

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the matter of the application of  
SAN DIEGO ELECTRIC RAILWAY COMPANY  
for an order authorizing the execu-  
tion of a deed of trust or mortgage  
and the issue of bonds of the face  
value of \$4,748,000.00.

Application No. 1206.

Decision No. 1851

Harry L. Titus and Read G. Dilworth  
for applicants.

THELEN, Commissioner.

O P I N I O N.

This is an application for authority to execute a new deed of trust or mortgage and to issue bonds of the face value of \$4,748,000.00 and to use the proceeds for the purposes hereinafter specified. A public hearing was held in San Diego on September 29, 1914.

San Diego Electric Railway Company was incorporated on November 30, 1891, under the laws of California, with an authorized capital stock of \$250,000.00. The amount of capital stock so authorized was increased by amendment to the articles of incorporation, on February 11, 1908, to 50,000 shares of the total par value of \$5,000,000.00. Of the stock so authorized, 600 shares of the total par value of \$600,000.00 have been issued as fully paid and 44,000 shares of the total par value of \$4,400,000.00 were issued for a stock dividend of \$650,000.00, thus leaving the amount of \$3,750,000.00 still unpaid by the present owners of the stock. All the stock except a few shares held by directors is owned by J. D. Spreckels and Brothers Company.

Dividends on the capital stock have been paid as follows:

<u>Date</u>	<u>Amount of Dividend</u>	<u>Per cent on Capital Stock</u>	<u>Paid in</u>
Sept. 11, 1908	\$ 650,000.00	--	Capital Stock
Dec. 15, 1909	50,000.00	4%	Cash
Dec. 30, 1910	50,000.00	4%	"
Dec. 29, 1911	75,000.00	6%	"
Dec. 30, 1912	75,000.00	6%	"
Dec. 30, 1913	100,000.00	8%	"
	<u>\$1,000,000.00</u>		

Applicant has an authorized bond issue of \$5,000,000.00, 5 per cent bonds, dated December 10, 1908 and maturing on January 2, 1934. Of the bonds so authorized, \$2,000,000.00 have been issued, of which amount \$375,000.00 have been retired, leaving \$1,625,000.00 outstanding.

Applicant's other indebtedness as of April 30, 1914, was as follows:

Notes payable . . . . .	\$ 574,406.75
(Six months' note given to J.D. and A.B. Spreckels Securities Co. on March 31, 1914.)	
Accounts Payable . . . . .	164,363.36
Accrued Liabilities not due,	
Franchise tax, City of San Diego	\$ 5,878.52
" " County " " "	38.09
Bond Interest	<u>27,083.32</u>
Total . . . . .	<u>32,999.93</u>
Total . . . . .	\$771,770.04
Less Current Assets (June 30, 1913.) . . . .	<u>135,342.69</u>
Net Indebtedness . . . . .	\$636,427.35

Applicant's property consists of a system of electric street railroad running on and along certain streets and rights of way in the city of San Diego and the immediate adjoining territory, the city of East San Diego and the city of Coronado. It owns, according to the petition herein trackage as follows:

Single track . . . . .	38.42 miles.
Second track. . . . .	22.19 "
Sidings and turnouts . . . . .	<u>2.78</u> "
Total . . . . .	63.39 "

Applicant now asks authority to execute a new deed of trust or mortgage to Union Trust Company of San Francisco as security for an issue of \$10,000,000.00 face value, of general first lien five per cent forty year sinking fund gold bonds in substantially the form attached to the petition herein and marked Exhibit D, and to issue bonds of said authorization of the face value of \$4,748,000.00, at not less than 85 per cent of their face value and to use the proceeds thereof for the following purposes:

