

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 3108

In the matter of the application  
of Northwestern Pacific Railroad  
Company for an order authorizing  
the issue of bonds of the face  
value of \$1,867,000.

Application No. 2074.

Stanley Moore, for applicant.

LOVELAND, Commissioner.

OPINION

In the application herein Northwestern Pacific Railroad Company petitions for authority to issue and sell \$1,867,000 of its first mortgage 4½ per cent 50-year gold bonds. It proposes to sell these bonds at 95 per cent of their face value to the Southern Pacific Company, owner of one-half of its stock, under the terms of a contract by which the Southern Pacific has obligated itself to pay that sum for a specified number of the applicant's bonds.

From the proceeds of this sale, Northwestern Pacific Railroad Company sets forth that it would realize \$1,773,650 which it intends to apply as follows:

To the reimbursement of its treasury for moneys expended on account of construction of its new line from Willits, Mendocino County, to Shively, Humboldt County, during the period from October 1, 1914 to October 1, 1915, .....	\$1,505,382.16
---	----------------

For the reimbursement of its treasury for moneys expended generally on its system and equipment for additions and betterments during the period from February 1, 1914 to October 1, 1915, .....	<u>268,427.77</u>
---	-------------------

Total .....	\$1,773,809.92
-------------	----------------

In support of its application, Northwestern Pacific Railroad Company introduced detailed statements showing the items for which the above sum of \$1,773,809.92 was expended.

Northwestern Pacific Railroad Company has been engaged in the construction of an extension of its line of railway from Willits to Shively, a distance of 106 miles, which will serve the purpose of connecting Eureka, Humboldt County, by rail with San Francisco, and thence with all other important centers reached by railway transportation lines. The cost of this extension to June 30, 1915 is given as \$14,346,584.92. It is estimated that the extension will cost, completed, somewhat in excess of \$15,000,000, or a total of approximately \$142,000 per mile. This cost somewhat exceeds the company's earlier estimates and has been occasioned by unusual and unexpected engineering difficulties.

It appears from the testimony of Mr. J. W. Williams, the chief engineer of the applicant, that the construction difficulties have been enhanced by slides and by the inroads of the Eel River. The railway traverses the canyon of the Eel River. On one side the soil is easily disintegrated and its frequent shifting has required an unexpected amount of grading to obtain stable conditions. On the other side of the track the Eel River has, through the winter months, risen from a small stream to a troublesome torrent of forty feet in depth. This has necessitated extensive filling and riprapping to protect the embankments. The Northwestern Pacific Railroad Company has also found it advisable to widen cuts and to line certain of its tunnels with concrete, thus entailing heavier expenditure than was contemplated in the original estimates. The company's officials expressed the belief that the engineering difficulties had been largely overcome. They submitted a statement estimating that it will require only about \$180,000 to complete in final form the new line of railway.

In support of its application, Northwestern Pacific Railroad Company submitted the following statement comprising its expenditures in the sum of \$1,505,382.16 on the Willits-Shively extension, for which it now requests reimbursement.

Engineering .....	\$82,850.53
Land for Transportation Purposes .....	11,256.49
Grading .....	985,401.40
Tunnels and Subways .....	192,243.53
Bridges Trestles and Culverts .....	124,212.30
Ties .....	1,742.21
Rails .....	4,327.23
Other Track Material .....	-256.23
Ballast .....	59,980.57
Track Laying and Surfacing .....	68,649.24
Right of Way Fences .....	13,909.80
Crossings and Signs .....	1,518.63
Station and Office Buildings .....	15,552.91
Water Stations .....	21,462.65
Fuel Stations .....	720.79
Shops and Enginehouses .....	257.41
Telegraph and Telephone Lines .....	12,734.33
Signals and Interlockers .....	2,971.45
Miscellaneous Structures .....	77.02
Roadway Machines .....	240.86
Roadway Small Tools .....	38.49
Revenues and Operating Expenses during Construction .....	-11,910.35
Unapplied Construction Material and Supplies .....	-37,846.62
Work Equipment .....	9,963.06
Taxes .....	754.78
Other Expenditures - General .....	905.09

