

ORIGINAL

Decision No. 2957

Decision No. _____.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of ascertaining the)
value of the property of the)
GLENDALE AND MONTROSE RAILWAY.)
.....)

Case No. 765.

Loveland, Commissioner,

OPINION AND FINDINGS

This proceeding was brought on the Commission's own initiative for the purpose of ascertaining various elements entering into the value of the property of the Glendale and Montrose Railway. For the general procedure in these valuation cases and for a general description of the work performed by this Commission's engineering department, reference is hereby made to the Commission's opinion and findings in Case No. 206, being the matter of ascertaining the value of the property of the Stockton Terminal and Eastern Railroad Company, and Case No. 210, being the matter of ascertaining the value of the property of the Tonopah and Tidewater Railroad Company.

These valuations were undertaken under section 20 of the Stetson-Eshleman Act, effective February 10, 1911, and continued under the provisions of the Public Utilities Act, effective March 23, 1912. The sections of the Public Utilities Act particularly applicable to this proceeding are sections 47 and 70. As is usual in these cases, the Commission will make findings of fact on specified elements bearing on the question of the value of this property, as shown by the evidence in this case, but will not make a finding on the question of the ultimate value of the property, irrespective of the purpose for which the value is ascertained.

I shall, in connection with this particular inquiry, consider the following matters:

1. Organization, construction and operation.
2. Stocks and bonds.
3. Revenues and expenses.
4. Original Cost, as defined.
5. Reproduction Cost, as defined.
6. Reproduction Cost Less Depreciation, as defined.

It seems desirable to first define the three elements of value which we propose to find:

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

The term "Reproduction Cost" means the estimated cost in cash of reproducing, in the condition (new or second-hand) in which it was acquired, the physical property of the public utility in the state of California, as of the date of valuation, to which is added the value of all operative lands, based on the market value of adjacent and similar lands, the actual or estimated cost of acquiring franchises and the estimated cost of overhead expenditures for engineering, law, interest and similar items.

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

In accordance with this Commission's order dated February 8, 1915, the Glendale and Montrose Railway on April 6, 1915 filed an inventory and appraisal of its property, together with a statement of original cost and an estimate of its reproduction cost and reproduction cost less depreciation. This inventory and appraisal was not submitted as of a fixed date, but as later developed, was made as of about March 31, 1915. The totals, as shown in the company's report, were subsequently modified by certain additions, as shown in the company's letter to the Commission of May 22, 1915. A copy of the company's summary sheet including these changes is attached hereto and marked Exhibit "A".

On July 8, 1915 the Commission's engineering department submitted to the Commission its detailed valuation report of the property of the Glendale and Montrose Railway, as of March 31, 1915, a copy of which was furnished to the company, and a hearing in this case was held September 23, 1915. Previous to this hearing the company had advised the Commission by letter that the values of the physical properties, as ascertained by the engineer-

ing department and shown in its report, were accepted. This letter was read into the record, and the case submitted.

1. Organization, construction and operation.

The Glendale and Montrose Railway is the successor to the Glendale and Eagle Rock Railway Company. The latter company was organized and incorporated April 14, 1909, with a capital stock of 250 shares at a par value of \$100, or a total par value of \$25,000. The company at the same time authorized an issue of first mortgage, 25-year, six percent gold bonds to the amount of \$25,000.

The Glendale and Eagle Rock Railway Company was organized to construct and operate an electric railroad, and soon after its incorporation the construction of the road was started and the main line from Brand Boulevard to Third Street in Glendale and the branch line from Glendale to Eagle Rock were completed.

In March, 1910, the main line was extended from Third Street to Opechee Way, approximately $2\frac{1}{2}$ miles north of Glendale. In March, 1913, the construction was again resumed and the main line completed to Los Angeles Avenue in the town of La Crescenta. This gave the road an aggregate mileage of 6.823 miles main line of track and 2.072 miles branch line, or a total of 8.895 miles, all of which lies within Los Angeles County. Commencing in August, 1913, the main line was reconstructed as a broad gauge road. At the same time the overhead construction was rebuilt with longer poles, heavier trolleys, and a sub-station with a 350 K.W. motor generator set was erected.

