Decision No. ✓.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

Decision No. 2047

In the matter of ascertaining the value of the property of SUGAR PINE RAILWAY COMPANY..............) Case No. 207.

OPINION AND FINDINGS.

LOVELAND, Commissioner,

This is one of the valuation cases brought upon the Commission's own initiative. It was instituted under the provisions of Section 20 of the Stetson Act, effective February 10, 1911, and continued under the provisions of Sections 47 and 70 of the Public Utilities Act, effective March 23, 1912.

Such findings as are made in this opinion are findings of fact regarding certain factors and elements which make up the value of this property and no attempt will be made to determine its ultimate or fair value irrespective of the purpose for which the valuation might be used.

On March 11, 1912, the Sugar Pine Railway Company was ordered to prepare and file an inventory and appraisal of all physical property owned by it in the State of California. About December 26, 1913, this inventory and appraisal was received by the Commission and Exhibit "A" attached hereto is a copy of the Final Summary Sheet which formed a part thereof.

In accordance with the usual custom of the Commission the Commission's engineering department was instructed to make an independent inventory and appraisal for the purpose of checking the report submitted by the Company. About May 14, 1914, this work was started and the report was completed and submitted to the Commission on September 1, 1914. Attached to this Opinion as Exhibit "B" is a copy of the Final Summary Sheet made by the Commission's engineering department, which sums up the results of its appraisal.

On September 16, 1914, a copy of this report of the Commission's engineering department was submitted to the Railway Company and thereafter, on December 7, 1914, the Company notified the Commission by letter that its Board of Directors had decided to accept the value set upon its property by the Commission's engineers.

The following matters are essential in an inquiry of this sort and they will be considered in the order listed:-

1 - Organization, Construction and Operation.

2 - Stocks and Bonds.

3 - Revenues and Expenses.

4 - Original Cost.

5 - Reproduction Cost.

6 - Reproduction Cost Less Depreciation.

(1) Organization, Construction and Operation-

The Sugar Pine Railway Company was organized in February, 1903, to build a standard gauge railway from Ralph, on the Sierra Railway Company's line, to a point now known as Middle Camp. The road was planned principally as a lumber and logging road and the Company controlled by the interests behind the Sierra Railway Company of California who, at the same time, were the owners of large timber holdings in that region. The actual construction of the line was started in 1902. The first unit of the line was ready for operation between Ralph and Middle Camp in 1903, while the second unit, between Middle Camp and Lyons Dam, was not finished until 1907, so that in that year the line was practically completed as it now exists. On May 23, 1908, the control of the property passed from Mr. T. S. Bullock, the principal stock holder and President, since the time of organization, to the Standard Lumber Company by means of a stock transaction. The details of this deal are so interwoven with other business transacted at the same time between the two parties that the actual details of the transfer are not now available. The property has remained in the control of the Standard Lumber Company ever since.

The Sugar Pine Railway Company now owns and operates in Tuolumne County 14.15 miles of standard gûage railway, extending from Ralph to Lyons Dam. In addition to this property the Company owns one fuel oil tank and a spur track 525 feet long at Standard, and one engine house, one fuel oil tank and two spurs, 375 feet and 210 feet long, respectively, at Sonora, both of these stations being on the Sierra Railway. Extending from Lyons Dam to Camp Frazier, a distance of six miles, is a piece of standard gûage track owned by the Standard Lumber Company. This track is a feeder to the Sugar Pine Railway although the latter Company does not operate it. The Sugar Pine Railway has, however, operating rights over the Sierra Railway from Sonora to Ralph, a distance of 9.46 miles.

The country through which this road passes is very rough. It was originally covered by sugar, white and yellow pine and fir and cedar timber, but this has been logged off, and at the present time with the exception of one orchard, the land along the track is used for no other purpose than grazing. The elevation at Ralph is 2831 feet. From this point the grade ascends more or less continuously until an elevation of 4240 feet is reached at the end of the line. The maximum grade is 4.75 per cent. The maximum curve on the line is 56 degrees, with the greater part of the many curves varying from 20 degrees to 40 degrees. The roadbed width in both excavation and embankment is about 12 feet. Most of the grading is side hill work and about 55 per cent of the excavated material is earth. The eight trestles, which comprise all the bridges on the line, are of timber, and the culverts are constructed of rubble, timber and terra cotta pipe. The track is laid with steel weighing 30 and 40 pounds per yard and this light weight steel necessitates the use of more than the usual number of ties per mile.

