad Commission a satisfactory plan for complying with the conditions hereinbefore specified, the Railroad 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 supplemental opinion and order are hereby approved and ordered filed as the supplemental opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 14th day of May, 1914.



Commissioners.