- (a) To redeem the present outstanding bonds of the face value of \$1,625,000.00, bonds of the face value of . . . . . \$ 1,911,764.00
  - (b) To liquidate and refund note for \$574,406.73, bonds of the face value of 675,772.00
  - (c) To return to income the sum of \$302,438.26, spent in betterments, improvements and extensions properly chargeable to capital account, bonds of the face value of . . . . . 355,809.00
  - (d) To defray the expense of making necessary additions and betterments and of acquiring necessary additional property amounting to \$1,532,957.00, bonds of the face value of 1,803,478.00
- Total . . . . \$4,746,823.00

Applicant still has in its treasury, unsold bonds of the present issue of the face value of \$3,000,000.00, but contends that this amount is insufficient to meet the expenditures now under way and contemplated for the near future. In this connection, and as explanation of the reason for executing a trust deed to secure a possible issue of \$10,000,000.00 of bonds, applicant presented a list of contemplated expenditures, which list must be taken as representing rather purposes for which money may

possibly eventually be expended than purposes for which applicant intends in the immediate future actually to make expenditures. It seems clear, however, that the present authorized issue of \$5,000,000.00 of bonds is not large enough for any considerable period of time, and equally clear that the bonds now outstanding and the trust deed securing the same should be cancelled so as to make all the bonds of the proposed new issue a first lien on the property. At the same time, it seems most unfortunate if in order to clear away the outstanding bonds amounting to \$1,625,000.00 it is necessary to issue to the owners thereof bonds of the new issue amounting to \$1,911,764.00, an increase of \$286,764.00, face value of bonds, without a single dollar's additional value to the property, at least insofar as this transaction is concerned. This means an additional interest charge of \$14,338.20 each year, added to the existing interest charge, without the creation of additional value in the property. The outstanding bonds are all owned by the Spreckels interests. While I can not well avoid recommending that this portion of the application be granted, so as to clear the way for the issue of the bonds necessary for extensions and improvements, if the owners of the existing bonds will not part with them on any other condition, I suggest to the Spreckels interests that they give serious consideration to the question whether they can not see their way clear to exchanging their present bonds for the new bonds, bond for bond, without asking for the additional bonds hereinbefore referred to. In this way, a considerable margin of bonding capacity would be saved for future extensions and improvements.

The note for \$574,406.73 is held by J.D. and A.B. Spreckels Securities Company and represents moneys advanced by them for construction properly chargeable to capital account.

The sum of \$302,438.26 represents moneys paid from income

during five years prior to April 30, 1914, for items properly chargeable to capital account.

The details of the total of \$1,532,957.00 which applicant desires to expend for construction and permanent improvements up to December 31, 1914, appear in Exhibit "C-3" attached to the petition herein. The summary thereof is as follows:

Grading	\$ 27,053.00
Ballast	133,015.00
Track Construction	288,489.00
Paving	254,254.00
Bridges	70,420.00
Distribution System, Trolley Lines and Track Bonding	36,966.00
Distribution System Feeder System	67,197.00
Power Plant Building	125,000.00
Car Houses	84,135.00
Stations	18,375.00
Power Plant Equipment	35,000.00
Park and Resort Property	5,000.00
Cars	388,053.00
	<u>\$1,532,957.00</u>

It becomes important to examine the relationship between the value of the property and the total face value of the bonds which would be outstanding if the present application were granted.

Mr. E. J. Burns, applicant's efficiency superintendent, testified that the book cost of the operative property, as of June 30, 1914 was

\$4,100,751.47

and that the total cost of both operative and non-operative property on the same day was

4,107,404.14

The sum of money still to be expended on capital account prior to Dec. 31, 1914, out of the proceeds of the bonds which it is now desired to issue is

1,094,461.55

The total book cost as of Dec. 31, 1914 would accordingly be

5,201,865.69

Mr. A. Ervast, applicant's chief engineer, testified to an estimated reproduction/<sup>cost</sup>new and a depreciated reproduction cost, subject to check, and possible future corrections, as follows, as of June 30, 1914-

Estimated reproduction cost . . .	\$4,939,362.20
Estimated depreciated reproduction value . . . . .	4,835,780.31