No passenger trains are operated over this line. The principal business is done during the summer months while the timber and logging season continues. Practically all of the tonnage handled on the road consists of logs, and none of the Company's trains operate on a regular schedule.

(2) Stocks and Bonds -

The capital stock of the Sugar Pine Railway Company consists of 10,000 shares of common stock with a par value of $100.00 each, or a total capitalization of $1,000,000. 600 shares of this amount was the first actually subscribed. During the construction of the road an additional 1600 shares was subscribed for by T. S. Bullock, its President. On October 5, 1903, the Board of Directors authorized a bonded indebtedness to the amount of $480,000., these bonds being first mortgage, 5 per cent, bonds maturing in 40 years with interest payable semi-annually. $ 180,000. worth of these bonds were issued on the same day, and of this amount $ 155,000. was taken by the Standard Lumber Company and $ 25,000. by the Sierra Railway Company. In 1910, after the control of the road had passed to the Standard Lumber Company, $ 640,000. of additional stock was issued to the Standard Lumber Company, and at the present time the entire amount of the authorized capital stock is outstanding. Interest on the outstanding bonds has regularly been paid from the beginning. In 1909 a dividend of $ 43,000. was declared, made up, as stated in the Company's annual report for the year 1909, of accumulated profits and surplus for the years 1906, 1907 and 1908. In 1910 dividends to the amount of $36,000. were paid out of profits for the year ending December 31, 1909, and in January, 1911, a further dividend of $ 110,000. was declared. This left a deficit on June 30, 1911, of $ 14,161.42, and although no dividends were declared either in 1912 or 1913, a deficit has remained on the Company's books amounting on June 30, 1913, to $ 13,387.80.

It must be stated that from the annual reports of the Company to this Commission the financial history of this Company appears obscure and that its financial status as now shown is largely fictitious and does not represent the facts. According to the Company's own reports the investment in road and equipment on June 30, 1907, when the road was practically finished, amounted to only $ 180,000. The 1909 report shows a "total expenditure for road and equipment to June 30, 1909," of $ 375,133.16. With the exception of some thousands of dollars worth of equipment nothing was added to the value of the property to account for the difference between $ 180,000. and the $ 375,000. In the 1910 report a new item is added to the capital account, namely, "cost of road purchased, $ 1,000,000." Under the Interstate Commerce Commission's Classification, which is followed by this road in its accounting, it is prescribed that to this account should be charged amounts paid for road purchased, and that where the payment is made by an issue of the company's securities or other commercial paper the cash value thereof at the time of such payment should be charged. In this case the charge of $ 1,000,000. is purely fictitious. Not a single foot of new line in the meaning of the Classification was acquired. The $1,000,000. simply represented the par value of all of the authorized capital stock and is pure water. A year later 11 per cent dividends were paid on this fictitious capitalization. The Company in addition to interest on funded debt has paid in all $ 189,000. in dividends, equal to more than half of the reproduction cost new of the property as found by the engineering department's valuation. It is my opinion that this Company should revise its accounts to show its financial condition in accordance with the facts. The table shown under the next caption "Revenues and Expenses" more fully shows the financial condition of the road as represented in its accounts.

(5) Revenues and Expenses -

As stated heretofore this railway is principally a logging and lumber road. Practically all of the tonnage handled by the road consists of logs, a commodity upon which very low rates obtain, and this fact will explain the unusually low receipts per ton mile in the following tabulation: -

....

Number of tons carried earning revenue	53376.00
" " " " one mile	919666.00
" " " " " " per mile of road	38952.00
Average distance haul of one ton, miles	17.23
" amount received for each ton of freight	1.44
" receipts per ton mile	.083
Freight revenue per mile of road	3254.28

....