Total ..... \$1,561,757.57

Less amount included above and  
for which issue of bonds was re-  
quested in application to Farmers'  
Loan and Trust Company, dated Octo-  
ber 2, 1915, approved by the Rail-  
road Commission, State of California,  
April 11, 1914 ..... 56,375.41

Net Total ..... \$1,505,382.16

The main item of expense has been grading, in the sum of \$985,401.40. This expenditure has been made necessary as heretofore explained by the disintegrating character of a portion of the country through which the railway travels. The tunnel, subway, bridge, trestle and culvert work has been required to place the line in dependable operating condition.

The Auditing Department of the Commission has reported that the applicant's books show the expenditure of a sum, as stated in the report, of \$1,505,382.16. The details comprising the sum of \$268,427.77 have been reported by the applicant in Exhibit "F" attached to the application. This sum is made up of \$256,287.81, representing general betterments, and the balance representing net additions and betterments to equipment. The sum of \$256,287.81 comprises the following items:

Engineering .....	\$ 1,587.22
Land for Transportation Purposes..	8,809.73
Grading .....	77,799.99
Tunnels and Subways .....	226.01
Bridges, Trestles and Culverts....	7,524.77
Ties .....	2,531.59
Rails .....	23,790.32
Other Track Material .....	23,031.39
Ballast .....	15,855.75
Tracklaying and Surfacing .....	9,461.59
Right-of-way Fences .....	1,688.00
Crossings and Signs .....	5,345.66
Station and Office Buildings .....	20,327.78
Roadway Buildings .....	-191.40
Water Stations .....	-2,247.97
Fuel Stations .....	10,114.36
Shops and Engine Houses .....	425.89
Wharves and Docks .....	25,274.44
Telegraph and Telephone Lines ....	188.42
Signals and Interlockers .....	10,184.86
Power Distribution Systems .....	5,229.79
Paving .....	525.79
Roadway Machines .....	4,977.00
Assessments for Public	
Improvements .....	2,168.09
Shop Machinery .....	1,106.94
Power Plant Machinery .....	<u>551.80</u>
Total .....	\$256,287.81

It has been of course highly beneficial to the state of California and to the public generally that the Northwestern Pacific Railroad Company has constructed the Willits-Shively line. It has served to open a large portion of the state of California which has heretofore been without railway communication. It has made accesible large tracts of valuable agricultural, range and timber lands; it has opened and developed

a region abounding in majestic scenery; and it has served to connect Eureka, a city of approximately 15,000 inhabitants, by rail with the outside world.

The stock of Northwestern Pacific Railroad Company is owned equally by the Southern Pacific Company and the Atchison, Topeka and Santa Fe. The Willits-Shively extension has been financed through the sale of the company's bonds at 95 per cent of face value to the Southern Pacific, an arrangement advantageous to the applicant. These bonds are held in the treasury of the Southern Pacific and have not yet been given a general market.

This Commission has not completed a valuation of the properties of the Northwestern Pacific Railroad Company and it is not possible, therefore, to state or to estimate the value of the company's assets. The company, however, has submitted the following general statement:

Total value of 405,296 operated miles, June 30, 1912 .....	\$26,464,938.00	
Additions and Betterments to June 30, 1914 .....	680,073.30	
Non-operating property not included in above .....	<u>571,132.00</u>	
Total as of June 30, 1914 .....		\$27,716,143.30
Total cost of Willits-Shively Line to June 30, 1915 .....	14,346,584.92	
Total cost of Healdsburg-Wendling Line, excluding Floodgate and Mill Creek extensions to June 30, 1915 ....	223,333.88	
Cost of Additions and Betterments, July 1, 1914 to June 30, 1915 .....	656,490.72	
<u>General Expenditures</u>		
Cost of filing Articles of Incorporation, etc. ....	\$40,057.70	
Less sundry credits account of property retired, etc...	<u>36,345.02</u>	<u>3,712.68</u>
Total cost to June 30, 1915 .....		<u>15,230,122.20</u>
506.8 miles main track.		
663.4 miles all tracks.		
Carried Forward .....	\$42,946,265.50	

