

Decision No.

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

---000---

ORIGINAL

Case No. 321.

Decision No. 2412

In the Matter of Ascertaining
the Value of the Property of
SAN FRANCISCO-OAKLAND TERMINAL
RAILWAYS. }

W. I. Brobeck and Jared How for San Francisco-
Oakland Terminal Railways.

THELSON, Commissioner.

OPINION AND FINDINGS.

This proceeding has been carried forward at the request of representatives of San Francisco-Oakland Terminal Railways who were desirous that the Commission should make its findings as to the value of the Company's property so as to enable the Company to present to this Commission with greater assurance an application for authority to issue securities. The Commission desires to assist San Francisco-Oakland Terminal Railways, along proper lines, in such refinancing, if any, as may be deemed necessary, and for that reason has given the right of way to this proceeding over others which did not appear to be so urgent.

In this proceeding, as in all others of the same character brought under the provisions of the first paragraph of Section 47 and of Section 70 of the Public Utilities Act, the Commission does not make a general finding on the ultimate question of the value of the property of the railroad. Value is an elusive term, and what may properly be a value for one purpose may be entirely improper as a value for another purpose. The Commission, in all cases of this character, contents itself with finding specific facts bearing on the question of value, leaving to the future the use of these facts or such thereof as may be material in any pro-

ceeding in which they may be relevant. In this class of cases, the Commission does not make findings on so-called going value or going concern value. The Commission confines itself to making findings on original cost, reproduction cost and reproduction cost less depreciation, as herein defined, of the physical properties of the carrier, including in connection with the operative right of way, the element of franchise value. If San Francisco-Oakland Terminal Railways shall hereafter present to the Commission an application for authority to issue securities, or if in any other proceeding it becomes necessary so to do, this Commission will give consideration to such claims as the Company may then make with reference to so-called going value or going concern value, or any other element of value which the Company may claim in addition to those as to which findings are herein made.

At the outset, I desire to define certain terms herein used, as follows:

The term "original cost", as used in this opinion, 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, made by the carrier for its operative property in the State of California, as of the date of the valuation.

The term "reproduction cost", as used in this opinion, means 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 carrier in the State of California, as of the date of the valuation, to which are added overhead expenditures for engineering, law, interest and similar items.

The term "reproduction cost less depreciation", as used in this opinion, means the "reproduction cost" less the diminution in the value of the physical elements of the property, due to use, age, obsolescence, inadequacy or other causes, this diminution

being called depreciation, plus the increase in the value of the physical elements of the property, due to age or other causes, this increase being called appreciation.

As is usual in proceedings of this character, I shall consider the following matters:

- (1) Organization, construction and operation.
- (2) Stocks, bonds and other indebtedness.
- (3) Revenues and expenses.
- (4) Original cost, as defined.
- (5) Reproduction cost, as defined.
- (6) Reproduction cost less depreciation, as defined.

1. ORGANIZATION, CONSTRUCTION AND OPERATION.

San Francisco-Oakland Terminal Railways was incorporated on March 21, 1912, and is a consolidation of four corporations known as San Francisco, Oakland and San Jose Consolidated Railway, Oakland Traction Company, East Shore and Suburban Railway Company and California Railway.

San Francisco, Oakland and San Jose Consolidated Railway, generally known as the "Key Route," was incorporated on March 6, 1908. The company operated an electric interurban railway system in Oakland, Berkeley and surrounding territory, in Alameda county, with a ferry system between the so-called "Key Route" Pier and San Francisco.

Oakland Traction Company was incorporated on November 8, 1906. The company was a consolidation of street railway companies operating in Oakland, Berkeley, Alameda, San Leandro, San Lorenzo and Hayward, and surrounding territory, in Alameda county.

East Shore and Suburban Railway Company was incorporated on December 16, 1904. The company operated an interurban electric railway between Oakland and Richmond, Contra Costa county.

California Railway was incorporated on August 18, 1890.

The Company operated a railway from Fruitvale to Leona Heights, with various spurs, including several of considerable length.

Through the consolidation of these properties, San Francisco-Oakland Terminal Railways came into possession of a system of street railways and interurban electric railways in Alameda and Contra Costa counties, and a ferry service between Alameda county and San Francisco.

The following table shows the Company's operated mileage, in summary form, as of June 30, 1914:

Table No. I.

Operated Mileage.

Miles of first main track.....	144.934
Miles of second " "	90.381
Miles of spurs and cross-overs.....	5.41
Miles of yard tracks.....	<u>16.549</u>
Total mileage, single track.....	257.274

It thus appears that the total operated single track mileage is 257.274 and that the total operated main line, consisting of first and second main line tracks, is 235.315. The distance between the end of the "Key Route" Pier and San Francisco, being 2.9 miles of ferry service, is not included in this mileage.

San Francisco-Oakland Terminal Railways' equipment is operated entirely by means of electric energy which the Company secures in part from Pacific Gas and Electric Company and in part from United Light and Power Company (of California). The contract with United Light and Power Company (of California) was the subject of this Commission's order in Case No. 779, decided May 10, 1915, to which decision reference is hereby made.

2. STOCKS, BONDS AND OTHER INDEBTEDNESS.

The capital stock of San Francisco-Oakland Terminal Railways, as authorized and issued, appears in the following table:

Table No. II.

		<u>Capital Stock.</u>	
		<u>Authorized</u>	<u>Issued</u>
A Preferred	120,500 shares	\$12,050,000.00	\$12,050,000.00
B " "	10,000 "	1,000,000.00	1,000,000.00
Common	151,250 "	15,125,000.00	15,125,000.00
		<u>\$28,175,000.00</u>	<u>\$28,175,000.00</u>

The "A" preferred stock is entitled to 6 per cent cumulative dividends, and no more, payable in quarterly installments. The "B" preferred stock is entitled to 6 per cent cumulative dividends after the "A" preferred stock, and no more. In case of dissolution, the "A" preferred stock is entitled to back dividends from surplus earnings and has priority up to its par value of assets. The "B" preferred stock has second call on surplus and assets.

In its annual report for the year ending June 30, 1914, San Francisco-Oakland Terminal Railways reports that the Company is controlled by the Realty Syndicate by means of direct ownership of 65 per cent of its capital stock.

San Francisco-Oakland Terminal Railways has no bonds of its own outstanding. As part of the plan of consolidation, however, the Company assumed the entire indebtedness of the constituent corporations. The ^{outstanding} bonded indebtedness of the constituent corporations, as of June 30, 1914, is stated in the annual report to have been \$19,878,000.00.

The annual report gives the Company's current liabilities as \$4,180,539.43. Of this total, the largest item consists of note indebtedness to Oakland Railways, dated August 12, 1912, due June 12, 1913, with interest originally at 6 per cent but later increased to 7 per cent. Accounts payable on June 30, 1914, amounted to \$811,900.58. As of the same date, the Company reported cash and current assets amounting to \$825,818.13. The following table shows in summary form a recapitulation of the bonds out-

standing against the Company's property, its current liabilities and cash and current assets, as of June 30, 1914:

Table No. III.

Bonds, Current Liabilities and Current Assets.

Bonds - issued	\$19,878,000.00
Current liabilities.....	4,180,539.43
Total.....	<u>\$24,058,539.43</u>
Cash and Current Assets.....	825,818.13
Balance..(net indebtedness).....	<u>\$23,232,721.30</u>

The bonded debt given as \$19,878,000.00 should be reduced by the sum of \$3,256,000.00, being bonds pledged as security for the "Halsey Loan" of \$2,500,000.00, thus leaving as the actual outstanding bonded debt \$16,622,000.00 and reducing the total indebtedness over cash and current assets to \$19,976,721.30.

San Francisco-Oakland Terminal Railways owns all, except the qualifying directors' shares, of the stock of Oakland Terminal ~~Railway~~ Company, which company owns a large area of tidelands on the West Oakland Water Front. This company has an outstanding note issue of \$1,100,000.00, which should be charged as an additional indebtedness against San Francisco-Oakland Terminal Railways, thus making a total indebtedness over current assets and cash amounting to \$21,076,721.30 as of June 30, 1914.

At the hearing in this proceeding, San Francisco-Oakland Terminal Railways presented an exhibit purporting to show the cash and property realized from the stocks and bonds issued by the company and ~~xx~~ its predecessor companies. The following table shows a recapitulation of the figures presented in the exhibit:

Table No. IV.

Recapitulation of Proceeds of Stock and Bond Issues.

	<u>Stock</u>	<u>Bonds</u>	<u>Totals</u>
Total Cash realized	\$ 1,577,067.75	\$ 11,619,637.37	\$13,196,705.12
Total Physical Property acquired free of debt or at values as fixed at date of acquisition in excess of indebtedness assumed	7,727,123.84	4,345,833.06	12,072,956.90
Total investment in cash and physical property.....	\$ 9,304,191.59	\$ 15,965,470.43	\$25,269,662.02
Total Discounts and Commissions	76,070.00	632,529.57	708,599.57
Total par value stock issued against intangible property.	18,794,738.41		18,794,738.41
Total par value bonds issued to take up notes given in payment of dividends.....		684,000.00	684,000.00
Grand total Stock and Bond issues.....	\$28,175,000.00	\$ 17,282,000.00	\$45,457,000.00

It will be observed that the total cash realized from the issue of these stocks and bonds amounts to only \$13,196,705.12. While the tabulation shows physical property amounting to a book value of \$12,072,956.90 as having been acquired in exchange for the issue of stock and bonds, there is nothing in the record from which the true value of the property so acquired can be ascertained. This table also takes no account of depreciation. Attention should furthermore be drawn to the fact that stock of the par value of \$18,794,738.41 was issued against "intangible property." There is nothing in the record to show what value, if any, this so-called "intangible property" had or now has.

San Francisco-Oakland Terminal Railways filed as Exhibit No. 10, a statement of shares of stock of Oakland Traction Company, both common and preferred, and of San Francisco, Oakland and San Jose Consolidated Railway preferred stock, sold by R. Whitehead from March 1, 1910, to and including September 10, 1912. The prices secured for Oakland Traction Company preferred stock, in which class of stocks the largest sales were made, start with \$87.50 on March 1, 1910, advanced to \$92.50 on various dates and end with \$82.50 on September 14, 1912. The exhibit states that since that time "sales have been very few and at greatly reduced prices."

3. REVENUES AND EXPENSES.

The following table shows the income account of San Francisco-Oakland Terminal Railways for the years ending June 30, 1913 and June 30, 1914, as reported by the Company in its annual reports filed with this Commission:

Table No. V.

Income Account.