All significant traffic, revenue and other statistics are shown in the table following, which also shows the most important figures from the road's annual balance sheets:-

Traffic Revenue and Other Statistics

No.	Item	AMOUNTS					
	Year	1909	1910	1911	1912	1913	
1	Mileage owned	15.00	15.00	14.84	14.84	14.15	
2	Mileage in Operation	15.00	23.81	23.65	23.65	23.61	
3	Capital Stock Authorized	1000000.00	1000000.00	1000000.00	1000000.00	1000000.00	
4	" " Outstanding	360000.00	1000000.00	1000000.00	1000000.00	1000000.00	
5	Bonds - Authorized	480000.00	480000.00	480000.00	480000.00	480000.00	
6	" Outstanding	180000.00	180000.00	180000.00	180000.00	180000.00	
7	Total Outstanding Liability	540000.00	1180000.00	1180000.00	1180000.00	1180000.00	
8	" " " per mile	36000.00	78667.00	79514.00	79514.00	83392.00	
9	Cost of R.&E. as per Co's Reports	Not shown	1249482.22	1251478.71	1255240.20	1297219.76	
10	" " " per mile of road	" "	83298.32	84331.45	84584.92	91676.31	
11	Equipment Owned - Locomotives	Rented	2	3	3	4	Company owns no pass or Box cars
12	" " Flat cars	"	50	50	50	70	
13	" " Cabooses	"	1	1	1	1	
14	Earnings - Passenger	None	none	none	none	none	
15	" Freight	66903.17	155656.69	130211.07	65548.15	76833.56	
16	" Total	66903.17	156669.02	131175.31	65548.15	76833.56	
17	" per mile of road	4460.21	6579.97	5505.75	2771.59	3254.28	
18	Expenses - Maint. W. & S.	10070.59	18616.01	14801.50	9383.04	11450.15	
19	" " E.	3401.32	6180.54	9062.55	6218.85	9927.12	
20	" Transportation	14628.92	27437.40	32436.74	25940.49	29724.61	
21	" General	2890.11	6507.24	5927.58	5786.46	6280.60	
22	" Total Operating	30990.94	58741.19	62228.37	47328.84	57382.48	
23	" " " per mile	2066.06	2467.08	2631.22	2001.22	2430.43	
24	Net Operating Revenue	35912.23	97927.83	68946.94	18219.31	19451.08	
25	Railway Tax Accruals	550.00	896.17	1686.63	7710.51	2671.84	
26	Interest on Bonds	9000.00	9000.00	9000.00	9000.00	9000.00	
27	Other Deductions	None	7703.15	4718.87	4284.65	4191.42	
28	Net Income	26362.23	80328.51	53541.44	2775.85	3587.82	
29	Additions and Betterments	14825.92	54349.06	3927.09	5784.27	43623.18	
30	Sinking Fund	Not shown	—	—	—	—	
31	Total Accumulated Surplus at end of year	1177.51	45430.19	14161.42	16739.87	13387.80	
	Tonnage - per cent of total	Not shown					
32	" products of forests	" "	95.10	97.44	97.17	88.62	
33	" " " mfg's.	" "	1.86	1.43	1.58	10.15	
34	" all others	" "	3.04	1.13	1.25	1.23	

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(4) Original Cost -

The term "Original Cost" means the original book cost and is defined as the actual expenditures chargeable to capital account, in accordance with the Interstate Commerce Commission's Classification, in cash or its equivalent in terms of cash, by the public utility for its operative property in the State of California, as of the date of valuation.

The original cost of this property as defined above is not obtainable for the reason that its operations were interwoven first with those of Mr. Bullock of the Sierra Railway Company and later with those of the Standard Lumber Company, and the accounts not properly segregated. No attempt, therefore, will be made to make a finding regarding Original Cost. The road was built, however, as cheaply as possible and largely with discarded second-hand material from the Sierra Railway. Lumber for ties, bridges and culverts came from the timber lands owned by the same interest and I believe that the cost of road as stated in the Company's book in 1907, viz.: $ 180,000.00, and covered by bonds outstanding, about represents the actual investment.

