

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the matter of the application of Los Angeles and San Diego Beach Railway Company for authority to issue \$825,000 in bonds.

Application No. 1240.

Leovy & Leovy, and George J. Leovy, for applicant. Edward F. Stahl, E. G. Helm and Dr. J. Mills Boal, for La Jolla Chamber of Commerce. Henry C. Gardiner, for Pacific Beach Club.

GORDON, Commissioner.

O P I N I O N

Los Angeles and San Diego Beach Railway Company operates a line of railway from San Diego to La Jolla. The line is divided into two sections, the first comprising an electric street railway in the city of San Diego, and the second embracing a steam line from the Santa Fe depot in San Diego, to La Jolla. The company operates for a distance of 17.61 miles. Its yard tracks and sidings give it a total mileage of 21.54 miles.

Under the present system of operation, passengers transfer from the electric line at the Santa Fe station to the steam line and vice versa. A large number of complaints have come to the office of this Commission against the service rendered by the Los Angeles and San Diego Beach Railway. This Commission made an investigation into the service rendered and on December 20, 1913, in Decision No. 1150, Case No. 455, directed as follows:

"IT IS HEREBY ORDERED (1) that defendant shall, within thirty days after service upon it of this order, make application to the common council of the city of San Diego for an extension of its franchises, and shall assure said common council that if the franchises are granted the following provisions of this order will be observed.

"(2) Within thirty days after the awarding of the extension of said franchises to defendant, said defendant shall make application to this Commission in proper form for the authorization of a bond issue, the proceeds of which shall be used to electrify its line of railway between La Jolla and San Diego and improve its track structure and roadbed.

"(3) Within one year after the authorization of said bond issue by this Commission, defendant shall have electrified its line between San Diego and La Jolla and operate electric cars over the same with such frequency as shall afford the patrons of defendant a reasonable and adequate service, and this Commission will recognize any arrangement that is made between defendant and the common council of the city of San Diego by franchise or otherwise relative to the operation of trains over the lines of defendant by steam power."

Certain of the franchises under which Los Angeles and San Diego Beach Railway Company operated terminate in 1918. This company has now been granted new franchises covering its operations over and along the streets of San Diego for a period of thirty-eight years, to 1952. After some delay this company filed its application with the Commission for an issue of bonds. That application is now before the Commission. A hearing was held and investigation made on behalf of the Commission into the various aspects of the problems presented.

In its application herein, Los Angeles and San Diego Beach Railway Company asks for authority to issue \$825,000 of first mortgage 5 per cent 40 year bonds. It proposes to use the proceeds from the sale of these bonds for the following purposes:

For electrization of road .....	\$331,938.63
For roadway track and structures .....	36,069.00
For terminals, stations and road changes .....	134,604.75
To refund indebtedness due Mr. E. S. Babcock .....	180,585.96
For interest during the first year .....	<u>40,000.00</u>
Total .....	\$723,198.34

Applicant proposes to sell the \$825,000 of bonds at 85 per cent of par, which would yield approximately \$721,250.00.

The Engineering Department of this Commission has gone very carefully over the estimates submitted by the applicant herein. It first appears that the proposed expenditures for stations, road changes, terminals, etc., are not now absolutely necessary. These items amount to a total of \$134,604.75. I shall therefore recommend that the applicant postpone these proposed expenditures for the present.

Applicant has included in its estimate the sum of \$40,000 for interest during construction. This is not a proper capital charge, for the reason that this railway is now in operation and will be in continuous operation during the construction work. There is no necessity for an interruption in service and there will be no need therefore to capitalize an item of interest.

We have left, therefore, for consideration, these three items:

- (a) Applicant's estimate of the cost of electrization ..... \$331,938.63
- (b) Applicant's estimate of expenditures for roadway, track and structures ..... 36,069.00
- (c) Amount due Mr. Babcock ..... 180,585.96

After the hearing was closed, the applicant itself evidently realized that its estimate for the electrization of its system was unduly high, for it communicated with this Commission and asked for

an opportunity to present new and lower estimates. As the Engineering Department of this Commission had, in the meanwhile, readjusted these estimates, I have felt that nothing would be gained by further delay, and believe there are ample data at hand to warrant this Commission in proceeding to reach a conclusion on this application.

The estimates of the Engineering Department for the electrization of this road may be summarized as follows:

Poles, feeders and distribution system .....	\$51,200
Track bonding .....	9,333

Land - The company proposes to buy from E. S. Babcock, president of the company, four lots in San Diego at a total cost of \$40,000. It is not deemed necessary to purchase this land as the company has other real estate in this vicinity which would suffice. The Engineering Department has therefore eliminated this item.