Brought Forward..... \$42,946,265.50

Funded Debt Outstanding

Northwestern Pacific Railroad Company's First and Refunding Mortgage Bonds .....	\$21,945,000.00	
San Francisco and North Pacific Railway Company's First Mortgage Bonds .....	3,669,000.00	
California Northwestern Railway Company's First Mortgage Bonds..	941,000.00	
Northwestern Pacific Railroad Company's First and Refunding Mortgage Bonds in treasury .....	<u>324,000.00</u>	26,879,000.00
Excess over Funded Debt .....		<u><u>\$16,067,265.50</u></u>

I shall not undertake in this decision to pass on this statement but set it down here merely as the company's own estimate.

On April 11, 1914, in Application No. 1044, this Commission authorized the applicant herein to issue \$5,534,000 of its 4½ per cent 50 year refunding bonds (Decision No. 1428, Opinions and Orders of the Railroad Commission of California, Vol. 4, Page 751). In that opinion the Commission passed generally upon the financial condition of this applicant. It is important, however, in this proceeding to analyze the earnings of the Northwestern Pacific Railroad Company in the light of the obligations it has assumed and will assume through the issue of additional bonds.

For the fiscal years ending June 30, 1914 and June 30, 1915, the company submitted the following earnings statement.

	<u>1914</u>	<u>1915</u>
Surplus Beginning of Year	\$2,130,249.40	\$2,453,895.40
Rail Operations:		
Operating Revenues	3,745,804.70	3,568,701.36
Operating Expenses	<u>2,653,359.02</u>	<u>2,599,193.53</u>
Net Operating Revenue	1,092,445.68	969,507.83
Taxes Accrued	<u>182,852.29</u>	<u>190,489.33</u>
Operating Income	909,593.39	779,018.50
Other Income:		
Rent from Lease of Road	---	---
Other Rents	101,790.84	128,987.43
Interest and Dividends	260.12	34.02
Miscellaneous	<u>659.30</u>	<u>(1) 35,190.82</u>
Total Other Income	102,710.26	164,212.27
Gross Corporate Income	1,012,303.65	943,230.77
Deductions:		
Bond Interest	569,030.35	580,836.10
Other Interest	---	2,704.53
Rents	56,969.06	92,342.02
Miscellaneous	<u>19,080.00</u>	<u>7,963.55</u>
Total Deductions	645,079.41	683,846.20
Net Corporate Income	367,224.24	259,384.57
Appropriations for Sinking Fund,	39,743.75	39,775.96
Deductions for Year from Profit and Loss,	16,136.32	16,048.21
Additions for Year to Profit and Loss,	12,301.83	(2) 721,674.56
Surplus at End of Year,	2,453,895.40	3,379,130.36

For the six months ending December 31, 1915, the applicant submitted the following analysis of its earnings:

<u>Operating Income</u>	
Railway Operating Revenues .....	\$2,386,216.30
Railway Operating Expenses .....	<u>1,399,781.08</u>
Net Revenue from Railway Operations .....	986,435.22
Railway Tax Accruals .....	\$ 102,987.00
Uncollectible Railway Revenues.. ..	<u>316.71</u>
Railway Operating Income .....	<u>103,303.71</u>
	883,131.51
<u>Non-operating Income</u>	
Rent from Locomotives .....	13,452.50
Rent from Passenger Train Cars .....	98.70
Rent from Floating Equipment .....	1,120.00
Rent from Work Equipment .....	7,011.31
Joint Facility Rent Income .....	45,452.19
Miscellaneous Rent Income .....	472.07
Income from Unfunded Securities and Accounts .....	325.96
Income from Sinking and Other Reserve Funds .....	7.94
Miscellaneous Income .....	<u>102.50</u>
Total Non-operating Income .....	<u>68,043.17</u>
Gross Income .....	<u>951,174.68</u>

- (1) Includes \$35,176.47 interest charged to construction.  
 (2) Includes \$679,615 temporarily credited to profit and loss because of payment of bonds.