<u>Operating Revenue</u>	<u>Ending June 30, 1913</u>	<u>Ending June 30, 1914</u>
1. Passenger	\$ 4,422,070.73	\$ 4,411,022.10
2. Baggage	205.39	907.44
3. Parlor, Chair and Special Car	1,617.50	2,667.35
4. Mail	5,437.85	6,262.27
5. Express	171.00	10,642.97
6. Milk	18.97	416.42
7. Freight	4,691.11	8,691.28
8. Switching	35,133.29	19,212.64
9. Miscellaneous transportation	3,544.74	3,600.00
10. Total transportation revenue	\$ 4,472,890.58	\$ 4,463,422.47
11. Station and car privileges	22,863.94	27,888.02
12. Storage	13.05	268.65
13. Car service	355.00	189.00
14. Telegraph and telephone	49.50	3.75
15. Rents of tracks and terminals	1,051.31	11,044.30
16. Rents of equipment	4,294.65	4,528.47
17. Rents of buildings and other property	1,338.02	1,362.16
18. Power	2,574.32	6,889.26
19. Miscellaneous	42,155.61	46,517.15
20. Operations other than transportation	74,695.40	98,690.76
21. TOTAL OPERATING REVENUES.....	\$ 4,547,585.98	\$ 4,562,113.23
<u>Operating Expenses</u>		
22. Way and Structures	\$ 349,056.04	\$ 400,972.22
23. Equipment	243,304.46	284,080.70
24. Traffic	33,063.56	25,398.39
25. Conducting transportation	1,912,227.73	1,923,965.73
26. General and miscellaneous	324,779.65	300,875.82
27. TOTAL OPERATING EXPENSES.....	\$ 2,862,431.44	\$ 2,935,292.86
28. Operating ratio	62.94%	64.34%
29. Net operating revenue	\$ 1,685,154.54	\$ 1,626,820.37
30. Miscellaneous income	129,290.35	89,222.33
31. GROSS INCOME LESS OPR. EXPENSES	\$ 1,814,444.89	\$ 1,716,042.70
<u>Deductions from Income</u>		
32. Taxes	\$ 213,640.01	\$ 238,884.37
33. Interest, funded debt	764,221.38	859,267.75
34. Interest, floating "	145,791.37	119,408.19
35. Rents of leased lines	-----	115.30
36. Other deductions	99,430.92	146,585.23
37. Total deductions	\$ 1,223,083.68	\$ 1,071,090.38
38. NET INCOME	591,361.21	644,952.32
39. Reserve for sinking fund	217,077.27	38,157.88
40. SURPLUS FOR YEAR	\$ 374,283.94	\$ 606,794.44

	In or for year 1913	Ending June 30 1914.
40. SURPLUS FOR YEAR (Continued)	\$ 374,283.94	\$ 606,794.44
41. Surplus at beginning of year	<u>1,032,169.16</u>	<u>669,043.77</u>
42. Total of 40 + 41	\$ 1,406,453.10	\$ 1,275,838.21
43. Profit & Loss adjustments	<u>737,409.33</u>	<u>548,498.11</u>
44. SURPLUS AT CLOSE OF YEAR	\$ 669,043.77	\$ 727,340.10

The following table contains certain traffic statistics for the years ending June 30, 1913 and June 30, 1914, as reported in the annual reports:

Table No. VI.

Traffic Statistics.

45. Passenger car mileage	16,318,256	16,462,314
46. Freight, mail and express car mileage	<u>79,451</u>	<u>64,601</u>
47. Total car mileage	16,397,707	16,462,314
48. Regular fare passengers carried	77,072,203	76,606,681
49. Free transfer " "	<u>21,200,388</u>	<u>20,335,435</u>
	98,272,591	96,942,116
50. Average fare-revenue passengers	\$0.05737	\$0.05757
51. Average fare all passengers	0.04499	0.04550
52. Operating revenues-per car mile*	\$0.27733	\$0.27712
53. Operating expense " " " *	0.17456	0.17830

*Excessive because including proportion chargeable to ferry service.

The Income Account, as reported by San Francisco-Terminal Railways, must be used with caution. The Department of Statistics and Accounts reports that items totalling \$187,434.58 charged by the Company to capital account, should be transferred to profit and loss. Attention should be drawn to the fact that no depreciation has been charged to maintenance of way and structures and maintenance of equipment.

4. ORIGINAL COST.

Neither San Francisco-Oakland Terminal Railways nor this Commission's engineering department were able to ascertain the original cost, as hereinbefore defined, of the Company's property. The original construction antedates 1870, and the building and rebuilding of railway lines has been continued under many different ownerships and widely varying conditions to the present time. The records of the original constituent companies are no longer in existence and the values of the property as shown on the books of San Francisco-Oakland Terminal Railways have no ascertainable relationship to the actual cost of the property in cash or the equivalent thereof.

I am accordingly unable to make a finding with reference to the original cost of the property.

5. REPRODUCTION COST.

On April 4, 1914, the Company filed in Case No. 321 a valuation as of June 30, 1912, of part of its properties consisting of a valuation of the Key Division, with some exceptions, and the California Railway. On June 12, 1914, the Company filed in Application No. 1152, a statement headed "Preliminary Valuation of Physical Properties," totalling \$20,685,800.85. This sum does not include land and is not supported by details. About this time the "Woodward and Laymance" appraisal of lands and certain other estimates were informally submitted. All these ^{bringing} ~~making~~ the reproduction cost as then claimed by the Company to \$34,343,786.01.

In addition to this appraisal, the Company has also made available three other appraisals of the property showing estimated reproduction cost. The totals of these four appraisals are shown in the following table:

Table No. VII.

<u>Appraisal of</u>	<u>Date</u>	<u>Various Appraisals.</u>		<u>Non-Operative</u>	<u>Total</u>
		<u>Brought up to</u>	<u>Operative</u>		
Gibbs and Hill	7/14/11	6/30/14	-----	-----	\$31,729,443
W. A. Cattell	7/18/11	7/18/11	\$17,304,300.	\$11,479,520	28,783,820
J.G.White & Co.	10/31/12	6/30/14	-----	-----	32,159,837
Company(as above)			23,682,681	10,661,105	34,343,786

The Commission does not know how the totals in the first three appraisals were made up. The totals shown are secured by adding to the totals as of the dates of these respective inventories the cost of additions and betterments subsequent to the dates of the appraisals. It is clear that a considerable portion of the amounts charged to additions and betterments are not proper capital charges. In August, 1914, the Company commenced a detailed inspection and valuation of its physical property. While no complete appraisal has been filed as a result of this work, the data so secured have been used to advantage for the purpose of checking the inventory and appraisal prepared by this Commission's engineering department and of securing modifications therein.

The Commission's engineering department prepared a complete inventory and appraisal of the Company's property, both operative and non-operative, as of June 30, 1914, a summary whereof is attached hereto and marked "Exhibit A". After this report was submitted, the Commission's engineers and the Company's engineers held numerous conferences, at which all available information was exchanged and analyzed and earnest attempts made to reach agreements upon all controverted items. As a final result, the engineering department made additions to the amounts at first allowed, in certain accounts, and the Company withdrew claims for further allowances except as hereinafter indicated. Attached hereto and marked "Exhibit B" is a summary sheet containing the Commission's final conclusions, by accounts.

I shall now discuss in some detail certain of the accounts which seem to require consideration.

(a). LANDS.

San Francisco-Oakland Terminal Railways is the owner of lands, operative and non-operative, as follows:

Table No. VIII.

L a n d s.

Operative right of way	88.000 acres	
Dedicated lands	12.291 "	
Other operative lands	<u>42.807 "</u>	143.098 acres
Non-operative right of way	73.466 "	
Other non-operative land (including/tidelands owned by San Francisco-Oakland Terminal Railways)	296.235 "	
Tidelands owned by Oakland Terminal Company	<u>310.930 "</u>	
Total non-operative.....		<u>680.631 "</u>
Grand total operative and non-operative		823.729 acres

The tidelands owned by Oakland Terminal Company are here listed for the reason that San Francisco-Oakland Terminal Railways owns the entire capital stock of Oakland Terminal Company with the exception of the five shares to qualify the directors.

It will be noted that a very large percentage of the lands owned by San Francisco-Oakland Terminal Railways are non-operative. The operative land represents in area only 17 per cent of the total area. As reported by this Commission's engineering department, the operative real estate represents only 34 per cent of the total value of the entire real estate.

The non-operative right of way above referred to consists of strips of right of way acquired for proposed extensions,

principally for the construction of the so-called "San Jose Short Line" and "Sacramento Short Line". These rights of way have never been used and it is uncertain whether they will ever be used.

The other non-operative lands above referred to consist of scattered parcels of other lands, comprising picnic grounds, parks, a portion of the tidelands owned by San Francisco-Oakland Terminal Railways but not used in its business, and scattered parcels of real estate, some of which are leased and some vacant.

The tidelands owned by Oakland Terminal Company and classed as non-operative are located on the western water front of Oakland, between the lands of San Francisco-Oakland Terminal Railways on the north, the right of way operated by the Southern Pacific Company on the east, the Oakland Mole, operated by Southern Pacific Company, on the south and the low tide line of 1852, as agreed upon, on the west. Further to the west, and between the tidelands of Oakland Terminal Company and deep water lie tidelands belonging to the City of Oakland and in course of development by the City.

The greatest difference in estimated value between the San Francisco-Oakland Terminal Railways and this Commission's engineering department shown by their respective appraisals exists in the estimates of land values. The final claim of San Francisco-Oakland Terminal Railways for land values, as shown by its Exhibit No. 9, is a reproduction value of \$17,378,420.00, to which must be added a further amount of \$309,314.00, claimed to represent the value of leased lands, easements, street railway franchises and street widening and paving expenses. The revised estimate of this Commission's engineering department, as shown by Railroad Commission's Exhibit No. 3, covering the same items as those covered by Exhibit No. 9 of San Francisco-Oakland Terminal Railways, is \$6,848,664.00. This sum, as will be observed, is considerably less than half the amount claimed by San Francisco-Oakland Terminal Railways. While

the largest difference is in the estimated value of the tidelands, there are other differences running more or less through the entire land appraisal. I have given careful consideration to the question of land values and have personally inspected, in company with representatives of San Francisco-Oakland Terminal Railways, all the lands as to which the larger differences in estimated values exist.

The first appraisal of land values filed with this Commission by San Francisco-Oakland Terminal Railways was prepared by Angus Clark, for many years in charge of the Company's land department. This appraisal was filed by the Company in June, 1914, and totals \$13,148,557.00.

The next appraisal filed by the Company is dated February 22, 1915, and was prepared by Frank J. Woodward, a dealer in real estate, who has had a large experience running over a period of years in real estate transactions in Alameda county. The total estimated value of the lands as shown by this appraisal, was \$16,115,112.00. This sum did not include any items for cost of acquisition or for interest during construction. These items were not claimed by the Company until they had been allowed by the Commission's engineering department and they appear for the first time in the Company's Exhibit No. 9, hereinbefore referred to. It having developed that the acreage allowed by this Commission's engineering department ^{the acreage} and ^{both} used by Mr. Woodward, were in excess of the actual acreage owned by the Company and that certain slight changes as between operative and non-operative properties should be made, Mr. Woodward prepared a supplemental inventory and appraisal under date of March 30, 1915. This inventory was introduced in this proceeding and marked Exhibit No. 5 of San Francisco-Oakland Terminal Railways. The following table shows a summary of this appraisal:

TABLE No. IX

Summary of Mr. Woodward's Appraisal

SUBDIVISION "A"-	OPERATIVE PROPERTY: Rights of way owned, including incidental real estate connected therewith (Real estate value only) -----	\$ 1,840,200	
	Plus 85% additional as railroad right of way value, figured on the basis explained below-----	1,564,170	\$3,404,370
SUBDIVISION "B"-	OPERATIVE PROPERTY: Other land used in the operation of your company (Real estate value only)-----	1,167,775	1,167,775
SUBDIVISION "C"-	OPERATIVE PROPERTY: Land purchased for rights of way and dedicated for public use (Real estate value only)-	174,644	
	Plus 85% additional as railroad right of way value, figured on the basis explained below-----	148,447	323,091
SUBDIVISION "D"-	NON-OPERATIVE PROPERTY: Land purchased as and for use as right of way for proposed Richmond Line and first section of San Jose Short Line, etc. (Real estate value only)-----	803,460	
	Plus 85% additional as railroad right of way value, figured on the basis explained below-----	682,941	1,486,401
SUBDIVISION "E"-	NON-OPERATIVE PROPERTY: Other Real estate.		
	SECTION 1. Tide Lands, direct title to which is owned -----	2,095,911	
	SECTION 2. Other Non-operative real estate -----	736,788	
	SECTION 3. Tide lands owned through ownership of entire capital stock of Oakland Terminal Company -----	6,772,055	<u>9,604,754</u>
	Total present value of real estate owned by company -----		\$ 15,986,391

The final claims of San Francisco-Oakland Terminal
Railways under the head of "Land Values" appear in the Company's
Exhibit No.9, and are set forth in the following table:

TABLE NO. X

SAN FRANCISCO-OAKLAND TERMINAL RAILWAYS

Summary Statement of Real Estate Valuation claimed by
company as of June 30, 1914.

