

ORIGINAL

Decision No. _____

Decision No. 4461

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application of)
KINGS LAKE SHORE RAILROAD COMPANY,)
a corporation, for an order author-)
izing an issue of capital stock and)
bonds.)

ApplicationNo. 2919.

John G. Covert for applicant.

GORDON, Commissioner.

O P I N I O N .

In this application as amended, KINGS LAKE SHORE RAILROAD COMPANY asks for authority to issue stock and bonds for the purpose of obtaining funds for the construction of a standard gauge steam railroad running southwest from Corcoran, Kings County, a distance of 21 miles.

Applicant was incorporated on May 7, 1917, under the laws of the State of California with a total authorized capital stock issue of \$500,000.00 divided into 5,000 shares of the par value of \$100.00 per share. At the present time, no stock, bonds, notes or other evidences of indebtedness have been issued.

Applicant's line of railroad as projected runs from a connection with The Atchison, Topeka and Santa Fe Railway Company at Corcoran west approximately 3-1/3 miles, thence south 3 miles, thence southeasterly about 5/8ths of a

mile, thence south 4-1/2 miles, thence west 1-1/2 miles and thence south 9 miles. The country through which this railroad runs is as yet sparsely settled and is divided into large tracts planted for the most part to grain, sugar beets and alfalfa. At the present time, the company has practically completed ten miles of standard gauge line laid with 60 pound relaying rails. This portion of the railroad was constructed by Chas. King, the promoter of the project, with funds secured upon his private credit.

On July 7, 1917, Mr. King deeded all his interest in the railroad to the corporation for \$180,000.00. No part of this purchase price has been paid to date. The property deeded to the corporation includes the line of railroad as at present constructed, contracts for right of way for practically the entire line, and materials and supplies, tools and equipment. This property is subject to an encumbrance of \$45,000.00 represented by a deed of trust from Mr. King to Mr. E.A. Nickerson. The contracts for right of way for the most part contain the provision that deeds will be executed when the railroad is placed in operation. As the first ten miles of railroad are practically completed and ready to operate, Mr. King states he will undertake at once to secure deeds for this portion of the line and transfer the same to the corporation. The total right of way consists of 291.6 acres and includes two tracts of twenty and ten acres respectively intended for yard and station purposes.

The company at present owns no rolling stock but leases its equipment from The Atchison, Topeka and Santa Fe Railway Company under contract. Oil and water for operating

purposes are also secured from the Santa Fe. It is the intention of the applicant at some future time to construct its own water and fuel stations.

During the hearing of this application, applicant filed as Exhibit "3" a detailed estimate of the cost of construction of this proposed line of railroad divided into three sections; the first section showing the actual expenditures already incurred; the second section showing the expenditures remaining to complete the line, and the third section being the sum of these two, -or the total estimated cost of the entire road. The final summary sheet of this estimate, giving the expenditures by Interstate Commerce Commission accounts follows:

ESTIMATED COST OF CONSTRUCTION OF KINGS LAKE SHORE RAILROAD CO.

I.C.C.:		Expenditures	Remaining:	Total
ACCT. NO.	I T E M S	Made To Date	Expenditures	Estimated Cost
1	Engineering	5,000.00	11,401.00	16,401.00
2	Right of way & station grounds	25,000.00	17,000.00	42,000.00
4	Grading	30,771.45	11,228.55	42,000.00
6	Pile and Frame Trestles	4,480.36	6,019.64	10,500.00
6	Culverts	--	6,300.00	6,300.00
7	Ties	24,255.00	24,255.00	48,510.00
8	Rails	66,780.00	44,520.00	111,300.00
9	Frogs and Switches	280.00	1,820.00	2,100.00
10	Track Fastenings & other Material	11,781.00	7,854.00	19,635.00
12	Tracklaying and Surfacing	7,228.00	17,971.27	25,200.00
13	Roadway Tools	244.80	280.20	525.00
14	Fencing right of way	1,100.00	7,300.00	8,400.00
15	Crossings and Signs	426.90	623.10	1,050.00
17	Telegraph and Telephone Lines	--	4,200.00	4,200.00
18	Platforms, walks, paving and curb	--	1,050.00	1,050.00
19	General Office Bldgs. & Fixtures	--	525.00	525.00
22	Water Stations	--	2,100.00	2,100.00
23	Fuel Stations	--	2,100.00	2,100.00
31	Miscellaneous structures	--	525.00	525.00
35 1/2	Injuries to persons	--	315.00	315.00
43	Law Expense	--	3,447.00	3,447.00
44	Stationery and Printing	25.00	185.00	210.00
47	Interest and Commission	2,500.00	18,403.00	20,903.00
	Contingencies	--	34,839.00	34,839.00
	Grand Total	179,853.24	224,281.76	404,135.00
	Average per mile for main track,			\$19,245.00

It will be noted that the total estimated cost of construction, according to applicant's estimate, is \$404,135.00.

