

ORIGINAL

Decision No. 1967

Decision No.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 Pacific Electric Railway Company for)
 authority to issue refunding mortgage)
 fifty year gold bonds under its mort-) Application No. 1417
 gage dated September 1, 1911, to the)
 amount of \$2,942,000.)

Frank Karr for applicant.

EDGERTON, Commissioner.

O P I N I O N

This is an application by Pacific Electric Railway Company for an order authorizing the issue of \$2,942,000 of bonds.

Applicant operates a large urban and interurban railway system in Southern California and its financial condition has heretofore been investigated on several occasions when application was made for the issuance of securities.

The trust deed under which these bonds are to be issued provides that for bonds issued for the purpose of additions and betterments the trustee shall authenticate and deliver bonds only upon the deposit with the trustee of cash equal to the principal amount of bonds to be certified, and the cash so received by the trustee shall be paid out upon a showing of an expenditure for purposes of additions and betterments equal to the amount of bonds certified by the trustee.

The result of this provision is that applicant can only dispose of bonds under its trust deed by producing evidence to the trustee of the acquisition of property or the expenditure of money for additions and betterments equal to the face value of

the bonds to be issued.

The evidence shows that applicant has expended and proposes to expend in the near future, for additions and betterments an amount of \$2,942,000, none of which sum has been heretofore capitalized.

No physical valuation has been completed of applicant's property and therefore it is impossible to determine with exactness what the relation between the value of applicant's plant and its outstanding obligations is, and I am satisfied that it should at this time be allowed to capitalize the expenditures stated. This is particularly true because the Southern Pacific Company is the parent organization owning practically all of the outstanding stock of applicant and it has been the practice, and will be in this instance, to buy the bonds of applicant at not less than 87½ per cent of face value, and thereafter if said bonds should be sold by the parent company and any greater amount is received than this minimum, the difference shall be given to the applicant.

Applicant has borrowed money from time to time to make the expenditures herein asked to be capitalized, and I think therefore that the moneys received from the sale of these bonds should be applied to the cancellation of the indebtedness created by the borrowing of the money for those purposes, otherwise there might be both promissory notes and bonds representing the same money. This, of course, will not be true if the original indebtedness is paid off.

Herewith a form of order:

O R D E R

Application having been made by Pacific Electric Railway Company for an order authorizing the issue of \$2,942,000 face value of its refunding mortgage fifty year gold bonds, and

a hearing having been had and it appearing to the Commission that the money to be derived from the sale of said bonds is necessary for the purpose of making additions and betterments to the plant of applicant, and of paying off its obligations, and that such proceeds are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Pacific Electric Railway Company is hereby authorized to issue \$2,942,000 refunding mortgage fifty year gold bonds under the following conditions, not otherwise:

1. Said bonds shall be issued in pursuance of the terms of that certain mortgage and deed of trust executed by applicant to United States Mortgage and Trust Company, dated September 1, 1911, a copy of which said mortgage and trust deed is on file with this Commission in Application No. 219, reference to which is hereby made.

2. Said bonds shall be sold so as to net applicant not less than 87½ per cent of face value with accrued interest at the time of their delivery.

3. The purposes for which the proceeds of the sale of said bonds shall be used are: reimbursing the treasury of applicant for expenditures made for betterments and additions, and for the acquisition and construction of betterments and additions, all as set out in detail in Exhibits 8 and 9, on file herein and attached to the application, reference to which is hereby made.

4. This order is made upon the condition that whenever any of the proceeds of the sale of the bonds herein authorized are used for the purpose of reimbursing applicant's treasury for moneys expended for betterments and additions, that a like amount of the indebtedness of applicant created for

the purpose of obtaining money to make such betterments and additions shall be paid off and cancelled. The purpose of this provision is to prevent the same money remaining outstanding as an indebtedness and being represented by promissory notes or other evidences of indebtedness in addition to the bonds herein above authorized.

5. Said company shall keep separate true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of the bonds herein authorized to be issued, and on or before the 25th day of each month the company shall make verified reports to the Commission, stating the sale or sales of bonds during the preceding month, the terms and conditions of such sale, the moneys derived therefrom and the use and application of such moneys, all as provided in this Commission's General Order No. 24.

6. This order shall not become effective until the fee prescribed in section 57 of the Public Utilities Act, as amended, has been paid.

7. The authority hereby given to issue bonds shall apply only to bonds issued by said company on or before June 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 23rd day
of November, 1914.

Railroad Commission, State of California
Joc # 1971700
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BY *H. G. Mathews*
Assistant Secretary.

H. H. Loveland
W. G. Gordon
Max Theiler
Edwin O. Edgerton

Commissioners.