	Real Estate Value Only	Additional value(85%) as railroad right-of- way	Cost of acqui- sition and in- cidentals (10%)	Interest dur- ing con- struction 2 years @ 7%	Repro- duc- tion Total
1. Rights-of-way owned, including incidental real estate used in connection therewith -----	\$1,840,200	\$1,564,170	\$ 340,437	\$ 524,273	\$4,269,080
2. Land purchased for rights-of-way and dedicated for public use -----	174,644	148,447	32,309	49,756	405,156
3. Other land used in electric rail- way operation-----	1,167,755	----	116,777	179,837	1,464,389
4. Non-operative land purchased as and for use as right-of-way for proposed extensions-----	803,460	682,941	148,640	---	1,635,041
5. Other non-operative real estate-----	736,788	---	---	---	736,788
6. Tidelands(Fair market value) a-Owned in fee-----	2,095,911	---	---	---	2,095,911
b-Owned through ownership of capital stock of Oakland Terminal Co.-----	6,772,055	---	---	---	6,772,055
TOTALS	<u>\$13,590,833</u> 2,395,558 <u>\$15,986,391</u>	<u>\$2,395,558</u>	<u>\$ 638,163</u>	<u>\$ 753,866</u>	<u>\$17,378,420</u>

The following table shows the Company's claims as they appear in Exhibit No. 9 to additional values for leased lands, easements, street railway franchises, street expenses, widening and paving:

TABLE No. XI

SAN FRANCISCO-OAKLAND TERMINAL RAILWAYS

Supplemental statement of reproduction cost, as of June 30, 1914 placed by the Company on its leased lands, easements, street railway franchises, street expenses, widening, paving, etc.

(1) Leased lands.

Rental during 2 years (construction period) -----	\$16,210	
Cost of acquisition and incidentals (5%) -----	810	
Interest 1 year @ 7% -----	1,191	
Total		\$18,211

(2) Easements.

Estimated original cost -----	\$ 400	
Cost of acquisition and incidentals (5%) -----	20	
Interest 2 years @ 7% -----	59	
Total		\$ 479

(3) Street railway franchises.

Estimated cost of bids and advertising	\$138,232	
Cost of acquisition and incidentals (10%) -----	13,820	
Interest 2 years @ 7% -----	21,284	
Total (as per details on separate statement)----		\$ 173,336

(4) Street expenses- widening, paving etc.

Reported cost of certain pieces of work -----	\$109,615	
Interest 1 year @ 7% -----	7,673	
Total-----		\$ 117,288
Grand Total--		\$309,314

Mr. W. M. Wells, this Commission's real estate valuator, made a careful and exhaustive survey of real estate transactions in Oakland during the last few years in so far as they seemed to him to be pertinent in ascertaining the present fair value of the real property owned by San Francisco-Oakland Terminal Railways. His report, which is embodied in Railroad Commission's Exhibit No. 1, showed a total estimated reproduction cost, including the cost of acquisition and interest during construction, amounting to \$6,857,926.00. After agreeing with the Company's representatives as to the acreage involved except as to the area of the right of way of California Railway, and also making slight changes as between operative and non-operative properties, Mr. Wells presented his final conclusions in Railroad Commission's Exhibit No. 3. These conclusions appear in the following table:

TABLE NO. XII

ENGINEERING DEPARTMENT'S REVISED REAL PROPERTY ESTIMATE

--000000--

Description of tracts RECAPITULATION	AREA ACRES	PRES. INT. VALUE	PRES. R.R. VALUE	COST OF ACQUIR. 5%	2 yrs. at 6% INTEREST DUR- ING CONST.	TOTAL REP. COST
<u>OPERATIVE:</u>						
Right of Way	77,667	888 631.	1 111 039.	55 553.	139 991.	1 306 583.
Dedicated Lands	12,291	123 511.	154 369.	7 719.	19 453.	181 561.
Leased Lands			16 210.	(a) 324. (b)	992.	17 526.
Easements, (Original Cost)			400.	20.	50.	470.
Franchises - (Original Cost)			93 827.	4 691.	11 822.	110 340.
Street Widening -- (Original Cost)			109 615.		(b) 6 577.	116 192.
<u>TOTAL, Acot. 2; Operative - - - - -</u>	<u>69,958</u>	<u>1 012 342.</u>	<u>1 465 460.</u>	<u>68 307.</u>	<u>178 865.</u>	<u>1 732 672.</u>
Other Lands, Acot. 3	42,607	825 998.	825 998.	41 300.	104 076.	971 374.
<u>TOTAL, Acot. 2 & 3; Operative - - - - -</u>	<u>132,765</u>	<u>1 838 340.</u>	<u>2 311 478.</u>	<u>109 607.</u>	<u>282 961.</u>	<u>2 704 046.</u>
<u>NON-OPERATIVE:</u>						
Right of Way	75,466	591 944.				591 944.
Other Lands,	296,235	1 220 699.				1 220 699.
Oakland Terminal Co., Tide Lands.	310,930	2 331 976.				2 331 976.
<u>GRAND TOTAL: OPERATIVE & NON-OPERATIVE - - -</u>	<u>813,896</u>	<u>5 982 958.</u>				<u>6 848 664.</u>

(a) Contingencies 2%; (b) Interest, 1 year at 6%.

I desire first to give consideration to the methods employed by Mr. Woodward and Mr. Wells, respectively.

The method employed by Mr. Woodward is clearly set forth in the introduction to Exhibit No. 5 of San Francisco-Oakland Terminal Railways. Referring first to the valuation of real property other than rights of way and tidelands, Mr. Woodward says:

"In valuing the real estate other than right of way and tide lands owned by the company, I have fixed a value which I consider would be a fair selling price of the property in question under the average conditions of the last three years, based on a personal knowledge of the selling price of similarly located land, taking into account the exceptionally valuable locations which your company has obtained for many of its station buildings, its power plant, etc."

Referring then to the valuation of rights of way, Mr. Woodward states:

"In fixing the real estate value of rights of way owned, I have figured on the basis of current values of similarly located property, taking into account, in the case of right of way strips crossing blocks in such a manner as to largely and wholly destroy the value of certain lots not entirely occupied, the total value of such destroyed lots. This method is necessary to a fair valuation, inasmuch as it is, as a rule, impossible to purchase such portions of any given lot as will largely or wholly destroy the salability of the balance of the lot at a price less than the reasonable value of the entire lot."

Mr. Woodward then states that it is necessary to add to the real estate value of right of way an additional value as a railroad right of way "by reason of the fact that a railroad or a street railway company must by necessity of purchasing a continuous right of way along a practical route surveyed by its engineers, purchase the property (through condemnation or private arrangements) of many unwilling sellers from whom property can be purchased^{only} at a material premium over normal real estate value of similarly located land." After referring to various percentages called multiples, which have at times been added to what Mr. Woodward calls the real estate value, he concludes on this point as follows:

"I have therefore used the percentage of 85% increase which, to the best of my knowledge and belief, represents the actual increased cost of the rights of way purchased by the Western Pacific Railway in Oakland and Alameda County. The Western Pacific right of way, however, transverses a section of the City of Oakland occupied by the poorer class of improvements and where the increased cost of acquirement would not be as great as in the better business and residential districts where many of your rights of way are located."

Referring then to the valuation of the tidelands,

Mr. Woodward says:

"In the valuation of the tide lands owned by your company it is impossible to establish, by actual selling prices of contiguous tracts as definitely as can be done in the case of other real estate owned by your company, the fair present value of these tide lands. In making a proper valuation of these tide lands I have been forced to rely on the selling value of tide lands in reasonably similar locations as well as the value of real estate after having been filled in which is similarly situated as regards railway and water transportation. I have made some inquiry as to the value of similar tide lands adjacent to the cities of San Francisco, Los Angeles and Seattle. I am familiar with the prices at which submerged or partially submerged lots adjacent to the city front of Oakland and Alameda have sold during recent years."

Mr. Woodward then makes certain comments on the elements entering into the value of the tidelands, to which reference will hereafter be made.

As already indicated, San Francisco-Oakland Terminal Railways later added to Mr. Woodward's valuation items for cost of acquisition, interest during construction, leased lands, easements, street railway franchises and the widening and paving of certain streets.

Mr. W. M. Wells made a survey and analysis of all the recent sales in Oakland which would seem to have a bearing on the value of the real property of San Francisco-Oakland Terminal Railways and then presented a report, based on the facts thus ascertained, containing his estimate of the fair value of the property. In determining the fair value of the Company's operative right of way, he ascertained, first, the fair market value of property of similar character in the vicinity, and then applied thereto a multiple of 1.25. To

the total thus secured he added 5 per cent for cost of acquisition and 12 per cent for interest during an assumed construction period of two years at 6 per cent per annum. The same method was pursued with reference to lands dedicated by San Francisco-Oakland Terminal Railways to the public for street use. These lands are not owned by the Company. With reference to the operative lands leased but not owned by the Company, Mr. Wells allowed the rent paid during a period of one year, with an allowance of 2 per cent for contingencies, plus interest on this amount for one year.

Certain costs were incurred in connection with the widening and paving of streets in most of which cases the Company did not own the land. Mr. Wells allowed the original cost, which he reported to be \$109,615.00, to which sum he added interest for one year at the rate of 6 per cent per annum. In estimating the value of operative lands other than those already indicated, Mr. Wells estimated the fair market value on the basis of the fair market value of adjacent property of a similar character, to which sum the usual additions were made for cost of acquisition and interest during construction. No multiple was allowed as to these lands for the reason that Mr. Wells concluded from an examination of the actual amounts paid by the Company in similar cases that the Company was not compelled to pay any multiple and he assumed the same condition would exist if the Company were to repurchase the property at the present time.

In estimating the fair value of the Company's non-operative property, Mr. Wells estimated its fair ^{market} value from all the facts which he could ascertain with reference to property of similar character in the vicinity, where possible, but made no allowance for multiples, cost of acquisition or interest during construction.

As already stated, Mr. Woodward, after ascertaining what he terms the real estate value, added a multiple of 85 per cent for "railroad

right of way" to all rights of way owned and operated by the Company, all lands purchased for rights of way and dedicated for public use and all lands purchased for rights of way but never used. Mr. Woodward testified at the hearing that his multiple of 85 per cent was based on the multiple which he believed to have obtained with reference to the purchases of Western Pacific Railway Company in Oakland and other portions of Alameda county. Although he later testified that his own experience in Alameda county showed that this multiple was correct, he distinctly states in his report as follows:

"I have therefore used the percentage of 85% increase which, to the best of my knowledge and belief, represents the actual increased cost of the rights of way purchased by the Western Pacific Railway in Oakland and Alameda county."