### Deductions from Gross Income

Hire of Freight Cars - Debit Balance .....	\$26,835.07
Rent for Passenger Train Cars .....	389.92
Rent for Work Equipment .....	1,261.58
Joint Facility Rents .....	18,304.30
Miscellaneous Rents .....	9,961.00
Interest on Funded Debt .....	615,662.51
Amortization of Discount on Funded Debt .....	12,061.89
Total Deductions from Gross Income .....	<u>684,476.27</u>

Net Income ..... 266,698.41

### Disposition of Net Income

Income Applied to Sinking Funds ..... 19,991.23

Income Balance - Credit ..... \$246,707.18

The company also submitted a comparative analysis for the last six months of the calendar year 1914 and the last six months of the calendar year 1915. This statement follows:

	<u>Operated Mileage</u>	<u>Railway Operating Revenue</u>	<u>*Railway Operating Expenses</u>	<u>Increase of Net Net 1915 vs 1914</u>	<u>Per Cent of Net</u>	<u>Operat- ing Ratio</u>
July 1914	401	\$428,798	\$232,917	\$195,881		54.3
July 1915	507	462,502	234,767	227,735	\$31,854	50.7
Aug. 1914	401	404,445	233,499	170,946		57.7
Aug. 1915	507	456,831	242,500	214,331	43.385	53.0
Sep. 1914	401	369,457	237,796	131,661		64.4
Sep. 1915	507	416,063	237,145	178,918	47,257	57.0
Oct. 1914	401	341,919	245,224	96,695		71.7
Oct. 1915	507	420,948	236,477	184,471	87.776	56.2
Nov. 1914	401	274,820	223,694	51,126		61.4
Nov. 1915	507	345,271	227,409	117,862	66,736	65.8
Dec. 1914	401	227,689	204,602	23,087		89.9
Dec. 1915	507	284,600	221,483	63,117	40,030	77.8
Total 1914	401	2,047,128	1,377,732	669,396		67.3
Total 1915 (6 months)	507	2,386,215	1,399,781	986,434	317,038	58.7

\*Exclusive of Taxes.

The statement of earnings for the six months ending June 31, 1915 is particularly important, as the Willits-Shively.



extension was placed on an operating basis on July 1, 1915. It appears from the company's comparative analysis that its net earnings for the last six months of the calendar year 1915 exceeded those for the similar period of 1914 by \$317,038, reflecting a gain of 47.4 per cent in net. This also entailed a reduction in operating ratio for the same period from 67.3 per cent to 58.7 per cent. It is somewhat early to judge of the traffic and revenue results of the Willits-Shively extension, but Mr. W. S. Palmer, President of the Northwestern Pacific Railroad Company, estimated an increasing lumber business and an augmented passenger travel.

Much of the country through which the extension passes is sparsely settled and productive of little freight. However, big timber holdings at the northern end of the line promise a remunerative business. Passenger travel is in initial stages of development, the company operating one through passenger train daily each way between San Francisco and Eureka.

Mr. W. S. Palmer, the company's president, estimated that the company should earn for the year 1916, \$1,300,000 net revenue after deducting operating expenses and taxes. He further figured the interest requirements at \$103,000 per month, and estimated that the company would earn a profit of \$170,000 for the year.

It would appear that Mr. Palmer's estimates are conservative in the light of the company's actual earnings for the second half of the calendar year 1915.

The Auditing Department of the Commission has checked the statements of the company and has reported that the amounts have been expended for additions and betterments in the sums submitted in the application herein.