(5) Reproduction Cost -

The term "Reproduction Cost" is defined as the estimated cost in cash of acquiring the operative right-of-way and other operative real estate and of reproducing, in the condition in which it was acquired, the other physical property of the public utility in the State of California, as of the date of valuation, to which are added overhead expenditures for engineering, law, interest and commissions and other similar items.

The reproduction cost, as found by the Company's engineers, is $ 397,673.32. The Commission's engineering department found a value of $ 355,511.65, a difference of $ 42,161.67. This decrease is due generally to the lower unit prices used by the Commission's engineers together with the use of a lower percentage for Interest and Commissions. The greatest discrepancy ($15,899.34) between individual accounts in the two appraisals is under account "Rails," where the Commission's engineering department estimated second-hand rails in accordance with the facts, while the Company's engineers figured their rails as being new. The difference between the two appraisals under "Interest and Commissions" amounts to $11,623.94, the Company's figure being in excess of the Commission's engineers' figure. The engineering department figured interest as being 3 per cent on Classes 3 to 53, inclusive, being at the rate of six per cent per annum for one-half of the estimated construction period of one year- (see Exhibit "B"), while in the Company's appraisal this item is estimated as being 6 per cent on Classes 1 to 53, inclusive- (see Exhibit "A").

I believe the figures used by the engineering department to be in accordance with the facts as far as they can be ascertained, and since the Sugar Pine Railway Company has accepted these figures, I find as a fact that the reproduction cost, as that term is hereinbefore defined, of the Sugar Pine Railway Company's operative property in the State of California, as of June 30, 1913, is $ 355,511.65.

(6) Reproduction Cost Less Depreciation.

The term "Reproduction Cost Less Depreciation" is defined as the reproduction cost less the diminution in the value of the physical elements of the property, due to use, age, obsolescence, and inadequacy or other causes, this diminution being called "depreciation" and plus the increase in the value of the physical elements of the property due to age or other causes, this increase being called "appreciation".

The Company's engineers, for this value, arrived at a figure of $ 380,943.89, while the Commission's engineers have determined it to be $ 312,619.27, making a difference of $ 68,324.62. Both the Commission's and the Company's engineers have derived their present value by depreciating the reproduction cost, and the same differences which obtained under reproduction cost would then be carried through to reproduction cost less depreciation. The fact that the difference between the two appraisals is greater in this column than under reproduction cost is due to the fact that the Company's engineers have placed a lower rate of depreciation and a consequent higher condition per cent on the property than was considered proper by the Commission's engineering department. The Company has, however, now accepted the figures of the Commission's engineers and the same reasons which lead me to accept their figures for reproduction cost lead me to accept also their figures for reproduction cost less depreciation. I find as a fact that the reproduction cost less depreciation, as that term has been hereinbefore defined, of the operative property of the Sugar Pine Railway Company in the State of California, as of June 30, 1913, is $ 312,619.27.

The foregoing opinion and findings are hereby approved and ordered filed as the opinion and findings of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 2d day of January, 1915.

H D Loveland

Alex Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.

Company's Appraisal

Name of Owner Sugar Pine Ry. Co.
Operating Co. Sugar Pine Ry. Co.
Division One
From Ralph To Lyons Dam
Miles, Main Line Track 14 15/100
Miles, Second Track
Miles, Yard Tracks, etc. 2 42/100
Total 16 57/100

FORM No. 48.

CALIFORNIA RAILROAD COMMISSION

PHYSICAL VALUATION OF STEAM RAILROADS

FINAL SUMMARY SHEET

Valuation as of June 30, 1913
Field Inspector
W. A. Newell
Office Compiler
Date Compiled Oct. 1913
Joint Main Line Miles
Joint Second Track Miles
Joint Yard Track, etc. Miles
Total Miles

