

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the Application of :
 CALIFORNIA-WESTERN RAILROAD AND :
 NAVIGATION COMPANY for Authority to : Application No. 1335.
 Issue \$750,000.00 of Bonds. :

Decision No. 1853

Charles A. Strong for Applicant.

GORDON, Commissioner.

O P I N I O N .

CALIFORNIA-WESTERN RAILROAD AND NAVIGATION COMPANY operates a line of railroad between Fort Bragg and Willits, Mendocino County, a distance of 39.55 miles with a branch of 3.22 miles. It has issued 10,000 shares of stock of the par value of \$100.00 per share, or a total par value of \$1,000,000.00. Applicant has outstanding at the present time an issue of first mortgage bonds, which will mature in January, 1915, in the sum of \$423,000.00. In addition, applicant has a floating indebtedness, given in round numbers at this time at \$500,000.00. Of this indebtedness, \$450,000.00 is due the Union Lumber Company, which controls all of applicant's stock.

Applicant now proposes to issue bonds in the sum of \$750,000.00, and to use the proceeds for the purpose of retiring outstanding bonds in the sum of \$423,000.00, and to apply the balance in the sum of \$327,000.00 toward the discharge of its indebtedness on open account to the Union Lumber Company.

The railway owned by California-Western Railroad and Navigation Company passes through a rich timber belt. The timber tract which it traverses is owned by the Union Lumber Company and other lumber companies.

The lumber is carried to Fort Bragg and thence shipped by boat to destination, or is transported to Willits and thence to points in California or the Eastern States. It appears that from 96 to 98 per cent of the freight revenue is derived from hauling timber products. Mr. C. R. Johnson, one of the directors of applicant, testified that in his belief sufficient lumber was available to supply the road for the next fifty years.

For the year ending June 30, 1914, applicant reports earnings and expenditures as follows:

Operating Revenue	\$265,376.21	
" Expenses	<u>166,656.54</u>	
Net Operating Revenue		\$ 98,718.67

Outside Operations:

Revenue	346.25	
Expenses	<u>169.56</u>	
Net		<u>176.69</u>
		\$ 98,896.36
Taxes		<u>10,727.90</u>
Railway Income		88,168.46

Non Operating Revenue:

Rent	\$ 1,103.20	
Net Profit Misc.		
Physical Property	536.64	
Income from Securities		
Owned	17,843.50	
Accretions to Sinking		
Fund	1,562.67	
Miscellaneous	<u>.07</u>	
Total Non-Operating Revenue		\$ 21,046.08
Gross Corporate Income		\$109,214.54

Deductions:

Rent for Hire of Equip-		
ment	2,065.50	
Bond Interest	36,000.00	
Other Interest	20,948.58	
Amortization of Funded		
Debt	2,935.43	
Miscellaneous	<u>186.25</u>	
Total Deductions		\$ 62,135.76
Surplus to Profit and Loss		47,078.78

In Decision No. 1185 upon Case No. 167, in the matter

of ascertaining the value of the property of California-Western Railroad and Navigation Company, this Commission issued findings reporting the "reproduction value" of the properties of applicant, as of June 30, 1912, to be \$1,724,900.05, and the "present value", (as that term is defined in the reports of this Commission), as of June 30, 1912, in the sum of \$1,584,764.77.

Applicant proposes to issue its bonds under the terms of a trust deed to the Anglo-California Trust Company ^{of San Francisco} to be dated October, 1914, which will provide for a total issue of \$750,000.00 of first mortgage bonds to bear six per cent. interest, payable in October, 1934. The trust deed provides for a sinking fund of \$15,000.00 per year, payment beginning October 1, 1916. Bonds issued under the trust deed are redeemable at 102 per cent. of the face value.

It appears that the indebtedness of applicant to the Union Lumber Company was incurred for advances made by the lumber company for additions and betterments to the railroad.

It now appears that the total indebtedness of California-Western Railroad and Navigation Company amounts to \$923,000.00. It is proposed to refund \$750,000.00 of this amount by the issue of the bonds herein applied for. The remaining \$173,000.00 will represent indebtedness to the Union Lumber Company, which indebtedness it is proposed to extinguish by the transfer to the Union Lumber Company of non-operative real estate now owned by the railroad company. If this plan is consummated and the bonds for which application is now made are issued, the applicant will have an indebtedness of only \$750,000.00. This will represent approximately fifty per cent. of the "present value" of the properties as found in Decision No. 1185 of this Commission. It appears also that applicant has ample earnings to pay the interest upon its bonds and sinking fund charges proposed by the mortgage.