I cannot escape the conclusion that Mr. Woodward, consciously or unconsciously, used the multiple of 85 per cent for the reason that he believed, from such talks as he had with Western Pacific officials, that this was the multiple shown by the experience of the Western Pacific in purchasing real property in Oakland and other portions of Alameda county. It appears that Mr. Woodward's information in this respect is not correct. In the inventory and appraisal which Western Pacific Railway Company has filed with the Railroad Commission, the Company reports that it owns in the City of Oakland 451.161 acres of land for which the Company claims a market value of \$5,575,223.00 and a present railroad value of \$6,683,248.00. The multiple, as reported by the Company, varies from a minimum of 1.09 to a maximum of 4.65. The weighted average multiple claimed by the Company for its purchases of real property in the City of Oakland is 1.20 instead of 1.85, as used by Mr. Woodward.

Mr. Wells has made a careful analysis of the increased prices which railroads have been compelled to pay in this State for both terminal and right of way lands in excess of the fair market value of the property. His conclusions are shown in Railroad

Commission's Exhibit No. 5 in this proceeding. Mr. Wells shows that in a total of 938.8 miles of steam and electric railways concerning which he has completed his estimates, the weighted average multiple of all purchased lands was 1.34. These lands include very large areas of country right of way as to which the multiple is generally considerably larger than as to terminal lands within the cities.

Mr. Wells has presented as Railroad Commission's Exhibit No. 2, a computation showing the multiples in connection with a number of ^{recent} scattered purchases of San Francisco-Oakland Terminal Railways. These purchases covered operative property from December 31, 1910 to March, 1914, and non-operative property from April 30, 1913 to April 29, 1914. The purchases of operative right of way comprised costs of only \$105,393.87, when the multiple was found to be 1.54 and of operative other lands, costing \$96,489.85, when the multiple was found to be 1.00. While certain errors in computation appear in this statement, they do not materially alter the final conclusions as reported by Mr. Wells.

I desire to draw attention further to the fact that Mr. Woodward's "real estate value" includes all severance damages and that his additional 85 per cent represents only additional value by reason of the fact that the property is to be used for railroad purposes. The multiples used by Western Pacific Railway and this Commission's engineering department uniformly include all the costs over the fair market value of adjacent property of a similar character, including severance damages. It thus appears that Mr. Woodward allowed severance damages in the first instance, in ascertaining what he terms the real estate value, and then used a multiple which includes as one of its elements an allowance for the same severance damages which Mr. Woodward had already included in his real estate value. Accordingly, in order to compare Mr. Woodward's estimate of the fair market value of the property with Mr. Wells' estimate, it will be necessary to deduct from Mr. Woodward's

estimate of real estate value that portion of his estimate which represents severance damages.

On the facts of this case, I am convinced that if multiples are to be allowed full justice will be done to San Francisco-Oakland Terminal Railways by applying a multiple of 1.30 to the Company's operative right of way and a multiple of 1.10 to the Company's operative lands other than right of way, the base price in each case being the fair market value of adjacent property of similar character. While it is true that comparatively heavy severance damages would have to be paid if certain of the Company's rights of way, particularly those in Piedmont, were to be reacquired at the present time, it is equally true that no multiples at all or only very slight multiples would have to be paid in connection with the acquisition of certain of the other operative property, such as the Sacramento Street dedicated rights of way and the Yerba Buena Yards. Looking at the situation as a whole, I am convinced that the application of the multiples which I have suggested would be fair and liberal on the facts of this case, if multiples are to be allowed.

San Francisco-Oakland Terminal Railways urge that the allowance for the cost of acquisition should be 10 per cent instead of 5 per cent, as allowed by the engineering department, and in this connection draws attention to the fact that the amount claimed by Western Pacific Railway Company for its entire lands is 9.1 per cent and that the amount allowed by this Commission in certain cases has been 10 per cent. I was at first impressed by this contention, but on analyzing the situation, bearing in mind the fact that the 10 per cent allowance is due largely to the heavy costs of acquisition of right of way properties in outside districts, and that in the present case the lands to be acquired are all located within narrow compass in thickly populated areas and are of relatively high

value, so that the salary of right of way agents would be relatively small, I have reached the conclusion that on the facts of this case, the allowance made by the engineering department is ample.

San Francisco-Oakland Terminal Railways and this Commission's engineering department agree on an estimated period of construction of two years, and agree that interest on the assumed cost of purchasing real property should be allowed during the entire two years. The engineering department has allowed interest at the rate of 6 per cent per annum, while the Company claims 7 per cent. While Mr. Weeks, President of San Francisco-Oakland Terminal Railways, testified that, in his judgment, an allowance of 7 per cent would be proper, a study of the interest rate actually paid by San Francisco-Oakland Terminal Railways and its predecessor companies convinces me that an allowance of 6 per cent is ample. It is manifestly not proper to base the allowance for interest on the rates which would have to be paid during a time of temporary financial stringency. Without going into all the details at this time, I desire simply to draw attention to the fact that none of the bonds issued by any of the predecessors of San Francisco-Oakland Terminal Railways have borne interest at a rate in excess of 6 per cent and that most of the large bond issues carry an interest charge of only 5 per cent. A study of this situation, together with the discounts and commissions paid on the sale of bonds, and of the outstanding notes of San Francisco-Oakland Terminal Railways, as reported to this Commission in the annual report for the year ending June 30, 1914, none of which notes bear interest at a rate in excess of 6 per cent, convinces me that an allowance of 6 per cent for interest during construction is sufficient.

I shall recommend findings under the head of reproduction cost, in strict compliance with the definition of the term "reproduction cost," as given in the first part of this opinion, which definition, in so far as it applies to the land accounts, reads as follows: "The estimated cost of acquiring the operative right of way and other operative real estate." By reason of the fact that it undoubtedly costs more to acquire certain classes, at least, of railroad operative property and to hold the same during the estimated period of construction, than the fair market value of land of similar character in the vicinity, I am bound, under the terms of the definition of reproduction cost, hereinbefore given, to find a value in excess of the present day fair market value of adjacent property of the same character. The injustice of allowing, in a rate case, not merely the entire unearned increment of land, but also additions for multiples and overhead percentages, is so patent that the Supreme Court of the United States, while relying in terms on the doctrine of reproduction cost, nevertheless, in the famous Minnesota Rate Case, 250 U. S. 352, refuses to allow anything for multiples and overhead percentages in connection with land values. At page 455 of the Reporter, Mr. Justice Hughes says:

"Assuming that the company is entitled to a reasonable share in the general prosperity of the communities which it serves, and thus to attribute to its property an increase in value, still the increase so allowed, apart from any improvements it may make, can not properly extend beyond the fair average of the normal market value of land in the vicinity having a similar character. Otherwise we enter the realm of mere conjecture."

The same conclusion is expressed (at page 455) in greater detail, as follows:

"The company would certainly have no ground of complaint if it were allowed a value for these lands equal to the fair market value of similar land in the vicinity, without additions by the use of multipliers, or otherwise, to cover hypothetical outlays. The allowances made below for conjectural cost of acquisition and consequential damages must be disapproved; and, in this view, we also think it was error to add to the amount taken as the present value of lands the further sums,

calculated on the value, which were embraced in the items of 'engineering, superintendence, legal expenses, contingencies and interest during construction.'

If the Supreme Court had followed the reproduction cost theory to its logical conclusion and had assumed that the lands were being reacquired in the present condition in which they and adjacent lands were found at the time of the valuation, on the impossible assumption that the development of adjacent lands and their value would have been just as great if the railroad had not been constructed and if it were now desired to acquire lands for the first time for the purpose of railroad right of way, the Court could not have escaped the necessity of allowing multipliers and overhead percentages. But the Supreme Court, although in words discarding the original cost or investment theory and while in words approving the reproduction cost theory, did not give its definition of the term "reproduction cost" and refused to follow the reproduction cost theory where land values are in question. The Court refused to allow anything for land values in excess of the fair average market value of similar lands in the vicinity, without the addition of multipliers and without the addition of overhead percentages. When the Court refers to additions by the use of multipliers, or otherwise, to cover hypothetical outlays, the Court undoubtedly has in mind the fact that it is impossible to assume the reacquisition of railroad rights of way and terminals on the basis of the value of adjacent property, for the reason that if the railroad had not been constructed, the residences and industries would largely not be there and the value of adjacent property of similar character would be much less than the present fair average market value of such lands, on which the Supreme Court makes its allowance for railroad lands. Hence, the Supreme Court, while refusing to adopt the original cost or investment theory, refuses to allow anywhere nearly the sum to which it would be driven if it had consistently followed the theory which it claims to adopt.

In the present case, while I shall make findings in strict accord with the definition of "reproduction cost" heretofore adopted by the Commission for use in these valuation cases, I desire again to draw attention to the fact that it does not necessarily follow that in other proceedings of a different character allowance will be made for lands on the basis of the addition of multipliers and overhead percentages to the fair average market value of adjacent property of similar character.

Referring now to the base price of the Company's operative property, to portions of which Mr. Woodward and Mr. Wells added ^{their} different multiples, I find that apart from the tidelands, to which I shall hereinafter give special consideration, the major difference exists with reference to some dozen parcels of land, most of which I have personally inspected.

In reporting the acreage of the right of way of California Railway, Mr. Wells allowed 763,790 square feet, while the Company claimed 1,213,646 square feet. The deduction made by Mr. Wells was due to the fact that the Realty Syndicate claims to own the remaining area. The Company presented evidence at the hearing to show that its predecessors and itself have been in possession of the entire right of way property for over five years, claiming title and paying taxes. In view of this evidence, I am of the opinion that for the purpose of this proceeding, the Commission should allow the entire area claimed by the Company. Mr. Woodward claimed 20 cents per square foot for the entire area. Mr. Wells made a careful analysis of the selling prices of property along different portions of this right of way and assigned different values to different portions of the right of way, based on the fair average market value of similar property in the vicinity. I am inclined in this instance, to give more weight to the estimate of ^{Mr. Wells than} to that of

Mr. Woodward, for the reason that the estimate of Mr. Wells appears to be the result of a more thorough examination of sales of property in the vicinity.

With reference to the different parcels of land which are collectively designated the Yerba Buena yards, Mr. Woodward estimates a reproduction value, without the addition of multipliers or overhead percentages, of \$876,100.00, while the estimate of Mr. Wells is \$507,553.00. Apart from the tidelands, this is the property as to which there is the largest difference in the estimates of Mr. Woodward and Mr. Wells. Mr. Woodward testified that the Santa Fe yards across the street to the north from the Yerba Buena yards is the only parallel piece of property which can be used for the purpose of making a comparison of values. He testified that the Santa Fe people estimated the value of their property from San Pablo Avenue west to the Southern Pacific tracks and from Yerba Buena Avenue north, to be 68 cents per square foot. Mr. Woodward accordingly allowed 60 to 65 cents per square foot for the larger portion of the area included within the Yerba Buena yards. There is no evidence to show on what the Santa Fe bases its value nor did Mr. Woodward refer to any sales in support of his estimate or in support of the Santa Fe's estimate of the value of their property. Mr. Wells valued the larger portion of the area of Yerba Buena yards at 37.6 cents per square foot. This estimate is based on quite a number of actual sales during the last two years of property immediately adjacent to the Santa Fe terminals to the north. He testified that these sales have been made on the basis of 35 cents per square foot, but that the present owner of the property is now asking 37.5 cents per square foot, which price was applied by Mr. Wells to the larger portion of the Yerba Buena yards. While the property which Mr. Wells used as his basis has been subdivided into lots and is cut up by streets, the price paid for this property during

the last two years included the street work. I am inclined to give more weight to the actual sales of the property on which Mr. Wells relies than on the unexplained asking price of the Santa Fe's property, which I understand is not for sale in any event.