Mr. Richard Sachse, the Railroad Commission's acting chief engineer, presented a report prepared by the Commission's engineering department, showing an estimated reproduction value new and depreciated reproduction value as of June 30, 1914, as follows:

Estimated reproduction cost of operative property . . . . .	\$4,731,408.97
Estimated depreciated reproduction cost of operative property . .	4,344,797.63
Add non-operative property . . . .	<u>149,907.00</u>
Total.....	\$4,494,704.63

Mr. Sachse estimated that the total amount necessary to complete the work outlined in the petition herein is. . . . .	1,126,694.00
thus giving on this basis a total value of the property when the proceeds of the bond money have been expended of. . . . .	<u>\$5,621,398.63</u>

The amount of bonds which it is now intended to issue, being \$4,748,000.00, is over 84% of the entire value of the property on the last basis here shown. Applicant agreed at the hearing that the amount now asked for should be reduced so as not to exceed 80% of the value of the property on the basis last indicated, or a total of \$4,497,000.00. If it should hereafter appear, after a more thorough investigation has been made into the valuations thus presented, that the value of the property is in excess of the basis last stated, applicant may apply for authority to issue additional bonds if it can show a necessity for the issue thereof.

The Railroad Commission will set a hearing on the question of the value of the property of applicant, as provided in Section 47 of the Public Utilities Act, and at the same time and place a further hearing in the present proceeding will be set, if desired by applicant.

An investigation into the question of applicant's ability to pay interest and sinking funds on the additional bonds now to be issued reveals revenues and expenses for the year ending June 30, 1914 as follows:

Total revenue	\$ 1,023,831.85
Total operating expenses and depreciation	<u>729,326.24</u>
Net revenue	\$ 294,505.61
Miscellaneous revenue	<u>334.67</u>
Total net revenue	\$ 294,840.28

Miscellaneous reductions

Taxes	\$ 61,808.28
Amortization of Franchises	2,089.02
Interest on Bonds	83,125.00
Miscellaneous Interest	<u>17,849.12</u>
	<u>164,871.42</u>

Net Income \$ 129,968.86

The net income for the years immediately preceding was as follows:

Year ending June 30, 1910 .....	\$132,967.28
" " " 30, 1911 .....	150,536.16
" " " 30, 1912 .....	208,338.44
" " " 30, 1913 .....	191,043.29

A material portion of the construction expenditures now being incurred by applicant will produce additional revenue, especially in connection with the San Diego Panama-California Exposition, which will be held in San Diego in 1915. Applicant undertakes in its new trust indenture to pay into the sinking fund amounts increasing from \$100,000.00 annually during the years 1915 to 1920, inclusive, to \$350,000.00 annually during the years 1946 to 1955 inclusive. I believe that it is reasonably safe to assume that the property will be able to meet these obligations, although it may be necessary at times to decrease or omit dividends on the stock.

As the property is now to be bonded up to nearly the usual margin of safety, applicant will be obliged to consider means to secure the funds to take care of the difference between the actual cost of the capital expenditures hereafter to be incurred and the face value of such bonds as may reasonably issue against such expenditures.

Applicant ~~sksx~~ asks that it be authorized to sell its bonds at 85% of their face value and states that the war in Europe has interfered with their sale at a better price. While this minimum price will be authorized, applicant will, of course, seek to secure as high a price as possible for its bonds.

I find that the purposes for which it is proposed to issue the bonds herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income and recommend that the application be granted, subject to the



conditions specified in the order.  
I submit herewith the following form of order.