Land for main substation, machine shop, car barn, repair shop, etc. The company estimated eight and one-half acres, but this estimate has been readjusted to four acres, at a cost of .....	5,000
---	-------

Main substation and building. - The company's estimate provides for powerhouse with 600 horsepower engines and generators. It appears, however, that arrangements can be made for the present, to purchase power. The revised estimate, therefore, provides for either the installation of 1200 volt motor generator sets or rotary converters. This estimate was placed at .....	24,000
---	--------

Substation. - Substation equipment in San Diego estimated at .....	10,000
--	--------

Car barn and other buildings .....	10,000
------------------------------------	--------

Freight and passenger depot at San Diego ...	7,500
--	-------

Equipment. - One gas engine motor car converted into combination baggage and passenger car; five passenger cars with electric equipment, etc.; four passenger trailer cars - total equipment .....	74,000
--	--------

Total .....	\$192,033
-------------	-----------

Ten per cent for contingencies .....	19,203
--------------------------------------	--------

Total .....	\$211,236.
-------------	------------

It will be necessary for the engineers representing the applicant to confer with the Engineering Department of this Commission in order that the estimates may be reduced to a practical working basis to suit the purposes of the company. When the engineers for the applicant revise their estimates, they should submit them in detail so they may be formally passed upon by this Commission. However, I am of the opinion that the summary as here given will provide a working basis upon which the applicant can proceed.

Applicant submitted a list of necessary expenditures for roadway, track and structures in the sum of \$36,069. A close examination into these items discloses that of this sum, \$27,909 is more properly chargeable to maintenance. However, this work for roadway, track and structures must be done in order that the property may be brought to a desired state of efficiency for operation when electrized.

There remains for consideration the sum due Mr. E. S. Babcock, amounting to \$180,585.96, represented in part by notes and in part by an open account. Mr. Babcock controls all but the qualifying directors' shares of the stock of Los Angeles and San Diego Beach Railway Company.

After an investigation of the service of this company, the Commission recommended that it be electrized. The company thereafter filed its application which is now before the Commission. The purpose at this time is to provide funds, if possible, for the electrization of this line. At present its service is admittedly poor. The people who have purchased homes and settled in La Jolla, Pacific Beach and other places along this line are entitled to relief. Obviously in this situation it would be unwise to burden this property with a larger amount of bonds than is absolutely necessary. Its earnings have been limited, and the conversion into an electric road must be, in the beginning, experimental. If larger

earnings flow from this conversion, it will, in all probability admit of a greater issue of bonds than now seems advisable. It is my belief that in this situation every consideration should give way to the primary object sought; namely, the electrization of this road and its complete rehabilitation, so that it may give an efficient service. After this has been accomplished and a basis of earnings established under the new conditions, a further hearing may be given the proposal to issue bonds to Mr. Babcock in payment of the notes and open account in his favor.

I have heretofore called attention to the fact that there is urgently needed for rehabilitation of roadway, track and structures of this line, the sum of \$36,069. It can do no good here to comment upon the policy which neglects proper maintenance and allows facilities to deteriorate so far as to make efficient service out of the question. This condition, of course, should be immediately corrected.

In order that the applicant may raise the funds for this purpose, I shall recommend that bonds be authorized to provide for this rehabilitation of roadway, track and structures; for which the sum of \$8,160 may properly be allowed for capital purposes. The balance of <sup>the</sup> \$36,069 may be authorized as against the indebtedness now due Mr. Babcock and then applied by Mr. Babcock upon road rehabilitation.

On March 30, 1914, in Decision No. 1382 upon Case 131, this Commission proceeded to find the value of the property of the applicant herein. The Commission found that the "reproduction value", as that term is described in Decision No. 1382, of the applicant's property as of June 30, 1912, amounted to \$554,589.77; and the "present value", as that term is defined in said decision, amounted to, as of June 30, 1912, \$461,015.91.

To May 31, 1914, there was charged by the company to additions and betterments, the sum of \$26,457.27. If the electrization as herein provided is carried out, this will add an investment

of \$211,236; and if the property is rehabilitated as herein proposed, a further sum approximating \$36,000 will be added to these values. This will give a total valuation of the property rehabilitated and electrized of approximately \$700,000. This figure is, of course, subject to adjustment.

While it is possible that such a valuation would in time warrant a bond issue which would provide for the electrization and the complete refunding of the obligations due Mr. Babcock, I am firmly of the belief that at the present time the authorization should go only to the electrization and the rehabilitation of these properties. My reasons for this view are based upon the understanding that the new franchises were granted to the applicant herein by the city of San Diego upon the theory that this company would, in exchange for these grants, electrize and rehabilitate its property, and that it is, therefore, to that extent obligated to do so; and secondly, that the earnings as at present developed would not warrant at this time a further use of bonds than may be absolutely necessary for this electrization and rehabilitation.