I bear in mind, however, the fact that a large parcel of land such as the Yorba Buena yards, which is intersected by only one or two streets, has for terminal purposes a considerably greater value than land intersected by numerous streets and held in small holdings.

With reference to the other parcels of land as to which the major differences exist, apart from tidelands, I am inclined to find a value some where between that claimed by Mr. Woodward and by Mr. Wells. Each of these men made a careful and conscientious attempt to arrive at the real value of the property, and I am of the opinion that the safe value lies some where between their estimates.

By subtracting from Mr. Woodward's estimate for all the lands except the tidelands the amounts included by reason of severance damages and excluding multiples, the amount claimed by Mr. Woodward is approximately \$3,364,750.00. The amount claimed by Mr. Wells for the same land on the same basis is approximately \$2,890,183.00.

I have given careful consideration to the differences between Mr. Woodward and Mr. Wells with reference to these lands and have made additions to the amounts estimated by the engineering department, totalling \$154,220.00 for operative lands other than tidelands and \$57,574.00 for non-operative lands other than tidelands.

I come now to the tidelands. The following table shows the tidelands under consideration in this proceeding:

Table No. XIII.

Tide Lands

San Francisco-Oakland Terminal Railways, Operative right of way through tidelands	18.3 acres
San Francisco-Oakland Terminal Railways, Non-operative tidelands north of 34th Street, Oakland Terminal Company	83.14 acres
Submerged tidelands -----	<u>310.93</u> acres
Total -----	412.37 acres

In compliance with this Commission's order dated October 17, 1912, San Francisco-Oakland Terminal Railways heretofore filed with this Commission as of June 30, 1912, an inventory of its real property together with values claimed therefor. This inventory shows that for the 18.3 acres of right of way owned by San Francisco-Oakland Terminal Railways, the Company claimed a present value of \$10,000 per acre and a present railroad value of \$20,000 per acre. The latter price applies to all the filled tidelands operated by the Company as right of way. With reference to the 83.14 acres of non-operative tidelands owned by San Francisco-Oakland Terminal Railways, the Company reported a present market value of \$10,000 per acre and a present railroad value in the same amount. This report was prepared by Angus Clark, for many years in charge of the land department of San Francisco-Oakland Terminal Railways and its predecessors and was filed by the Company as its report. This filing was prepared before San Francisco-Oakland Terminal Railways filed its petition (Application No. 1152) for authority to issue bonds of a par value of ten million dollars. Mr. Clark testified that a portion of the Oakland Terminal Company's tidelands had been partially filled as the result of the City of Oakland's filling a portion of its tidelands and that there has not been any particular increase in land values in Oakland since June 30, 1912.

Mr. Woodward estimated the value of the submerged tidelands at 50 cents per square foot or \$21,780 per acre, and the

value of the filled land at \$1.00 per square foot or \$43,560 per acre. Mr. E. C. Sessions estimated the value of the submerged tidelands at 50 cents per square foot. He gave no sale prices in support of his estimate. He testified that he and his family are the owners of considerable tideland property in Oakland and that he was unacquainted with any actual transactions with reference to the particular tidelands which we are now considering. Reference will hereinafter be made to these transactions with which Mr. Sessions was not familiar.

Mr. Wells estimated the value of all the tidelands at 17.2¢ per square foot, or \$7500 per acre. He added that the cost of filling the filled lands was included in the engineering department's estimates for grading and that the amount thus included should be added to his allowance of \$7500 per acre, so as to be comparable with the amount estimated by the Company's witnesses as the value of the filled land.

Referring to the tidelands, Mr. Woodward, in his report, says:

"In my opinion the 310.93 acres and 83.14 acre tract of tidelands, a large portion of which has already been partially filled and which your company owns through its ownership of the entire stock of the Oakland Terminal Company, is exceptionally well located, lying as it does, back and protected by the Oakland City Sea Wall and fill, a work but recently completed, adjacent on the south and east to the main line tracks of the Southern Pacific Railroad Company, and on the north the tracks of your company and through them, in turn, easily connected with the terminal yards and tracks of The Atchison, Topeka and Santa Fe Railway, and Western Pacific Railway. In view of these advantages of location, and the fact that the tract is now protected so that it can be readily and economically filled in by dredging and in view of the fact that it lies directly at the front door, as it were, of the growing cities of Oakland and Berkeley and can be made available for industrial purposes adjacent to a deep water frontage entirely free from the interruption on account of passage through drawbridges suffered by the so-called 'Inner Harbor' of Oakland, I consider the valuation of fifty cents per square foot which I have placed on this property as fully justified and representing a fair value in its present condition. Another and very important point in determining the value of this land is its proximity to San Francisco; its accessibility and desirability to the manufacturers of freight and merchandise. In other words, it is a part and parcel of the

land constituting the terminus of three transcontinental railways in the great harbor of San Francisco and is practically in the center of a population of nearly one million people."

Mr. Woodward also drew attention in his testimony to the fact that only four streets had been laid out through this property and that for that reason it would be very available for large enterprises such as the United States Steel Corporation or a railway. Mr. Woodward testified that there had not been any current sales of similar property in large tracts but relied on the prices paid by the City of Oakland partly in condemnation proceedings and partly by private negotiations for water front lands fronting on the Estuary and extending from Broadway west. The prices paid for these lands varied from 60 cents per square foot for the fee plus 20 cents per square foot for a leasehold interest, making 80 cents per square foot, up to \$3.50 per square foot. It should be said that these lands form part of a strip of land some 150 feet wide severed from first class industrial property in active use near the business center of Oakland, and particular attention should be drawn to the fact that these lands front on deep water, so that vessels may moor to them.

Mr. Woodward also relied on the price at which the Southern Pacific Company is said to hold its ^{filled in} tidelands south of the Oakland Mole, which price Mr. Woodward testified was from \$1.00 to \$1.50 per square foot. This testimony is not based on any actual sales but represents simply the value which the Southern Pacific Company is said to place on these tidelands, without any detail as to the basis on which the value is estimated.

Mr. Woodward testified that the submerged tidelands could be filled for about 3 cents per square foot. As already said, he estimates the value of the submerged tidelands at 50 cents per square foot and the value of these lands when filled at \$1.00 per square foot. He also testified that ~~xxx~~ savings banks would have no right to loan money on the tideland properties for the reason

that they are still in an undeveloped state.

Mr. Wells referred to a number of facts which, in his opinion have a bearing on the present value of the tidelands. He drew attention to the fact that the tidelands of Oakland Terminal Company are not located on deep water and that the tidelands of the City of Oakland intervene between the tidelands of Oakland Terminal Company and deep water. Hence, no vessel can ever moor to the lands of Oakland Terminal Company. The only way in which access can be gained from these lands to deep water would be over the lands of the City of Oakland or over the 1000 foot strip of land referred to in Ordinance No. 3099. Mr. Wells also drew attention to the fact that these lands cannot be developed until the City of Oakland develops the lands which are in front of them, that the bond money voted by the City of Oakland for the development of these lands is almost exhausted and that it is problematical when the City of Oakland will vote additional moneys to complete the work which is now only partially performed. He drew attention further to the fact that it is the present policy of the City of Oakland to develop the tidelands on its southern water front before completing the development of the tidelands on its western water front. Mr. Wells testified that for warehouse purposes in connection with the business in and about Oakland, other lands nearer to the business center of the City are more desirable and that a large acreage of land is available for this purpose. He testified that the highest use to which these lands could be devoted would probably be for railroad terminals but that it is entirely conjectural when the lands will be developed and when they will be used, if at all, for railroad terminals.

Mr. Wells referred to a number of actual sales of property more or less comparable to that now under consideration.

In or about 1907, Southern Pacific Company purchased from the "Zoy Route" a portion of the very tract now under consideration.

for the purpose of eliminating what is known as "Death Curve" on the Southern Pacific Company's line extending along the water front on to the Oakland Mole. The area of this land was about seven acres and the price paid, according to the records of the Southern Pacific Company, was \$42,074.66, or about \$6000 per acre or 14 cents per square foot. He drew attention to the fact that on May 31, 1912, the Key Route purchased Lot 28 in Section 22, a portion of the Key Route Basin tract, paying the sum of \$3,730.00 per acre. This tract was acquired from the Realty Syndicate and contained 12.05 acres. At the time this property was purchased it was entirely surrounded by property of the purchaser, and this fact undoubtedly decreased the value of the property. Mr. Wells testified that Western Pacific Railway Company purchased a considerable area of submerged water front tideland in San Francisco, lying east of Kentucky Street. This property was purchased just prior to 1906. The average price paid was 16 cents per square foot, or about \$7000 per acre. In preparing an inventory and appraisal of its real property for filing with this Commission, Western Pacific Railway Company placed on its San Francisco water front property a value of 25 cents and 30 cents per square foot, amounting to \$10,890.00 and \$13,068.00 per acre. Mr. Wells also drew attention to the fact that the San Francisco Realty Board has recently appraised 103 acres of land lying south of Islais Creek and having a full water front there, at 10 cents per square foot, or \$4,356.00 per acre. Mr. Wells also drew attention to ~~the fact~~ certain purchases of lands on or near the water front of Oakland by Western Pacific Railway Company several years ago. He testified that the Realty Syndicate is holding a large acreage between 16th Street and the Yerba Buena shops in Oakland at 30 cents per square foot, or \$13,068.00 per acre. This land has streets surveyed through it but at the present time is partly marsh land and will necessitate some filling before it can be used advantageously. The property

can be served by the Santa Fe and the Southern Pacific and is available for warehouse and industrial purposes.

Mr. Wells also relies in part on the value claimed by the Southern Pacific Company for its filled right of way lying directly east of the tidelands to which I have been referring and adjoining the same, which land is valued by the Southern Pacific Company at 39 cents per square foot, or \$16,988.00 per acre.

While allowance must be made in comparing certain of the lands to which Mr. Wells refers with the tidelands now under consideration, the appraisals and sales of these properties furnish the best concrete basis discovered by him for ascertaining the value of the tidelands owned directly or indirectly by San Francisco-Oakland Terminal Railways.

Valuations placed upon property by city and county assessors sometimes have value, particularly if it is shown that the assessors seek to apply a uniform percentage of market value. Mr. Wells testified that the 310 acres of Oakland Terminal Company's land lying between 7th Street and 34th Street is assessed by the City of Oakland for \$470,000, or \$1516.00 per acre. The 83.14 acres of submerged tidelands belonging to San Francisco-Oakland Terminal Railways and lying immediately north of the tract just referred to are assessed at \$540.00 per acre. The 18.3 acres of tidelands belonging to San Francisco-Oakland Terminal Railways and constituting its right of way over the tidelands is assessed by the City of Oakland at \$385.00 per acre. The city assessor of Oakland has established an assessed value of land, being generally about 50 per cent of the assumed market value. On the basis of 50 cents per square foot, being the value claimed for submerged tidelands by Mr. Woodward, the assessed value of the 310 acre tract is 7 per cent of the value claimed by the Company, the assessed value of the 83.14 acre tract is 2.1 per cent of the value claimed by the Company and the assessed value of the 18.3 acre tract is 1.8 per cent.

of the value claimed by the Company. If Mr. Woodward's value of \$1.00 per square foot for the 18.3 acre tract is taken, the value reported by the assessor is .9 of 1 per cent of the value claimed by the Company. It must be evident either that the value claimed by the Company for its tidelands in this proceeding is very considerably higher than the actual value or that the value on which the Company pays taxes is ridiculously low.