The road is of cheap construction, and in general poorly maintained, although both the construction and maintenance appear to be commensurate with the operating requirements. The company owns three double track passenger cars, equipped with air-brakes, and one single passenger car, all used on the standard gauge track and all purchased second-hand. The freight equipment consists of a motor and two flat cars. The equipment used on the narrow gauge line to Eagle Rock is leased from the Los Angeles Railway Corpora-

tion. The power is purchased at Eagle Rock through meters from the Pacific Light and Power Company, and at Montrose Substation from the Southern California Edison Company.

The company operates a single passenger car, eighteen round trips each day between Glendale and La Crescenta, and a narrow gauge car leased from the Los Angeles Railway Corporation, fifteen round trips daily between Glendale and Eagle Rock. Freight service depends entirely upon the demand and is rendered only on the broad gauge track between Glendale and La Crescenta.

2. Stocks and Bonds.

This company has outstanding \$25,000 capital stock and \$25,000 first mortgage, 25-year, six percent gold bonds. All shares of the capital stock, with the exception of two qualifying directors' shares, are owned by the present president of the company.

The Glendale and Montrose Railway, although successor to the old Glendale and Eagle Rock Railway Company, is not an entirely new company. The bonds of the latter company are still outstanding, although in March, 1914, the name of the corporation was changed to Glendale and Montrose Railway.

The company being unable to meet operating expenses and make the necessary extensions at various times, the president was compelled to advance the necessary cash, and equipment and material were purchased for which notes were given. This resulted in numerous small debts which, as shown by the company's annual report of June 30, 1915, amounted to \$107,993.56. No dividends have ever been paid by this company.

3. Revenues and Expenses.

The revenue of this company is derived almost entirely from the passenger traffic between Glendale and Eagle Rock and Glendale and La Crescenta, which, for the year ending June 30, 1915, amounts to 89% of the total operating revenue. This road was built for the purpose of promoting real estate in this community, and, considered as a railroad project, has never been a

financial success.

The revenue and expenses for the year ending June 30, 1915 appear in the company's annual report on file with this Commission, as follows:

OPERATING REVENUE

	Year ending June 30, 1915
Passenger revenue	\$ 16,477.65
Freight revenue	1,882.12
Mail revenue	174.97
Miscellaneous revenue	<u>12.50</u>
Total Operating Revenue	\$ 18,547.24

OPERATING EXPENSES

Maintenance of Way and Structures....	\$ 1,119.28
Maintenance of Equipment	1,261.34
Maintenance of Power	9,054.91
Conducting Transportation	9,582.93
Conducting Traffic	258.85
General and Miscellaneous	<u>5,401.58</u>
Total Operating Expenses	\$ 26,678.89
Operating Deficit	\$ 8,131.65

It will be noted that the result is a net operating deficit of \$8,131.65, with an operating ratio of 143.48%. Adding to this loss certain items of taxes, the gross operating loss for the fiscal year ending June 30, 1915 is increased to a total of \$9,389.46.

Below are the principal traffic figures for the year ending June 30, 1915, as taken from the company's annual report to this Commission:

Number of passengers carried earning revenue	263,970
Passenger revenue	\$16,477.65
Average fare revenue passengers06242
Total revenue from transportation	\$18,534.74
Revenue from transportation per car mile12486
Total operating revenue	\$18,547.24
Operating revenue per car mile12495
Total operating expense	\$26,678.89
Operating expense per car mile17973

The financial and operating conditions of this property, as here shown, clearly indicate that the cost or the reproduction cost, or the reproduction cost less depreciation, as found by the Commission's engineering department and shown hereunder, cannot

possibly be considered as the ultimate or fair value of this railroad for any purpose. These estimates in this instance are merely elements to be taken into consideration by the Commission in any proceeding where the value of the property becomes relevant. It is perhaps well to point out that these figures actually have been put to such use in a security and rate case before the Commission.

4. Original Cost.

The company in its report showed the total original cost of this road to be \$163,927.60. To this total certain items were added, as per the company's letter heretofore referred to, which results in a new total of \$176,888.02, as shown in Exhibit "A".

This statement, however, could not be verified, due to the poor condition in which the company's records were found.

The original cost was not ascertained by the engineering department, it being impossible to determine this item in accordance with the definition of that term.