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE		Cond. pr. ct.	PRESENT VALUE	
1	1	2	Right of way and station grounds.		3484	50		15767	00
2	2	3	Real estate.						
3	3	4	Grading.		87502	21		96252	43
4	4	5	Tunnels.						
5	5	6	Steel bridges and trusses.						
6	6	6	Pile and frame trestles.		9689	68		7267	26
7	7	6	Culverts.		2691	62		2018	72
8	8	7	Ties.		31718	85		20181	41
9	9	8	Rails.		55322	99		47024	55
10	10	9	Frogs and switches.		739	25		554	44
11	11	10	Track fastenings and other material.		20091	00		18081	90
12	12	11	Ballast.		10560	00		10560	00
13	13	12	Tracklaying and surfacing.		13502	00		13502	00
14	14	13	Roadway tools.		1748	30		1448	72
15	15	14	Fencing right of way.		470	00		352	50
16	16	15	Crossings and signs.		85	00		71	00
17	17	16	Interlocking plants.						
18	18	16	Signal apparatus.						
19	19	17	Telegraph and telephone lines.						
20	20	18	Station buildings and fixtures.		80	00		64	00
21	21	18	Platforms, walks, paving and curb.						
22	22	19	General office buildings and fixtures.						
23	23	20	Shop buildings and engine houses.		600	00		540	00
24	24	20	Transfer and turntables, cinder pits, etc.						
25	25	20	Miscellaneous shop buildings and structures.						
26	26	21	Shop machinery and tools.						
27	27	22	Water stations.		2075	54		1935	26
28	28	23	Fuel stations.		5302	00		5302	00
29	29	24	Grain elevators.						
30	30	25	Storage warehouses.						
31	31	26	Dock and wharf property.						
32	32	27	Electric light plants.						
33	33	28	Electric power plants.						
34	34	29	Electric power transmission.						
35	35	30	Gas producing plants.						
36	36	31	Miscellaneous structures.		750	00		562	50
			Total Classes 1 to 36, inclusive.		246412	94		241485	69
37	--	1	Engineering 5 per cent, 1 to 36, inclusive.		12370	65		12074	28
38	37	32	Transportation of men and material.						
39	38	33	Rent of equipment.						
40	38	34	Repairs of equipment.						
41	--	35	Earning and operating exp. during construction.		* * *	* * *	* * *	* * *	* * *
42	--	35½	Injuries to persons.		* * *	* * *	* * *	* * *	* * *
43	--	36	Cost of road purchased.		* * *	* * *	* * *	* * *	* * *
			Total Classes 1 to 43, inclusive.		258783	59		253559	97
44	39	37	Steam locomotives.		41000	00		38440	00
45	--	38	Electric locomotives.						
46	40	39	Passenger train cars.						
47	41	40	Freight train cars.		57750	00		50600	00
48	42	41	Work equipment.		1750	00		1487	50
49	43	42	Floating equipment.						
			Total Classes 1 to 49, inclusive.		359283	59		344087	47
50	--	43	Law expenses 1 per cent, Classes 1 to 36, incl.		3592	84		3440	87
51	44	44	Stationery and printing.		200	00		200	00
52	44	45	Insurance.						
53	45	46	Taxes.						
			Total Classes 1 to 53, inclusive.		363076	43		347728	34
54	--	47	Int. & Comm. 6 per cent, Classes 1 to 53, incl.		21784	59		20863	70
55	45	48	Other expenditures.						
56	--	--	Contingencies 3 per cent, Classes 1 to 53, incl.	* * *	10892	30		10431	85
57	46	--	Stores and supplies on hand for use in California.		1920	00		1920	00
			GRAND TOTAL.		397673	32		380943	89
			Average per mile for main line track.		28104	12	95 79/100	26921	83

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Owning Company	Sugar Pine Railway Co.	FORM No. 48.	Submitted with Report of Asst. Engr.
Operating Company	Sugar Pine Railway Co.		N. H. Brinkley
Operating Division	Entire Line	CALIFORNIA RAILROAD COMMISSION	Date compiled June 12, 1914
Valuation Unit	Entire Line	PHYSICAL VALUATION OF STEAM RAILROADS	Main Line 1st Track 14.15 Mi.
From	Ralph	FINAL SUMMARY SHEET	Line 2d Track Mi.
To	Lyons Dam	Valuation as of June 30, 191......	Yard Tracks, Sidings, etc. 2.245 Mi.
County	Tuolumne		Total 16.395 Mi.