It is extremely difficult for anyone to say what these tidelands are reasonably worth at the present time. Any value assigned to them must, in the very nature of things, be largely speculative. The lands are not in actual use for industrial purposes at the present time, nor can they be so used until they are filled in and until a demand for such use arises. While they will ultimately undoubtedly be extremely valuable for industrial or railroad terminal purposes, the use to which they will actually be put and the time when they will be used are both problematical. It must be remembered that these lands do not front on deep water and that at the present time they are simply submerged tidelands. The value which they may at some time in the future possess is not today's value, although to-day's value must be arrived at by considering, at least in part, the purposes to which they are adaptable and to which they will hereafter at some time be used.

I have given careful thought to the value to be assigned to these lands in this proceeding. My best judgment, based on the evidence in this proceeding, and on a personal inspection of these lands, is that their present value is somewhere between \$10,000 and \$14,000 per acre. For the purpose of the present proceeding, I shall assign to them a value of \$12,500 per acre. If, in any subsequent proceeding, the Company still insists on a higher value, it will be accorded the opportunity to present additional evidence.

The filled tidelands are, of course, worth more than those which are submerged. Mr. George K. Weeks, President of

San Francisco-Oakland Terminal Railways, testified that filled tidelands are worth more than the value of submerged tidelands plus the cost of filling the same, and this is undoubtedly the case. In the present proceeding, the engineering department has allowed for the filled lands its estimated value of submerged tidelands plus the entire expense which has been incurred in filling them, which expense was abnormally high. In view of the fact that there are only a few acres of filled land and that the Commission is allowing, for the purposes of this proceeding, a value of \$2500 per acre for all of the submerged tidelands in excess of the value claimed by the Company in its report to this Commission less than two years ago, I am of the opinion that substantial justice will be done in this case by following with reference to filled lands the method pursued by the engineering department.

(b) FRANCHISES.

While the engineering department has dealt with the question of franchise values in connection with operative right of way, it will be desirable in this proceeding to discuss this item under a separate head.

The engineering department ascertained the consideration actually paid by San Francisco-Oakland Terminal Railway and its predecessors for their franchises, some 134 in number, and the advertising costs incurred in connection with those franchises as to which data on this subject were available. The department then applied the average known cost of advertising to all the franchises and added the total amount thus secured to the total consideration actually paid to the public for franchises. By adding to this total 5 per cent for cost of acquisition and 12 per cent for interest during construction, the department reached its total of \$110,340 for this item.

The company presented a tabulation in which a total of \$173,336.00 is claimed. The chief difference between this estimate and that of the engineering department lies in the fact that the Company, after ascertaining the average price paid for franchises in all cases in which records of payment could be discovered, applied this average price to all the franchises. This method seems inaccurate for the reason that in many cases no compensation was paid for the franchise. The engineering department made a careful examination of the public records of all political subdivisions which have granted franchises to San Francisco-Oakland Terminal Railway or its predecessors, in order to ascertain all sums of money paid for these franchises, and satisfied itself that the sum allowed by it represents the total of all moneys actually paid and this amount should stand.

After the Company had filed the Woodward real estate appraisal, in which no claim was made for the item about to be considered, and after Mr. Woodward had testified, the Company, apparently as an afterthought, presented a claim for at least \$3,100,000.00 for the rights granted to San Francisco, Oakland and San Jose Consolidated

Railway by Ordinance No. 3099 of the City of Oakland, adopted June 20, 1910.

This ordinance grants to San Francisco, Oakland and San Jose Consolidated Railway, its successors and assigns, "the right, privilege and franchise to construct and maintain for the term of fifty (50) years from the passage of this ordinance freight and passenger depots, engine houses, workshops, wharves, docks, slips, ferries, landing places and other terminal facilities and railroads" upon a strip of land 1000 feet wide in the Bay of San Francisco extending from the northern boundary line of the City of Oakland, as established by the Act of April 24, 1862, out to the United States Pierhead Line. This is the property on which the present "Key Route" Pier is located and is located entirely in the navigable waters of San Francisco Bay beyond the Low Tide Line of 1852.

Section 2 grants to the grantee the right, in common with others, for the term of 50 years, to use a fairway 1000 feet wide immediately north of the 1000 foot strip of land hereinbefore referred to, and also a fairway 1000 feet wide immediately south of said 1000 foot strip.

Section 3 establishes the line of ordinary low tide as of May 4, 1852, between the Oakland Mole operated by the Southern Pacific Company, and the northerly boundary line of the City of Oakland, which line marks the boundary between the lands of Oakland Terminal Company, lying adjacent to said line on the east and the submerged lands granted to the City of Oakland by the State of California in 1911, (Statutes 1911, p. 1258) lying adjacent to said line on the west.

Section 4 provides that the grantee shall reconvey to the City of Oakland all its right, title and interest in and to the rights and privileges to construct wharves, piers and docks along the westerly boundary line of the tidelands tract known as

the Key Route Basin, claimed to have been granted by the City of Oakland or the Town of Oakland to Horace W. Carpentier or the Oakland Water Front Company. The grantee likewise is to dedicate to the City of Oakland the lands necessary for the extensions of 7th Street, 14th Street, 22nd Street and 34th Street over and across the Key Route Basin lands to the Low Tide Line of 1852 and the submerged lands now owned by the City of Oakland, and to convey to the City of Oakland all its right, title and interest in and to all lands lying westerly of said Low Tide Line of 1852, and between said Oakland Mole and the northerly boundary line of the City of Oakland.

Section 5 provides that the rights conferred by the ordinance are granted on condition that the grantee shall within six months commence the exercise and enjoyment of the rights granted.

Section 6 provides that the grantee shall pay to the City of Oakland "as rent for the rights, privileges and franchises hereby granted" the sum of \$1000.00 in each and every year during the first 25 years of the term and the sum of \$2,000.00 in each and every year during the second 25 years of the term.

Section 7 provides that the earth and rock fills, moles, piers, wharves, docks, ferry slips and pile structures constructed or to be constructed upon said 1000 foot strip shall revert to the City of Oakland upon the expiration of the term of 50 years, and that the City of Oakland shall have the option within six months after expiration of said 50 year term to purchase the structures upon said fills, moles, piers and wharves.

Section 8 provides that the rights conferred by the ordinance shall not become effective unless the grantee shall file a written acceptance within 90 days.

Section 9 provides that the ordinance shall take effect from and after its final passage and approval.

After introducing a copy of this ordinance, the Company recalled Mr. Woodward. In response to questions from the Company's counsel, he testified that in view of the fact that the property is free from taxation "as real estate," as claimed by the Company, and that the rent is merely nominal, the property is "greater in value than the fee would be at the present time." He thereupon testified that the value of the rights conferred exceeds the sum of \$3,100,000.00 and the Company now claims this value.

I had supposed that these rights had been conferred upon the "Key Route" for the purpose of enabling the company to fulfill more economically and satisfactorily its duties to the public and not for the purpose of enabling the company later to turn around upon the public under whose generous grant it claims ^{these rights} and to insist on enormous values for these ^{same} rights against the public. If claims of this character can be successfully urged, the public, when it realizes the situation, will prefer to grant no further franchises to private utilities, but will quickly prepare to own and operate its own utilities.

Section 52 of the Public Utilities Act provides in part as follows:

"The commission shall have no power to authorize the capitalization of the right to be a corporation, or to authorize the capitalization of any franchise or permit whatsoever or the right to own, operate or enjoy any such franchise or permit, in excess of the amount (exclusive of any tax or annual charge) actually paid to the state or to a political subdivision thereof as the consideration for the grant of such franchise, permit or right."

Mr. Jared How, counsel for San Francisco-Oakland Terminal Railways in this proceeding, admitted that if the rights granted by Ordinance No. 3099 constitute a franchise, the Commission has no power to authorize their capitalization except as permitted in the foregoing extract from Section 52 of the Public Utilities Act. I refer to the following colloquy:

"Commissioner Thelen: You take the position that this is not a franchise?"

"Mr. How: I take the position that it is not a franchise; it is a grant of a right of way."

"Commissioner Thelen: I assume if you took the position it is a franchise, then under the provisions of Section 52 of the Public Utilities Act you could not expect the value of that franchise to be capitalized in a security application, that is, application for authority to issue stocks and bonds?"

"Mr. How: I think that the power of the Commission is plainly limited in that respect. I have never been satisfied that it ought to be, but I think it is plainly in the Public Utilities Act, and I should not question the action of the Commission, of course, in complying with the provisions of that. But I don't consider it to be a franchise, and the fact that it is called that, of course, cuts no figure."

Mr. How contends that the rights granted amount to a grant or lease and not a franchise. He presented no authorities in support of this position, but the claim was urged with much earnestness and requires consideration.

On May 4, 1852, the Legislature of California incorporated the Town of Oakland by an act entitled "An act to incorporate the Town of Oakland and to provide for the construction of wharves thereat." Section 1 described the boundaries of the town, the westerly boundary being "the line of ship channel." In City of Oakland vs. Oakland Water Front Company, 118 Cal. 160, the term "the line of ship channel" was held to mean the low tide line as it existed on May 4, 1852. See also Western Pacific Railway Company vs. Southern Pacific Company, 151 Fed. 376. Section 3 of the Act of May 4, 1852, provides that the town should have the power to construct and regulate wharves, docks, piers and slips and to authorize the construction of the same, and reads in part as follows:

"With a view to facilitate the construction of wharves and other improvements, the lands lying within the limits aforesaid between high tide and ship channel are hereby granted and released to said town, provided that said land shall be retained by said town as common property or disposed of for the purposes aforesaid."

The trustees of the new town promptly proceeded to deed the entire water front lands thus granted, to Horace W. Carpentier,

whose title after a number of ordinances and acts of the legislature was finally sustained in City of Oakland vs. Oakland Water Front Company, supra. The town also undertook to grant to Carpenter for the term of 37 years the exclusive right and privilege of constructing wharves, piers and docks at any point within the corporate limits of the town. The rights so conferred expired in 1889, at which time they reverted in toto to the City of Oakland.

That the lands covered by navigable waters within the several states belong to the states, primarily for the purpose of preserving and improving the public rights of navigation and fishery, is clearly established. (Illinois Central Railroad Company vs. Illinois, 146 U.S. 387; Oakland vs. Oakland Water Front Company, 118 Cal., 150, 183; Cimpher vs. City of Oakland, 162 Cal. 87; People vs. California Fish Company, 166 Cal. 576; People vs. Southern Pacific Railroad Company, 166 Cal., 514; Wheatley vs. Consolidated Lumber Co., 167 Cal. 441.)

The City of Oakland can have no rights in these navigable waters except to the extent that the State of California has actually conferred rights upon the city.

The only powers conferred upon the City of Oakland by the Act of May 4, 1852 with reference to wharves, docks, piers and slips were "to lay out, make, open, widen, regulate and keep in repair-----wharves, docks, piers and slips,----- and to authorize the construction of the same, and with a view to facilitate the construction of wharves and other improvements, the lands lying within the limits aforesaid, between high tide and ship channel, are hereby granted and released to said town, provided that said lands shall be retained by said town as common property, or disposed of for the purposes aforesaid;" and "to regulate and collect wharfage and dockage."

By Act of March 16, 1909 (Statutes 1909, p. 1320), the

Legislature approved certain amendments to the charter of the City of Oakland, which amendments were apparently in effect when Ordinance No. 3099 was adopted. Subdivision 52 of Section 31 of the charter, added to the charter at this time, gives the city power to provide for "the construction, maintenance and use of and on the water front of the City of Oakland, wharves, docks, slips, warehouses, railroads and all other necessary or desirable improvements;" also "to grant franchises as now or hereafter provided by law, and also for the construction and use of wharves, docks, slips, warehouses, railroads and railroad terminals on the water front."