ORDER

San Diego Electric Railway Company having applied to the Railroad Commission for an order authorizing the execution of a deed of trust or mortgage to Union Trust Company of San Francisco to secure a possible maximum issue of \$10,000,000.00 of five per cent general first lien sinking fund gold bonds, and for an order authorizing the issue of said bonds of the face value of \$4,748,000.00, and a public hearing having been held on said application and the Railroad Commission finding that the purposes for which the proceeds of the bonds herein 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 as follows:

1. San Diego Electric Railway Company is hereby authorized to execute to Union Trust Company of San Francisco, as trustee, its deed of trust or mortgage in substantially the form attached to the petition herein and marked Exhibit D, to secure a possible maximum issue of \$10,000,000.00 general first lien sinking fund gold bonds, and to bear interest from January 1, 1915, to be payable on January 1, 1955, at the rate of five per cent per annum, payable semi-annually on the first day of January the first day of July in each year, and to issue \$4,748,000.00 face value of said bonds, on the following terms and not otherwise, to-wit:

2. San Diego Electric Railway Company shall sell as to net in cash not less than 85 per cent value, together with accrued interest.

San Diego Electric Railway Company shall use the proceeds from the issue of said bonds only for the

*CORRECTION*

# CORRECTION

THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY

conditions specified in the order.

I submit herewith the following form of order:

O R D E R

San Diego Electric Railway Company having applied to the Railroad Commission for an order authorizing the execution of a deed of trust or mortgage to Union Trust Company of San Francisco to secure a possible maximum issue of \$10,000,000.00 of five per cent forty-year general first lien sinking fund gold bonds, and for an order authorizing the issue of said bonds of the face value of \$4,748,000.00, and a public hearing having been held on said application and the Railroad Commission finding that the purposes for which the proceeds of the bonds herein 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 as follows:

1. San Diego Electric Railway Company is hereby authorized to execute to Union Trust Company of San Francisco, as trustee, its deed of trust or mortgage in substantially the form attached to the petition herein and marked Exhibit D, to secure a possible maximum issue of \$10,000,000.00 general first lien sinking fund gold bonds, and to bear interest from January 1, 1915, to be payable on January 1, 1955, at the rate of five per cent per annum, payable semi-annually on the first day of January and the first day of July in each year, and to issue \$4,497,000.00 face value of said bonds, on the following conditions and not otherwise, to-wit:

2. San Diego Electric Railway Company shall sell said bonds so as to net in cash not less than 85 per cent of their face value, together with accrued interest.

3. San Diego Electric Railway Company shall use the proceeds from the issue of said bonds only for the

following purposes, it being understood that in no event shall the face value of the bonds issued exceed \$4,497,000.00 and that no bonds may issue for any purpose except refunding until all bonds now outstanding have been returned to the company's treasury and cancelled and until the present deed of trust or mortgage has been cancelled of record:

(a) To redeem the present outstanding bonds of the face value of \$1,625,000.00, bonds not to exceed the face value of ~~\$1~~ .....\$1,911,764.00

(b) To liquidate and refund note for \$574,406.73, bonds not to exceed the face value of ..... 675,772.00

(c) To return to income the sum of \$302,438.26, spent in betterments, improvements and extensions, bonds not to exceed the face value of ..... 355,809.00

(d) To defray the expense of making necessary additions and betterments and acquiring necessary additional property amounting to \$1,532,957.00, as set forth in Exhibit C-3 filed with the petition herein, bonds not to exceed the face value of ..... 1,803,478.00

4. San Diego Electric Railway 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

purpose to which they are put.

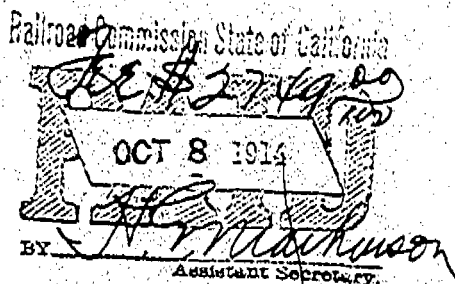
5. San Diego Electric Railway Company shall file with the Railroad Commission a certified copy of the deed of trust or mortgage herein authorized to be executed.

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

7. The authority hereby given to issue bonds shall apply only to bonds issued on or before October 1, 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 6th day of October, 1914.



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*Max Gordon*  
*Max Hillen*  
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*Edwin O. Edgerly*