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION ~~VALUE~~ Cost	Cond. pr. ct.	Reproduction Cost ~~VALUE~~ Less Depreciation.
37	--	1	Engineering.		11354 45	100	11354 45
1	1	2	Right of way and station grounds.		3049 17	100	3049 17
2	2	3	Real estate.				
3	3	4	Grading.		84948 93	107	90737 66
4	4	5	Tunnels.				
5	5	6	Steel bridges and trusses.				
6	6	6	Pile and frame trestles.		7527 51	66	4955 88
7	7	6	Culverts.		2739 75	72	1983 64
8	8	7	Ties.		34335 94	54	18688 43
9	9	8	Rails.		39423 65	76	29918 67
10	10	9	Frogs and switches.		1299 67	72	936 64
11	11	10	Track fastenings and other material.		19001 18	78	14807 05
12	12	11	Ballast.		6652 80	100	6652 80
13	13	12	Tracklaying and surfacing.		17712 21	70	12487 10
14	14	13	Roadway tools.		1552 26	75	1164 19
15	15	14	Fencing right of way.		497 12	60	298 27
16	16	15	Crossings and signs.		2352 68	80	1882 15
17	17	16	Interlocking plants.				
18	18	16	Signal apparatus.				
19	19	17	Telegraph and telephone lines.				
20	20	18	Station buildings and fixtures.		164 00	80	131 20
21	21	18	Platforms, walks, paving and curb.				
22	22	19	General office buildings and fixtures.				
23	23	20	Shop buildings and engine houses.		758 50	80	606 80
24	24	20	Transfer and turntables, cinder pits, etc.				
25	25	20	Miscellaneous shop buildings and structures.				
26	26	21	Shop machinery and tools.				
27	27	22	Water stations.		1393 92	75	1052 48
28	28	23	Fuel stations.		6083 07	92	5610 09
29	29	24	Grain elevators.				
30	30	25	Storage warehouses.				
31	31	26	Dock and wharf property.				
32	32	27	Electric light plants.				
33	33	28	Electric power plants.				
34	34	29	Electric power transmission.				
35	35	30	Gas producing plants.				
36	36	31	Miscellaneous structures.				
38	37	32	Transportation of men and material.		645 75	73	475 09
39	38	33	Rent of equipment.				
40	38	34	Repairs of equipment.				
41	--	35	Earning and operating exp. during construction.				
42	--	35½	Injuries to persons.				
43	--	36	Cost of road purchased.				
44	39	37	Steam locomotives.		42312 00	93	39143 00
45	--	38	Electric locomotives.				
46	40	39	Passenger train cars.				
47	41	40	Freight train cars.		55115 00	91	50202 00
48	42	41	Work equipment.		546 91	80	437 53
49	43	42	Floating equipment.				
50	--	43	Law expenses. 1% classes 3 to 36 incl.		2270 89	100	2270 89
51	44	44	Stationery and printing. included in class 37				
52	44	45	Insurance. " " " 55				
53	45	46	Taxes. " " " "				
54	--	47	Int. & Comm. 3% of classes 3 to 50 incl.		10160 65	100	10160 65
55	45	48	Other expenditures. 1/2 of 1% classes 3 to 50 incl.		1693 44	100	1693 44
57	46	--	Stores and supplies on hand for use in California.		1920 00	100	1920 00
			GRAND TOTAL.		355511 65	88	312619 27
			Average per mile for main track.		25124 50	88	22093 23
			Total Road, Classes 1 to 36, incl.		230138 31	85	195437 31
			" Equipment " 44 to 49, incl.		97973 91	92	89782 53
			" General " 37 and 50 to 55 incl.		25479 43	100	25479 43
			" Stores on Hand Class 57		1920 00	100	1920 00

Contingencies Amount to $8256.30 or 2.52% of Reproduction Values. I.C.C. Accts. 4 to 42 Incl.