By neither of the foregoing statutory provisions nor by any other statute which has come under my observation and which was in effect on June 20, 1910, did the State of California ever undertake to confer upon the City of Oakland the right to grant or even lease any part of the submerged lands belonging to the State. The only rights conferred in this respect were to wharf out, or to authorize others to wharf out, into the navigable waters of the State. This right, it is fundamental, can be exercised only by the sovereign or by consent from him, and clearly constitutes a franchise. The City of Oakland had no power on June 20, 1910 to confer upon the "Key Route" any rights in and over the submerged lands other than as specifically authorized by the State, and the State had authorized nothing further than the grant of the right to wharf out, clearly a franchise right. Hence I am of the opinion that the rights conferred by Ordinance No. 3099, in so far as material in this connection, assuming those rights to be valid, amounted only to a franchise or permit, as those words are used in Section 52 of the Public Utilities Act, and not in any sense a grant or lease. Accordingly this Commission is without jurisdiction to authorize their capitalization except to the extent authorized by Section 52 of the Public Utilities Act.

As heretofore stated, the Commission is herein seeking to make a finding on "the estimated cost in cash of acquiring the operative right of way and other operative real estate" and other property of the San Francisco-Oakland Terminal Railways. It is not to be presumed, even on the reproduction theory, that it would have cost more on June 30, 1914 to secure the rights granted by Ordinance No. 3099 than it cost on June 20, 1910. This brings me to an analysis of the consideration actually paid for these franchise rights.

The Company urges that a very material consideration was the grant by San Francisco, Oakland and San Jose Consolidated Railway to the City of Oakland, of all the grantor's rights west of the Low Tide Line of 1852. However, the Supreme Court of California (City of Oakland vs. Oakland Water Front Company, supra) and the Federal Circuit Court of Appeals for the Ninth Circuit (Western Pacific Railway Company vs. Southern Pacific Company, supra) had already decided that the title to the submerged lands west of the Low Tide Line of 1852 was in the State of California and not in the City of Oakland or any person holding under the City. Hence, although it was undoubtedly pleasant for both parties to escape litigation, I can find in this argument nothing on which to allow value in this proceeding.

It is ^{next} urged that the City benefited materially by having the Low Tide Line of 1852 (the boundary between the submerged lands now owned by the City and the lands of Oakland Terminal Company) definitely established. It is pointed out that this line could not be definitely marked out and that it was very desirable to the City that it be definitely established. This argument applies equally to the other party. It is impossible to say which party gave up or won the larger acreage, although such data as are available would seem to show that the City gave up more land than it received. The entire acreage as to which the

dispute existed was only a few acres in any event.

It is next urged that the "Key Route" agreed to construct valuable piers, wharves, and docks and that the City thus received a valuable consideration. The ordinance, however, confers upon the grantee the privilege to do these things and does not make it compulsory to do so.

The "Key Route", however, agreed to dedicate to the City over the tidelands of the "Key Route Basin" the necessary land for the extension of four streets, namely 7th, 14th, 22nd and 34th. This was clearly a valuable consideration moving to the City. Mr. Wells testified that the area to be dedicated is 12.86 acres. Based on the price paid by the Key Route for the 12 acre tract in the Key Route Basin hereinbefore referred to, in 1912, being \$3700 per acre, Mr. Wells estimated that the value of the consideration received by the City in this respect was \$47,582. While the Company draws attention to the fact that the 12 acre tract was not at the time of its purchase directly accessible over a public street, this is, of course, also true as to the lands which the Key Route agreed to dedicate to the City for streets. The item of \$47,582.00 should be added to the amount allowed by the engineering department under the head of franchises. Also, there should be added, due to an error made in estimating the cost of advertising the Company's franchise, the amount of \$3,857 plus 5% for contingencies, and 12% for interest.

For the remaining items included in account 2, Right of Way, I find the following values:

Leased Lands - Cost during construction period,	\$17,526.
Easements - Original cost to railway.....	470.
Street widening " " "	<u>116,192.</u>
Total,	\$ 134,188.

I find that the total reproduction cost, as this term has hereinbefore been defined, of the land accounts of San Francisco-Oakland Terminal Railways, based on the "reproduction cost" method which includes multiples, cost of acquisition, and interest during construction, and based on the method outlined by the Supreme Court of the United States in the Minnesota Rate Case, which eliminates multiples, cost of acquisition and interest during construction, is as follows:

	<u>Reproduction Cost</u>	<u>U. S. Supreme Court</u>
<u>Operative Property</u>		
Acct. 2, Right of Way	\$2,087,733.	\$1,468,210.
" 3, Other Lands	1,119,198.	865,181.
<u>Non-Operative Property</u>		
Acct. 2, Right of Way	619,833.	619,833.
" 3, Other Lands	1,666,084.	1,666,084.
Oakland Terminal Co.	<u>3,886,625.</u>	<u>3,886,625.</u>
Totals,	\$9,379,473.	\$8,505,933.

(c) OTHER ACCOUNTS.

As a result of the conferences held between the Commission's engineers and the Company's engineers, the Commission's engineers have now recommended that the sum of \$678,060.46 be added under the head of reproduction cost to their original estimate under the accounts (exclusive of I.C.C. accounts 1 and 2).

shown on Exhibit A under the head of reproduction cost. This allowance is the result of more detailed information as to quantities as well as increased unit prices in certain cases.

At the hearing of April 20, 1915, it appeared from the statement of Mr. Augustus S. Kibbe, the Company's valuation engineer, who handled all the accounts for the company except the land accounts, that a complete agreement had finally been reached between him and the Commission's engineers except on five items of physical property and the overhead percentages. I shall now discuss these remaining points of difference.

Mr. Kibbe desired that further consideration be given to the question of grading quantities on the Sacramento and California Street lines. This has now been done and certain additional allowances have been made by the engineering department. A comparison, including all adjustments, between the engineering department's original report and its revised report is as follows:

	<u>Reproduction Cost.</u>
Grading - original report	\$1,258,871.00
Grading - revised report	<u>1,357,701.00</u>
Total addition to original report, - - - - -	-\$ 98,830.00

7. Mr. Kibbe was of the opinion that certain adjustments were still necessary in the ballast account. The engineering department has given further consideration to this item and has increased its additional allowance from \$73,520.00, testified to at the hearing, to \$78,619.00. The department increased its unit price for ballast and also reached an agreement with Mr. Kibbe on the sources and the methods and rates for haul, resulting in an increased allowance for haul. Certain additions in quantities were also made.

Mr. Kibbe further asked an allowance for certain extraordinary expenses under the head of paving, being \$3,393.00 additional cost of paving, on the Claremont line, and \$3,927.00

on the West 14th Street line and \$3,450.00 on the 23rd Avenue line in cases in which a narrow gauge double track was replaced by a single gauge standard track, necessitating repaving. The engineering department's estimate is based on the reproduction of the property as it existed on June 30, 1914, and hence no allowance was made for these items. If original cost were taken as the basis, there would be an increase of \$10,770.00 in this account, with reductions amounting to several million dollars in the land accounts. The engineering department has increased its allowance for this account, for other reasons, from \$1,599,273.00 testified to at the hearing, to \$1,562,108.00.

Mr. Kibbe testified that his records showed 50,000 square feet more of paving in crossings than was allowed by the engineering department. Such adjustment as further investigation showed to be necessary has been made by the engineering department and the amount allowed under this account has been increased from \$166,320. testified to at the hearing, to \$167,327.

Mr. Kibbe further asked that an ^{additional} allowance of \$4,359.00 be made for power plant equipment, on the piecemeal construction theory. The engineering department made its estimate on the basis of reproduction as a whole in the present condition of the building. Certain minor changes have been made by the department, increasing the additions from \$34,440.91, testified to at the hearing, to \$38,430.24, an increase of \$3,989.33.

Finally, Mr. Kibbe ~~xxx~~ asked that additional allowance be made under the head of overhead percentages.

He asked that the allowance for contingencies be increased from an average of 4.25 per cent to an average of 6.68 per cent of the accounts on which contingencies must be allowed. In passing on this request, I bear in mind the fact that the Company's construction records were not efficiently kept, that it had no

complete inventory of its property and that it has taken the combined labors of the Commission's engineers and the Company's engineers over a number of months to secure an inventory and appraisal which have finally been practically agreed upon as to physical structures. The difficulty of securing the necessary information from the books of the company renders of but little value in this proceeding the appraisals of Gibbs and Hill, W. A. Cattell and J. G. White & Co., which were apparently based largely on information supplied by officials of the company who did not have accurate knowledge of the property and are unsupported by the necessary details. The same lack of information from the records of the Company has resulted in the increase of \$678,060.46 over its original estimate of reproduction cost, now conceded by the engineering department. While this amount is less than 3 per cent of the reproduction cost of the entire property, as originally estimated by the engineering department, and less than 4 per cent of the reproduction cost of the entire property less real estate, as originally estimated, it is nevertheless a substantial amount and a distinct reflection of the unsatisfactory conditions under which the engineering department's inventory and appraisal were begun. While it may be urged that by reason of the thorough combing over which the inventory in this proceeding has had during the last few months, practically all the property has now been accounted for, I am mindful of Mr. Kibbe's view that the inventory is still incomplete. In order to be certain that the Commission is doing full justice to the Company, I shall recommend that the allowance for contingencies, on the special facts of this proceeding, be increased 25 per cent over the allowance made by the engineering department.

Mr. Kibbe asked that the allowance for engineering be increased from 5 to 7 per cent on accounts 4 to 33 and that an allowance of 2 per cent be made on certain additional accounts. An analysis of the moneys expended by the Company during the years 1910 to 1914, inclusive, for engineering on construction work, as

presented by Mr. Kibbe, shows an average of 5.01 per cent. On the showing made, I am satisfied to let the 5 per cent allowed by the engineering department on the entire work stand.

I have already discussed the Company's claim to an allowance of 7 per cent instead of 6 per cent for interest during construction, and it is unnecessary to repeat the discussion here.

At the hearing on April 20, 1915, the engineering department proposed a decrease of \$36,262.00 in the item of culverts constructed in public streets. Such culverts, like pavement in the public streets, belong to the public. The engineering department was willing to allow such expenditures as had actually been incurred by the Company on such culverts but stated that it had not been convinced that the Company had paid for culverts any sum in excess of \$20,588.00. The Company presented testimony to show that it nearly always pays for culverts under its tracks in the public streets. Further conferences between the engineers have resulted in a recommendation from the engineering department that an allowance of \$58,027.00 be made for culverts, under reproduction cost. This allowance will be made.

After careful consideration of all the evidence presented in this case, I find that the reproduction cost, as that term has hereinbefore been defined, of the operative property of San Francisco-Oakland Terminal Railways, as of June 30, 1914, allowing multiples, cost of acquisition and interest during construction on land, is the sum of \$20,354,746.82. If multiples, cost of acquisition and interest during construction are not allowed on land, the reproduction cost of the operative property is the sum of \$19,481,206.82.

These totals, as well as those found under the head of reproduction cost less depreciation, include allowances for the Key Route Pier, which is being displaced by the fill and also full allowance for the Yerba Buena power station, although it has been leased for a nominal sum.