It is proposed by the applicant to sell the bonds to the Union Lumber Company at a price not less than 97-1/2 per cent. of

the par value, the lumber company contemplating a re-sale of all or a portion of the issue.

It appears from an examination of applicant's accounts that \$100,000.00 of bonds outstanding were issued subsequent to March 23, 1912, without the approval of this Commission, but without intent to violate the provisions of the Public Utilities Act. As these bonds are to be refunded before the first of the year, the Order of the Commission will give its approval as to the \$100,000.00 of bonds previously issued without proper sanction.

I recommend that the application be granted and submit the following form of Order.

O R D E R.

CALIFORNIA-WESTERN RAILROAD AND NAVIGATION COMPANY

having applied to this Commission for authority to issue \$750,000.00 of its first mortgage six per cent. 20-year bonds under its proposed mortgage and deed of trust to the Anglo-California Trust Company of San Francisco to be dated October, 1914, and it appearing that the purposes for which it is desired to issue said bonds are not in whole or in part chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that CALIFORNIA-WESTERN RAILROAD AND NAVIGATION COMPANY be given and is hereby given authority to issue \$750,000.00 of its first mortgage six per cent. 20-year bonds under its proposed mortgage and deed of trust to the Anglo-California Trust Company of San Francisco dated October, 1914.

IT IS FURTHER ORDERED that CALIFORNIA-WESTERN RAILROAD AND NAVIGATION COMPANY be given authority and is hereby given authority to issue \$100,000.00 of bonds to the Union Lumber Company under its mortgage and deed of trust to the Anglo-California Trust Company of San Francisco dated January 1, 1910; these bonds to be refunded on or before January 1, 1915, by a portion of the

\$750,000.00 of bonds hereby authorized to be issued under applicant's mortgage and deed of trust to the Anglo-California Trust Company of San Francisco, dated October, 1914.

The authority herein given to California-Western Railroad and Navigation Company to issue \$750,000.00 of bonds under its mortgage and deed of trust to the Anglo-California Trust Company of San Francisco, dated October, 1914, is given upon the following conditions and not otherwise:

1. The proceeds from the sale of said bonds shall be used for the following purposes:

- (a). To refund applicant's outstanding bonds, including the \$100,000.00 of bonds herein authorized to be issued under applicant's mortgage and deed of trust to the Anglo-California Trust Company of San Francisco, dated January 1, 1910,.....\$423,000.00
 - (b). To discharge applicant's indebtedness on open account to Union Lumber Company,..... 327,000.00
- TOTAL,..... \$750,000.00

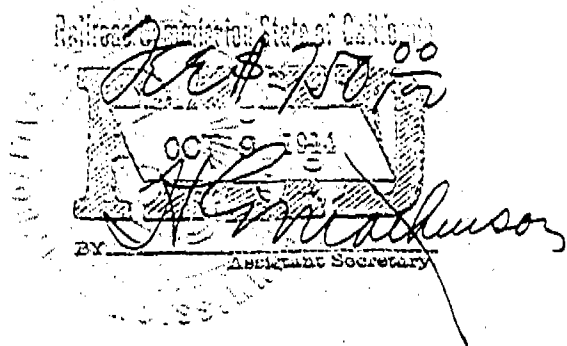
2. Applicant shall sell the bonds herein authorized to be issued for a price which will net applicant ^{not less than} 97-1/2 per cent of the face value of said bonds plus accrued interest.
3. The bonds herein authorized to be issued shall be issued only after applicant has received a supplemental order from this Commission approving applicant's trust deed securing said issue of \$750,000.00 of bonds.
4. California-Western Railroad and Navigation 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 twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said

bonds during the preceding month, the terms and conditions of the 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.

5. The authority herein given shall apply to such bonds as shall have been issued on or before June 30, 1915.
6. The authority herein given is conditioned upon the payment by applicant of the fee prescribed in 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 8th day of October, 1914.



John M. Eschleman
Alex Gordon
W. H. Tolson
Edwin J. Edgerton
Commissioners.