For the years ending June 30, 1912, 1913 and 1914, the applicant reports as follows:

	<u>1912</u>	<u>1913</u>	<u>1914</u>
Gross Revenues .....	\$76,984.51	\$87,892.97	\$72,959.19
Operating Expenses .....	<u>56,420.71</u>	<u>68,281.00</u>	<u>63,994.60</u>
Net Revenue .....	\$20,563.80	\$19,611.97	\$ 8,964.59
Deductions:			
Taxes, Rents, Interests, Etc..	<u>15,375.98</u>	<u>15,717.22</u>	<u>18,629.81</u>
Net Income .....	\$ 5,187.82	\$ 3,894.75	- \$ 9,665.22

It will be seen, therefore, that while the applicant was able to show a small surplus for the fiscal years ending June 30, 1912, and 1913, it reported a deficit for 1914.

It appears that this line is almost entirely a passenger road. For the fiscal year ending June 30, 1914, for instance, the company's gross revenue was divided as follows:

Freight revenue .....	\$8,508.96
Passenger revenue .....	61,075.25
Excess baggage revenue .....	164.25
Mail revenue .....	455.56
Express revenue .....	2,126.62
Milk revenue .....	416.30

This is an indication of the relative importance of the revenue of this road.

The fact that the road has lost patronage during the past three years was explained by certain of its patrons as due to the deterioration of service. For the year ending June 30, 1912, this company carried a total of 522,309 revenue passengers; for the fiscal year ending June 30, 1913, 426,406 revenue passengers; and for the fiscal year ending June 30, 1914, 337,681 such passengers.

It is the opinion of patrons of this line that its traffic will increase and that it will be able to at least obtain the amount of passenger traffic which attached to its line during the fiscal year 1912, if the improvements herein proposed are made. The demand for this electrization comes very largely and insistently from the present and prospective patrons of this railway. It is clear, however, that for the present only such bonds should be authorized as are absolutely necessary. I regard as advisable for the present, <sup>the</sup> electrization which has been estimated to cost \$211,236 and the rehabilitation to cost \$36,069, or a total of \$247,305.

The applicant has submitted a trust deed providing for the issue of 5 per cent bonds. At the time of the hearing the applicant stated that it believed it could sell these bonds at 85 per cent of face value. I shall leave to a supplemental order the details surrounding the issue of these bonds, having it in mind that the applicant may desire to recast to some extent its plans in line with the recommendations herein made. I shall, therefore, at this time not approve applicant's trust deed, but shall leave all these matters to be covered by supplemental order.

For the present, therefore, I recommend that the applicant herein be authorized to issue bonds in sufficient amount to yield \$250,000, and that it be further authorized to use the pro-



ceeds for the electrization of its road and the improvement of its roadway, track and structures.

I therefore submit the following form of order:

ORDER

Los Angeles and San Diego Beach Railway Company having applied to this Commission for authority to issue \$825,000 of bonds, and a hearing having been held and it appearing to this Commission that it is desirable that the applicant herein issue bonds which shall yield in cash \$250,000,

And it appearing further that the purposes for which said sum of \$250,000 should be devoted are not in whole or in part chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Los Angeles and San Diego Beach Railway Company be given authority and it is hereby given authority to issue bonds sufficient to yield it the sum of \$250,000.

The authority herein given is given upon the following conditions and not otherwise:

(1) The bonds herein authorized to be issued shall be issued only after this Commission has issued a supplemental order fixing the amount of bonds to be issued herein, the price at which said bonds shall be sold, approving the mortgage and deed of trust securing said issue of bonds; said supplemental order to be issued by this Commission after the applicant herein has presented estimates as suggested in the opinion herein for the electrization of its railway.

(2) The proceeds to be derived from the sale of the bonds herein authorized shall be used by the applicant herein for the electrization of its line of railway between San Diego and La Jolla, and for the improvement of its roadway, track and structures, in the sum of \$8,160, and for the payment of obligations to Mr. Babcock in the sum of \$27,909, on the condition that the said sum of

\$27,909 shall be used by Mr. Babcock for the rehabilitation of the railway properties.

(3) The Los Angeles and San Diego Beach Railway Company shall, within thirty days, file with this Commission a detailed estimate for the electrization and rehabilitation of its properties, in accordance with the suggestions in the foregoing opinion, and shall also, within thirty days, present to this Commission a statement which shall show the interest rate it proposes that the bonds herein authorized shall bear, the price at which they can be sold, and the form of mortgage and trust deed to secure said bonds.

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 19th day of October, 1914.

Alford  
W. H. Ford  
W. H. Thelen  
Edwin O. Egan

Commissioners.