If the reproduction cost of the non-operative property, found to be \$6,558,118.38, is added to the foregoing sums, the total reproduction cost of the property, both operative and non-operative, of San Francisco-Oakland Terminal Railways and of Oakland Terminal Company, as of June 30, 1914, is found to be \$26,912,865.20, if multiples, cost of acquisition and interest during construction are allowed on operative lands, and \$26,039,325.20 if these items are not allowed.

6. REPRODUCTION COST LESS DEPRECIATION.

The Company submitted no estimate of the reproduction cost less depreciation, claiming that a finding under this head would not be of value and that reproduction cost alone should be considered. That the Company's property is physically 100 per cent perfect is, of course, not true. The Commission will make its findings under this head, as usual, based on the straight line method of depreciation, modified, when necessary, by the results of inspection.

The corrections necessary in the engineering department's estimate, due to changes in the estimate for reproduction cost, will be found in the appropriate column in Exhibit "B" attached hereto.

I find that the reproduction cost less depreciation, as that term has hereinbefore been defined, of the operative property of San Francisco-Oakland Terminal Railways, as of June 30, 1914, allowing multiples, cost of acquisition and interest during construction on land, is the sum of \$17,314,213.30. If multiples, cost of acquisition and interest during construction are now allowed on land, the reproduction cost less depreciation of the operative property is the sum of \$16,440,673.30.

If the reproduction cost less depreciation of the non-operative property of San Francisco-Oakland Terminal Railways,

including the property of Oakland Terminal Company,
found to be \$6,327,680.00 is added to the
foregoing sums, the total reproduction cost less depreciation of
the property, both operative and non-operative, of San Francisco-
including the property of Oakland Terminal Company,
Oakland Terminal Railways, as of June 30, 1914, is found to be
\$23,641,893.30, if multiples, cost of acquisition and interest
during construction are allowed on operative lands, and
\$22,768,353.30 if these items are not allowed.

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 24th day of
May, 1915.

Max Shelen
W. H. ...
...
Edwin O. Edgerton
Frank ...

Commissioners.

Owning Company San Francisco-Oakland Terminal Ry.

Operating Company San Francisco-Oakland Terminal Ry. FORM No. 49.

Operating Division _____

Valuation Unit Entire System

From _____

To _____

County Alameda Contra Costa

and San Francisco

CALIFORNIA RAILROAD COMMISSION

PHYSICAL VALUATION OF ELECTRIC RAILROADS

FINAL SUMMARY SHEET

Valuation as of June 30, 1914

EXHIBIT "A"

Submitted with Report of _____

Richard Sachse, Chief Engineer

Date compiled December, 1914

Main Line 1st Track 144.93 Mi.

do Line 2d Track 90.36 Mi.

Yard Tracks, Sidings, etc. 21.96 Mi.

Total 257.27 Mi.

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE	Cond. per ct.	PRESENT VALUE
40		1	Engineering		490 064 18	100	490 064 18
1	1	2	Right of way		1 698 268 00	100	1 698 268 00
2	2	3	Other land used in electric ry. operations		979 189 00	100	979 189 00
3	3	4	Grading		1 258 871 00	101	1 270 913 00
4	4	5	Ballast		557 335 00	100	557 335 00
5	5	6	Ties		412 773 00	59	244 193 00
6	6	7	Rails		1 200 426 00	65	785 150 00
7	7	7	Track fastenings and joints		293 871 00	73	212 807 00
8	8	8	Special work		349 756 00	95	277 701 00
9	9	8	Frogs and switches		25 537 00	73	18 742 00
10	10	9	Underground construction				
11	11	10	Paving		1 466 653 00	84	1 232 146 00
12	12	11	Tracklaying and surfacing		741 404 00	78	574 956 00
13	12	12	Roadway tools		33 029 00	86	27 446 00
14	14	13	Tunnels				
15		14	Elevated structures and foundations				
16	15	15	Steel bridges and trusses				
17	16	15	Pile and frame trestles		5 643 00	60	3 391 00
18	17	16	Culverts		56 850 00	94	53 346 00
19	18	16	Fences and cattle guards		585 00	87	507 00
20	19	16	Crossings and signs		153 120 00	83	127 488 00
21	20	17	Interlocking plants		69 962 00	79	55 213 00
22	21	17	Signal apparatus		58 182 00	89	51 901 00
23	22	18	Telegraph and telephone lines		2 140 42	79	1 687 58
24	23	19	Poles and fixtures		480 205 61	78	373 502 63
25	24	20	Underground conduits				
26	25	21	Transmission system				
27	26	22	Distribution system		695 120 05	82	569 183 11
28	27	23	Dams, canals and pipe lines				
29	28	24	Power plant buildings		94 124 33	78	73 101 52
30	29	25	Sub-station buildings		7 251 20	95	6 888 64
31	30	26	General office buildings		42 176 59	91	38 369 99
32	31	27	Shops and car houses		229 827 24	80	183 844 94
33	32	28	Stations and waiting rooms		105 489 24	80	83 966 55
34	33	28	Miscellaneous buildings		49 422 17	91	44 755 00
35	34	29	Docks and wharves		443 267 93	52	232 346 86
36	35	30	Power plant equipment		740 885 67	76	564 450 19
37	36	31	Sub-station equipment		60 920 00	89	51 054 00
38	37	32	Shop equipment		166 466 00	76	127 199 28
39	38	33	Park and resort property				
41		34	Cost of road purchased				
42		42	Injuries and damages		71 851 57	100	71 851 57
43	39	35	Cars		1 655 788 90	75	1 243 719 77
44	40	35	Freight train cars				
45	41	36	Steam locomotives				
46	42	36	Electric locomotives		3 270 43	83	2 747 16
47	43	37	Electric equipment of cars		1 093 870 29	74	802 537 70
48	44	38	Other rail equipment		82 502 96	79	65 279 87
49	45	39	Miscellaneous equipment		1 243 532 88	78	974 967 66
50		40	Law expenses		245 032 08	100	245 032 08
51	46	43	Taxes		69 401 24	100	69 401 24
52	46	44	Miscellaneous		368 914 95	100	368 914 95
53		41	Interest		907 530 77	100	907 530 77
55	47		Stores and supplies on hand for use in Calif.		248 781 00	100	248 781 00
GRAND TOTAL					18 959 281 70	84	16 011 870 44
Average per mile for main track					80 571 51	84	68 045 85
Total, "Road," I.C.C. Accounts 1-34 (Incl.)					12 965 804 63	85	11 011 107 67
Total, "Equipment," " " 35-39 " "					4 078 965 46	76	3 089 251 16
Total, "General," " " 40-44 " "					1 662 730 61	100	1 662 730 61
Total, Non-Operative Property (not included in above totals)					4 564 077 24	94	4 334 844 51
Total Land Operative & Non-operative					6 857 926 00	100	6 857 926 00

Owning Company SAN FRANCISCO OAKLAND TERMINAL R.R.

Operating Company SAN FRANCISCO OAKLAND TERMINAL R.R. FORM No. 49.

Operating Division _____

Valuation Unit Entire System

From _____

To _____

County Alameda, Contra Costa and San Francisco

CALIFORNIA RAILROAD COMMISSION

PHYSICAL VALUATION OF ELECTRIC RAILROADS

FINAL SUMMARY SHEET

Valuation as of June 30, 1911

EXHIBIT "B"

Submitted with Report of _____

Richard Sachse, Chief Engineer

Date compiled May 17, 1915

Main Line 1st Track 144.93 MI.

Main Line 2d Track 99.33 MI.

Yard Tracks, Sidings, etc., 77.96 MI.

Total 257.27 MI.

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE	Cond. per cent.	PRESENT VALUE
40		1	Engineering		521,836.00	100	521,836.00
1	1	2	Right of way		2,087,733.00	100	2,087,733.00
2	2	3	Other land used in electric ry. operations		1,119,192.00	100	1,119,192.00
3	3	4	Grading		1,388,216.00	102	1,415,981.00
4	4	5	Ballast		647,599.00	100	647,599.00
5	5	6	Ties		415,186.00	59	245,632.00
6	6	7	Rails		1,229,149.00	65	804,306.00
7	7	7	Track fastenings and joints		310,376.00	73	226,217.00
8	8	8	Special work		358,445.00	79	284,474.00
9	9	8	Frogs and switches		25,841.00	73	18,965.00
10	10	9	Underground construction				
11	11	10	Paving		1,580,704.00	84	1,320,967.00
12	12	11	Tracklaying and surfacing		787,317.00	78	610,757.00
13	13	12	Roadway tools		33,231.00	83	27,613.00
14	14	13	Tunnels				
15		14	Elevated structures and foundations				
16	15	15	Steel bridges and trusses		8,052.93	92	7,408.71
17	16	15	Pile and frame trestles		14,125.00	78	11,008.00
18	17	15	Culverts		58,718.00	92	53,949.00
19	18	16	Fences and cattle guards		845.00	79	671.00
20	19	16	Crossings and signs		169,249.00	84	142,191.00
21	20	17	Interlocking plants		70,934.00	79	55,908.00
22	21	17	Signal apparatus		58,710.00	89	52,381.00
23	22	18	Telegraph and telephone lines		2,165.90	79	1,707.67
24	23	19	Poles and fixtures		509,736.84	78	396,711.41
25	24	20	Underground conduits				
26	25	21	Transmission system				
27	26	22	Distribution system		763,440.91	82	622,233.52
28	27	23	Dams, canals and pipe lines				
29	28	24	Power plant buildings		98,711.92	78	77,159.56
30	29	25	Sub-station buildings		7,295.42	95	6,930.64
31	30	26	General office buildings		42,433.77	91	38,603.95
32	31	27	Shops and car houses		237,180.22	80	189,250.88
33	32	28	Stations and waiting rooms		106,132.46	80	84,478.43
34	33	28	Miscellaneous buildings		49,713.46	91	45,027.90
35	34	29	Docks and wharves		454,678.14	53	241,020.00
36	35	30	Power plant equipment		779,127.20	76	594,719.56
37	36	31	Sub-station equipment		61,334.25	84	51,406.75
38	37	32	Shop equipment		168,066.75	76	128,422.19
39	38	33	Park and resort property				
41		34	Cost of road purchased				
42		42	Injuries and damages		75,581.00	100	75,581.00
43	39	35	Cars		1,710,896.89	75	1,295,157.73
44	40	35	Freight train cars				
45	41	36	Steam locomotives				
46	42	36	Electric locomotives		3,286.46	84	2,760.63
47	43	37	Electric equipment of cars		1,101,957.11	73	808,795.45
48	44	38	Other rail equipment		94,806.26	80	75,954.37
49	45	39	Miscellaneous equipment		1,246,610.93	78	977,380.95
50		40	Law expenses		260,918.00	100	260,918.00
51	46	43	Taxes		72,971.00	100	72,971.00
52	46	44	Miscellaneous		388,139.00	100	388,139.00
53		41	Interest		954,823.00	100	954,823.00
55	47		Stores and supplies on hand for use in Calif.		279,275.00	100	279,275.00
GRAND TOTAL					20,354,746.82	85	17,314,213.30
Average per mile for main track					86,501.82	85	73,580.44
Total, "Road," I.C.C. Accounts 1-34 (Inc.)					14,165,482.17	86	12,132,457.17
Total, "Equipment," " " " 35-39 " "					4,157,557.65	76	3,150,049.13
Total, "General," " " " 40-44 " "					1,752,432.00	100	1,752,432.00
Total, Non-Operative Property (not included in above totals)					6,553,118.38	96	6,327,620.00
Total Operative & Non-Operative Property					26,912,865.20	88	23,641,293.30
Total Land - Operative and Non-Operative					9,379,473.00	100	9,379,473.00