I therefore recommend that the application be granted and submit the following form of order:

O R D E R

Northwestern Pacific Railroad Company having applied to the Railroad Commission of California for an order authorizing the issue by said company of its first and refunding gold bonds of the face value of \$1,867,000, said bonds to be payable on March 1, 1957 and to bear interest at the rate of 4½ per cent per annum, payable semi-annually, under and in pursuance of a deed of trust or mortgage from Northwestern Pacific Railroad Company to The Farmers' Loan and Trust Company, Trustee, dated March 1, 1907,

And a public hearing having been held upon said application and the Commission finding that the money to be procured by the issue of said bonds is reasonably required by said company for the reimbursement of moneys actually expended from income for proper capital purposes; and that said purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Northwestern Pacific Railroad Company be authorized and it is hereby authorized to issue and sell \$1,867,000 face value of principal of bonds of said company maturing March 1, 1957, bearing interest at the rate of 4½ per cent per annum, payable semi-annually on the first day of March and on the first day of September of each and every year until the payment of the principal sum, under and in pursuance of the terms of its deed of trust or mortgage to The Farmers' Loan and Trust Company, Trustee, dated March 1, 1907, upon the following conditions and not otherwise, to-wit:

(1) Northwestern Pacific Railroad Company shall sell said bonds hereby authorized so as to net said company not less than 95 per cent of the face value thereof together with accrued interest thereon.

(2) Northwestern Pacific Railroad Company shall apply the proceeds from the sale of said bonds to the following purposes and not otherwise:

(a) For the reimbursement of applicant's treasury for moneys actually expended from income for the payment of new construction on applicant's line of railway from Willits to Shively in the period October 1, 1914 to October 1, 1915, inclusive, in the total sum of \$1,505,382.16, as set forth in the opinion preceding this order and as submitted by applicant as Exhibit "D" attached to the petition herein.

(b) For the reimbursement of moneys actually expended from income for the payment of additions and betterments upon the applicant's line of railway and upon applicant's equipment from February 1, 1914 to October 1, 1915, inclusive, as set forth in applicant's Exhibit "F" attached to the application herein, in the sum of \$268,427.77

(3) Northwestern Pacific Railroad Company shall keep separate, true, and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said bonds during the preceding month, the terms and conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

(4) The authority herein granted is conditioned upon the payment by the applicant of the fee prescribed under the Public Utilities Act.

(5) The authority herein granted shall apply to such bonds as shall have been issued on or before December 31, 1916.

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

Dated at San Francisco, California, this 16th day of February, 1916.

H. S. Loveland  
Edmund O. Edgerton  
Frank R. Norton  
Commissioners.

STATE OF CALIFORNIA  
DEPARTMENT OF CORRECTIONS  
PRISON INDUSTRY AUTHORITY

**Certificate of Individual Microfilm or  
Other Photographic Reproduction**

**Section 14756, Government Code**

I, the undersigned, hereby certify to the following in connection with the accompanying microfilm (photographic reproduction):

That I, Thomas Coupe', Industrial Supervisor, P.I.A. Micrographics or **E-91693** employee in the charge of Mr. Coupe', have been provided with access to the records, documents, instruments, plans, books or papers (hereinafter referred to as "records") of PUBLIC UTILITIES COMMISSION at VACAVILLE for the purpose of microfilming; that such access was provided with the consent of said person or entity; that such records are reproduced in the accompanying microfilm; and that each Department of Corrections P.I.A. of the State of California reproduction includes the following identifying symbol, roll number VOL. 50.

That pursuant to delegation of the Department of Corrections P.I.A., I am authorized to direct and control the reproduction of documents and records of the Department or of other persons and entities in the manner authorized by Section 14756 of the Government Code, and Section 1551 of the Evidence Code; to execute certificates as required by Section 1531 and 1551 of the Evidence Code; and to certify under the official seal of the Department.

That this microfilm of the above described records was taken under my direction and control on the date hereof and that it is a complete, true and correct copy thereof;

That the microfilming or other photographic processes were accomplished in a manner and on film which meet with the standard specification of the United States National Bureau of Standards and A.N.S.I.

That this certificate was made at the time of the taking of this microfilm.

WITNESS my hand and the seal of the Department of Corrections Prison Industry Authority

day of JUL, 1985.

Thomas R. Coupe'  
(name)

VACAVILLE  
California



prison  
industry  
authority