5. Reproduction Cost.

The reproduction cost estimate submitted by the railway company amounted to the sum of \$216,578.03, to which certain items were added, as per the company's letter of May 22, 1915, giving a corrected total of \$229,915.46 (see Exhibit "A"). The engineering department in its valuation report finds this cost to be the sum of \$204,350.54, being a decrease from that of the company's figure of \$25,564.92. The reasons for this difference are explained in detail in the report of the engineering department to the Commission, to which reference is hereby made. The engineering department also found the reproduction cost of this company's non-operative property to be the sum of \$1,625.11, or a total for both operative and non-operative property of \$205,975.65, as shown in Exhibit "B".

As hereinbefore stated, the company made no objection to the reproduction cost as determined by the Commission's engineering department.

In the Minnesota Rate Case, 230 U.S., 352, the Supreme Court of the United States has dealt with the question of land values, and Justice Hughes, on page 455, expresses the unanimous view of the court as follows:

"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. We therefore hold that it was error to base the estimates of value of the right of way, yards and terminals upon the so-called 'railway value' of the property. The company would certainly have no ground of complaint if it were allowed a value for these lands equal to the fair average 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 a 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 the lands the further sums, calculated on that value, which were embraced in the items of 'engineering, superintendence, legal expenses', 'contingencies' and 'interest during construction'."

This language of the Supreme Court clearly rejects the so-called multiple theory, and it is not considered necessary to enter into a further discussion of the valuation principles involved. This Commission is making findings of certain facts and elements entering into the value of this property, and it is sufficient to say that in the estimate of the reproduction cost of this railway, the rights of way and other lands used in electric railway operations, are valued in accordance with the definition shown hereinbefore and on the basis of the present market value of adjoining and similar lands, without any arbitrary additions of multiples or other allowances.

I find, therefore, that the reproduction cost, as that term has hereinbefore been defined, of the operative property of the Glendale and Montrose Railway, as of March 31, 1915, is the sum of \$204,350.54, and the reproduction cost of the non-operative property is the sum of \$1,625.11, resulting in a total for both operative and non-operative properties of \$205,975.65.

6. Reproduction Cost Less Depreciation.

Reproduction cost less depreciation, as reported by the company, amounted to the sum of \$220,565.60. Certain additions were made by the engineering department, as per the company's letter of May 22, 1915, resulting in a corrected total for the reproduction cost less depreciation of \$235,435.68, as shown by Exhibit "A". The same item as ascertained by the engineering department in its valuation report to the Commission, amounted to the sum of \$189,408.63, being a decrease from that of the company's figure of \$46,027.05. The reason for this difference is explained in detail in the report of the Commission's engineering department, to which reference is hereby made. The department also found the reproduction cost less depreciation of the company's non-operative property to be the sum of \$1,592.98, or a total for both operative and non-operative property of \$191,001.61 as shown in Exhibit "B".

What has been said under the heading "reproduction cost" regarding the value of lands also applies to the reproduction cost less depreciation, and the amounts determined for these items under the heading "reproduction cost" are allowed for the reproduction cost less depreciation. As before stated, land values are now based upon the present market value of adjoining and similar lands and eliminate all additional arbitrary percentage allowances.

I find, therefore, that the reproduction cost less depreciation, as that term has hereinbefore been defined, of the operative property of the Glendale and Montrose Railway, as of March 31, 1915, is the sum of \$189,408.63, and the reproduction cost less depreciation of the non-operative property amounts to

\$1,592.98, resulting in a total for both operative and non-operative property of \$191,001.61.

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 4th day of December, 1915.

Max Thelen

H. H. Overland

W. G. ...

Frank R. Dewey

Commissioners.

Owning Company Glendale and Montrose Railway

FORM No. 49.

Submitted with Report of

Operating Company do

CALIFORNIA RAILROAD COMMISSION

Company

Operating Division Entire Line

PHYSICAL VALUATION OF ELECTRIC RAILROADS

Date compiled _____, 191__

Valuation Unit do

Line 1st Track _____ MI.

From Glendale

Line 2d Track _____ MI.

To La-Crescenta and Eagle Rock

Valuation as of June 30, 191__

Yard Tracks, Sidings, etc., _____ MI.

County Los Angeles

Total _____ MI.

