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Decision No. 1689

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BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Oakland, Antioch and Eastern Railway for authority to issue certain notes and bonds.

Application No. 1243

Jesse H. Steinhart for applicant.

EDGERTON, Commissioner.

O P I N I O N

This is an application by Oakland, Antioch and Eastern Railway for an order authorizing the issue of promissory notes in the principal sum of $900,000, payable three years from July 1, 1914, with interest at the rate of 6 per cent per annum, payable quarterly, and for authority to issue 330 bonds in addition to those heretofore authorized by the Commission, these new bonds, together with those heretofore authorized, to be pledged as security for the payment of the above mentioned promissory notes on a basis of 200 per cent of bonds to the face value of the notes.

Applicant is engaged in the operation of an electric railroad extending from the City of Oakland, County of Alameda, to the City of Sacramento, County of Sacramento. The total mileage operated is approximately 105 miles.

This Commission has heretofore in Applications Nos. 608, 666 and 939 authorized the issuance of bonds by applicant, and in the opinions preceding these orders the financial condition of applicant has been extensively reviewed.

The floating indebtedness of this company is reported as of April, 1914, to be $1,349.960.44. As an offset there is cash on hand of $44,561.85 and accounts receivable of $89,144.34, which leaves a difference between total floating debt and offset of

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$1,216,254.25, and since said time there has been paid the sum of approximately $185,000 received from stock assessment. The testimony is that the money represented by this floating indebtedness all went into construction of applicant's roads and additions and betterments to its plant. It appears that some of this indebtedness is represented by a charge of interest on plant investment during construction but it is unnecessary at this time to determine whether or not the full amount of this interest is a proper capital charge, as the amounts which actually went into betterments amount to more than the sum which is proposed to be realized from the notes herein asked to be authorized.

Applicant's road has been in operation a comparatively short time and it is necessary to resort to estimates of future earnings in order to determine whether or not it will be able to pay its operating expenses and fixed charges, including the interest on these notes. Such an estimate has been submitted and it shows an earning which will enable applicant to carry its operating expenses and fixed charges during the life of these notes.

It is proposed to sell these notes at 96 per cent of face value and to pay a commission on such sale of 4 per cent. This would net applicant 92 per cent of face, or $828,000, with which a like amount of floating indebtedness is to be paid off.

Applicant further asks that the bonds to be pledged as collateral for these notes may be taken over by the note holders at any time on a basis of 80 per cent for the bonds, the minimum heretofore fixed by the orders of the Commission, for 100 per cent face of notes. I think this is not objectionable because once the notes are outstanding the effect of converting them at full face into bonds at 80 would be the same as the purchase of bonds at the minimum heretofore fixed by the Commission of 80 and the retirement of notes with this money.

The net result of this transaction will be to extend the time of payment of $828,000 of existing floating indebtedness for three years and I think the price being paid for the money under the circumstances is not exorbitant. To compel the issuance and sale of bonds at this time would result in the bonds being sacrificed at a very low figure to the serious detriment of this company and while I think the pledging of the bonds of applicant at 50 per cent of their face value is not to be encouraged, still in view of the evidence in this matter these are the very best terms and conditions at this time obtainable.

The issuance of these notes, however, and their sale at less than par should not be allowed to put this company in any worse condition than it is at this time, and therefore we should call upon applicant to make up from stock assessments during the life of these notes the discount at which they are sold. As this company has notified its stockholders of its intention to levy two more assessments of $1.50 each, a portion of the money so collected may be used for this purpose.

I believe the application should be granted, and submit herewith the following form of order:

O R D E R

Application having been made by Oakland, Antioch and Eastern Railway for an order authorizing the issue of $900,000 face value of promissory notes to be dated July 1, 1914, payable three years after date with interest at 6 per cent per annum, payable quarterly, and for an order authorizing the issue of $330,000 face value of its first mortgage 5 per cent bonds and to pledge said bonds heretofore authorized by this Commission as security for the payment of said promissory notes, and a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said notes and said bonds is necessary and reasonably required by said company for the discharge 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 Oakland, Antioch and Eastern Railway of $900,000, face value of promissory notes to be dated July 1, 1914, bearing interest at the rate of 6 per cent per annum, payable three years after date, and to be redeemable in whole or in part at the option of the railroad at any interest date, at their face value and accrued interest on not less than thirty days notice. And said company is further authorized to issue $330,000 face value of its first mortgage 5 per cent bonds and to pledge said bonds, together with bonds heretofore authorized by this Commission, as security for the payment of said promissory notes, on the basis of $1000 of bonds to $500 of promissory notes, and applicant is further authorized to make said promissory notes convertible at the option of the holder thereof before maturity on the basis of 80 per cent of the par value of said bonds with accrued interest as against the par value of said notes with accrued interest. Said notes and said bonds shall be issued upon the following terms and conditions, not otherwise:

1. Before issuing any of said notes or said bonds applicant shall submit for the approval of this Commission the contract or agreement under which said notes are to be sold.

2. Said notes are to be sold for not less than 96 per cent of their face value and accrued interest. Provided, applicant may pay a commission for the sale of said notes of not to exceed 4 per cent of the face value thereof. In any event, these notes shall be sold so as to net applicant not less than 92 per cent of face value.

3. The proceeds from the sale of these notes shall be used only for the purpose of paying off floating indebtedness, which indebtedness is shown in detail in a list or state-

ment thereof on file with this Commission, reference to which is hereby made.

4. Immediately upon the release from pledge of any of the 330 bonds herein authorized to be issued, the same shall be returned to the treasury of applicant and shall not thereafter be issued except upon further order of this Commission.

5. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said notes 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 of such notes during the preceding month, the terms and conditions of such sale, the moneys realized therefrom and the use and application of such moneys, and showing in detail, including the numbers thereof, the bonds pledged as security for the payment of said notes.

6. This Commission will expect applicant to make up by stock assessment during the life of the notes herein authorized to be issued the discount at which such notes are sold below par. Money obtained from either of the two proposed assessments of which applicant has heretofore notified its stockholders may be used for this purpose.

7. The authority hereby given to issue said notes and said bonds is contingent upon the payment of the fee provided in the Public Utilities Act.

8. The authority hereby given to issue such notes and bonds shall apply only to notes and bonds issued by said company on or before the 1st day of January, 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 28th day of July, 1914.

John M Eshleman

Max Thelen

Edwin O. Edgerton

Commissioners.

Railroad Commission State of California
Fee $100.00/100
JUL 29 1914
BY H. G. Mathewson
Assistant Secretary.