

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application
of Fresno Interurban Railway Com-
pany for authority to issue stocks
and bonds.

} Application No. 1084.

C. O. Whittemore, for applicant.

LOVELAND, Commissioner.

Sixth Supplemental Opinion

Fresno Interurban Railway Company has heretofore undertaken the construction of an electric line of railway between Fresno and Clovis, Fresno County, a distance of approximately nine miles. The applicant has now altered its plans and proposes to construct from Fresno to Sanger Road. It has already built over ten miles of its main line, and has partly completed four and one-half miles additional track.

Under orders of this Commission the applicant has heretofore issued to the contractors who are building the railway, \$149,700 of its first mortgage 6 per cent ten year bonds, and 269 shares of its stock of the par value of \$100 per share. It has heretofore issued 100 shares for organization purposes. The applicant proposes to revise its financial plan and to issue first mortgage 6 per cent twenty-five year bonds in lieu of the bonds now outstanding.

The present application as amended under date of July 5, 1916, is for authority to issue \$153,500 par value of the proposed 6 per cent twenty-five year bonds, and to issue 231 additional shares of stock of the par value of \$100 per share.

The applicant's line of railway is being constructed under contract by Mahoney Brothers, which contract provides for certain construction to be done for a certain fixed sum to be paid to the contractor, partly in bonds and partly in stock. This contract, however, was not adhered to either by the railway company or by the contractor. The present application provides for a settlement between the railway company and the contractor as of March 1, 1916.

After revision by the Engineering and Auditing Departments of this Commission of the figures submitted by the applicant, it appears that the reasonable cost of applicant's line up to March 1, 1916, for work actually performed by the contractor, including the contractor's profit of 12½ per cent, was \$120,821.21.

In addition to this it appears that the applicant is indebted to the contractor for moneys advanced for the purposes of the railway, in the sum of \$37,055.28. This brings the total apparent cost of the railway project as of March 1, 1916, to \$157,876.29.

Included in the sum due the contractor is \$10,396.27, representing an operating deficit, which was advanced by the contractor.

I believe that for the purpose of the issuance of securities, this sum of \$10,396.27 should not be capitalized, and it may

therefore, be more properly represented by promissory notes. Thereafter, if it shall appear to have been a proper development expense, it may be either amortized or, if a proper showing be made, capitalized.

The applicant has accepted the revised figures of the Engineering and Auditing Departments of this Commission and there remains, therefore, merely a proper division between the amount of stocks and bonds which the Commission may determine to authorize at this time.

The applicant^{sold} its ten year 6 per cent bonds at 90, or on a basis of approximately $7\frac{1}{2}$ per cent. Its new issue it proposes to sell at 80, or on a basis of approximately 7.8 per cent.

It appears that while this settlement is as of March 1, 1916, some additional work has been done on the railway which will come under the lien of the bonds herein authorized to be issued.

In view of this I believe the applicant may be authorized to issue \$149,700 of first mortgage 6 per cent twenty-five year bonds to refund the outstanding issue of \$149,700 of first mortgage 6 per cent ten year bonds. It will therefore require the issue of only 81 additional shares of stock to complete the proposed financial plan. The result of the suggestions herein made will give the applicant an outstanding issue of \$149,700 of first mortgage 6 per cent twenty-five year bonds, an issue of 450 shares of stock of the par value of \$100 per share, and a note in the sum of \$10,396.27.

Applicant proposes to execute a mortgage and deed of trust to Mercantile Trust Company of San Francisco to secure its issue of bonds. This mortgage and deed of trust will provide

for the issue of \$1,200,000 of bonds, payable on January 1, 1942. The bonds will carry 6 per cent interest and will be callable at 102½. Certain adjustments are to be made in this mortgage and deed of trust.

The applicant has plans for the extension of its railway, and as these plans progress, may be given additional authorization to issue stocks and bonds to cover the cost of its enterprise.

In view of the foregoing, I submit the following form of order:

Sixth Supplemental Order

Fresno Interurban Railway Company having applied to this Commission for authority to issue stocks and bonds as set forth in the foregoing opinion, and a hearing having been held and it appearing to the Commission that the stocks and bonds herein authorized to be issued are not in whole or in part reasonably chargeable to operating expenses or to income, and that the note or notes herein authorized to be issued may be later found to be chargeable to income,

IT IS HEREBY ORDERED that Fresno Interurban Railway Company be granted authority and it is hereby granted authority to issue \$149,700 of first mortgage 6 per cent twenty-five year bonds under a trust indenture between Fresno Interurban Railway Company and Mercantile Trust Company of San Francisco, when the same shall have been approved by this Commission.

IT IS FURTHER ORDERED that Fresno Interurban Railway Company be granted authority and it is hereby granted authority to issue its note or notes in a sum not to exceed \$10,396.27.

IT IS FURTHER ORDERED that Fresno Interurban Railway Company be granted authority and it is hereby granted authority to issue 81 shares of its capital stock of the par value of \$100 per share.

The authority herein given is given upon the following conditions and not otherwise.

(1) The bonds hereby authorized to be issued shall be issued in exchange for applicant's outstanding issue of \$149,700 of first mortgage 6 per cent ten year bonds, and the bonds hereby authorized to be issued shall only be issued upon the surrender and cancellation of all of the \$149,700 of first mortgage 6 per cent ten year bonds now outstanding.

(2) The note or notes herein authorized to be issued shall be for a term not to exceed three years, at a rate of interest not to exceed 8 per cent, and shall be issued to Mahoney Brothers in payment for advances made to applicant by said Mahoney Brothers.

(3) The 81 shares of stock herein authorized to be issued may be issued by the applicant to Mahoney Brothers in further payment of work done by said Mahoney Brothers on applicant's line of railway, or for advances made by Mahoney Brothers up to March 1, 1916.

(4) The bonds, note or notes, and stock herein authorized to be issued shall be in full of account of applicant's indebtedness to Mahoney Brothers or other parties for the cost of construction in connection with applicant's railway, up to March 1, 1916.

(5) Fresno Interurban Railway Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stocks and 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 stocks and 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.

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

(7) The authority herein granted shall apply to such stocks and bonds as shall have been issued on or before

December 31, 1916.

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

Dated at San Francisco, California, this 14th
day of July, 1916.

Max Thelen
H. L. Loveland
W. L. Gordon

Franz R. Dohn

Commissioners.