FINAL SUMMARY SHEET

EXHIBIT 1

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION VALUE Cost	Cond. per ct.	Repro. Cost	
							Less Depr.	Net
40		1	Engineering					
1	1	2	Right of way	15 961 50	52 814 00	128	67 294 00	00
2	2	3	Other land used in electric ry. operations	1 800 00	2 070 00	145	3 000 00	00
3	3	4	Grading	12 451 67	12 451 67	112	13 984 32	
4	4	5	Ballast					
5	5	6	Ties	15 941 50	15 437 60	88	13 569 55	
6	6	7	Rails	28 833 38	28 833 38	93	26 940 16	
7	7	7	Track fastenings and joints	6 094 87	6 094 87	99	6 013 97	
8	8	8	Special work	1 177 01	1 292 00	96	1 240 66	
9	9	8	Frogs and switches	1 172 24	1 172 24	98	1 150 15	
10	10	9	Underground construction					
11	11	10	Paving	5 260 40	5 287 61	100	3 287 61	
12	12	11	Tracklaying and surfacing	37 003 60	37 003 60	100	37 003 60	
13	13	12	Roadway tools	380 65	380 65	94	358 20	
14	14	13	Tunnels					
15		14	Elevated structures and foundations					
16	15	15	Steel bridges and trusses					
17	16	15	Pile and frame trestles	5 301 10	5 301 10	95	5 058 50	
18	17	15	Culverts	508 05	508 05	100	508 05	
19	18	16	Fences and cattle guards					
20	19	16	Crossings and signs	45 10	45 10	94	42 50	
21	20	17	Interlocking plants					
22	21	17	Signal apparatus					
23	22	18	Telegraph and telephone lines					
24	23	19	Poles and fixtures	8 921 71	8 921 71	93	8 270 51	
25	24	20	Underground conduits					
26	25	21	Transmission system					
27	26	22	Distribution system	14 058 10	14 857 24	97	14 387 82	
28	27	23	Dams, canals and pipe lines					
29	28	24	Power plant buildings					
30	29	25	Sub-station buildings	1 057 00	1 500 00	85	1 250 00	
31	30	26	General office buildings					
32	31	27	Shops and car-houses					
33	32	28	Stations and waiting rooms	471 00	471 00	100	471 00	
34	33	28	Miscellaneous buildings	210 00	250 00	84	210 00	
35	34	29	Docks and wharves					
36	35	30	Power plant equipment	8 150 00	13 205 00	83	11 003 00	
37	36	31	Sub-station equipment					
38	37	32	Shop equipment					
39	38	33	Park and resort property	790 43	872 93	93	813 00	
41		34	Cost of road purchased					
42		42	Injuries and damages					
43	39	35	Cars	6 000 00	10 500 00	75	7 875 00	
44	40	35	Freight train cars	450 00	1 600 00	50	800 00	
45	41	36	Steam locomotives					
46	42	36	Electric locomotives	500 00	1 500 00	67	1 000 00	
47	43	37	Electric equipment of cars					
48	44	38	Other rail equipment	185 00	500 00	70	350 00	
49	45	39	Miscellaneous equipment					
50		41	Interest Interest	1 357 49	1 357 49	100	1 357 49	
51	46	43	Taxes	145 29	145 29	100	145 29	
52	46	44	Miscellaneous	567 90	805 90	85	680 25	
53		41	Interest					
55	47		Stores and supplies on hand for use in Calif.	6 113 03	6 741 03	100	6 741 03	
GRAND TOTAL				176 888 02	229 915 46	102	255 435 68	
Average per mile for main track				21 332 00	27 727 00		28 593 00	
Total, "Road," I.C.C. Accounts 1-34 (Inc.)				161 569 31	206 767 75	105	216 486 62	
Total, "Equipment," " " 35-39 "				7 155 00	14 100 00	71	10 025 00	
Total, "General," " " 40-44 "				2 070 68	2 306 68	95	2 183 03	
Total, Non-Operative Property (not included in above totals)								
Total, Operative and Non-Operative Properties				176 888 02	229 915 46	102	255 435 68	

Owning Company Glendale & Montrose Railway

FORM No. 49.

Submitted with Report of H.G. Weeks

Operating Company Glendale & Montrose Railway

Assistant Engineer

Operating Division Entire Line

Date compiled May 10, 1915

Valuation Unit do

CALIFORNIA RAILROAD COMMISSION
PHYSICAL VALUATION OF ELECTRIC RAILROADS

From Glendale

FINAL SUMMARY SHEET

To La. Crescenta and Eagle Rock

Valuation as of March 31, 1915

County Los Angeles

Main Line 1st Track 6.22 MI.

Branch Line 1st Track 2.072 MI.

Yard Tracks, Sidings, etc., .603 MI.

Total 8.895 MI.

EXHIBIT B

Class No.	Form No.	I.C.C. Acct. No.	CLASSES	ORIGINAL COST	REPRODUCTION COST	Cond. per ct.	Repr. Cost Less Depr.
40	--	1	Engineering		5 804	00 100	5 804 00
1	1	2	Right of way		51 067	00 100	51 067 00
2	2	3	Other land used in electric ry. operations		1 800	00 100	1 800 00
3	3	4	Grading		14 212	00 102	14 464 00
4	4	5	Ballast		2 126	00 100	2 126 00
5	5	6	Ties		13 380	00 70	9 402 00
6	6	7	Rails		27 515	00 84	23 061 00
7	7	7	Track fastenings and joints		5 520	00 75	2 479 00
8	8	8	Special work		1 590	00 91	1 447 00
9	9	8	Frogs and switches		947	00 90	853 00
10	10	9	Underground construction				
11	11	10	Paving		5 236	00 95	5 122 00
12	12	11	Tracklaying and surfacing		11 541	00 81	9 166 00
13	13	12	Roadway tools		424	86 95	403 82
14	14	13	Tunnels				
15	--	14	Elevated structures and foundations				
16	15	15	Steel bridges and trusses				
17	16	15	Pile and frame trestles		1 106	00 94	1 033 00
18	17	15	Culverts		1 785	00 98	1 757 00
19	18	16	Fences and cattle guards				
20	19	16	Crossings and signs		29	00 86	25 00
21	20	17	Interlocking plants				
22	21	17	Signal apparatus				
23	22	18	Telegraph and telephone lines				
24	23	19	Poles and fixtures		10 881	00 88	9 599 00
25	24	20	Underground conduits				
26	25	21	Transmission system				
27	26	22	Distribution system		13 847	00 93	12 865 00
28	27	23	Dams, canals and pipe lines				
29	28	24	Power plant buildings				
30	29	25	Sub-station buildings		1 366	53 94	1 294 54
31	30	26	General office buildings		366	85 98	358 22
32	31	27	Shops and car houses				
33	32	28	Stations and waiting rooms		585	25 87	552 72
34	33	23	Miscellaneous buildings		231	43 95	219 86
35	34	29	Docks and wharves				
36	35	30	Power plant equipment				
37	36	31	Sub-station equipment		7 948	87 96	7 630 92
38	37	32	Shop equipment				
39	38	33	Park and resort property				
41	--	34	Cost of road purchased				
42	--	42	Injuries and damages		669	00 100	669 00
43	39	35	Cars		5 303	00 95	5 039 00
44	40	35	Freight train cars		960	00 95	912 00
45	41	36	Steam locomotives				
46	42	36	Electric locomotives		2 525	00 90	2 273 00
47	43	37	Electric equipment of cars		3 052	00 96	2 916 00
48	44	38	Other rail equipment		75	75 100	75 75
49	45	39	Miscellaneous equipment				
50	--	40	Law expenses		1 161	00 100	1 161 00
51	46	43	Taxes		640	00 100	640 00
52	46	44	Miscellaneous		2 726	00 100	2 726 00
53	--	41	Interest		4 865	00 100	4 865 00
55	47	--	Stores and supplies on hand for use in Calif.		7 616	00 100	7 616 00
GRAND TOTAL					204 350	54 94	189 408 63
Average per mile for main track					24 644	21 94	22 847 53
Total, "Road," I.C.C. Accounts 1-34 (Inc.)					174 757	79 93	160 515 88
Total, "Equipment," " " 35-39 "					11 915	75 94	11 215 75
Total, "General," " " 40-44 "					10 061	00 100	10 061 00
Total, Non-Operative Property (not included in above totals)					1 625	11 98	1 592 98
Grand Total Operative & Non-Operative Properties					205 975	65 94	191 001 61