In addition to this cost of construction, applicant asks the Commission to allow a payment of \$10,000.00 par value of common stock to Chas. King for promotion services and such other services as Mr. King has rendered and will render to this undertaking during the construction period. If this allowance is granted by the Commission, the total estimated cost of the road will then amount to \$414,135.00.

The amount of \$179,853.24 shown in the above table in the column for "expenditures made to date" constitutes principally the cost of the ten miles of line practically completed to date. It also includes certain work done and certain materials on hand for the remaining eleven miles which are now under construction. It will be noted that applicant has figured the total cost of rights of way and station grounds at \$42,000.00, of which \$25,000.00 is represented as having been expended to date. At the hearing, it developed that only \$4,500.00 approximately has been spent for this item and that the remaining \$37,500.00 will be made up from donations.

The Commission's engineering department has checked the construction estimate, and I am of the opinion that the road can be completed and put in operation for the amount estimated by applicant. No check has been made by the Commission of the amount claimed to have been expended by applicant to date.

Applicant has submitted an estimate of the amount of annual freight revenue which can be secured from the lands tributary to its line when completed. This territory consists for the most part of extremely fertile lands located in what was once the bed of Tulare Lake. North of Tule River, applicant has estimated a tributary area of 32 square miles, or 20,480 acres. South of Tule River it has estimated a tributary area of 126 square miles or 80,640 acres. From this territory, it has figured its gross

revenue as follows:

North of Tule River:

18000 acres Alfalfa	at 5 tons per acre,	90,000 tons	
1000 acres Sugar Beets	10 tons per acre,	10,000 tons	
1480 acres Grain Hay	at $1\frac{1}{2}$ tons per acre,	2,220 tons	
		<u>102,220 tons</u>	at 40¢= \$40,888.00

South of Tule River:

10000 acres Sugar Beets	at 10 tons per acre,	100,000 tons	
7500 acres Alfalfa	at 5 tons per acre,	37,500 tons	
31570 acres Grain Hay	at $1\frac{1}{2}$ tons per acre,	47,355 tons	
31570 acres Grain	at $3/4$ tons per acre,	23,680 tons	
		<u>208,535 tons</u>	at 75¢= 156,391.00
Total possible Revenue,			<u>197,279.00</u>
Deducting 40% for conservative estimate,			<u>78,912.00</u>
Total Probable Revenue,			<u>\$118,367.00</u>

Applicant has estimated the operating expenses as follows:

Salaries:

President and General Manager,	.2500.00	
Superintendent & Bookkeeper,	.1800.00	
Clerk,	.900.00	\$5,200.00

Office Supplies & Expenses:

Office Rent,	360.00	
Sundries,	500.00	
10% on Valuation Acct. No. 22,	52.50	912.50

Wages of Train Crew,	.12000.00	
Rent of Cars, 12450 Cars at 75¢,	9340.00	
Rent of Engine, 360 days at \$15.00,	5400.00	
Supplies (Fuel, Oil, Water, etc.),	7200.00	33,940.00

Maintenance of Way and Structures

5% on Valuation Accts.,	12,200.00	
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Depreciation 10% on Valuation Accts,	24,400.00	
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Total,	76,652.50	
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Add 10% for Contingencies,	7,665.50	
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Total Probable Operating Expense ,	84,318.00	
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Gross Operating Revenues,	\$118,367.00	
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Gross Operating Expenses,	<u>84,318.00</u>	
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Net Operating Revenues,	\$ 34,049.00	
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Taxes,	<u>3,000.00</u>	
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Net Operating Revenues less Taxes,	\$ 31,049.00	
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Interest On Funded Debt at 6%,	18,636.00	
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Sinking Fund 5% 20 Yr. Amortization,	<u>9,395.00</u>	
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Total Fixed Charges,	<u>28,031.00</u>	
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Net Corporate Income over Fixed Charges,	<u>3,018.00</u>	
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I will express no opinion upon the above estimate other than to say that the amount shown should amply provide for the operation of this road.

To finance the construction of this line of railroad, applicant proposes to issue \$311,000.00 of bonds and \$104,000.00 of stock at par. The bonds which applicant proposes to issue will be 20-year 6% first mortgage bonds and applicant asks authority to execute a deed of trust upon its property, providing for a total authorized bond issue of \$500,000.00. A copy of this deed of trust has not yet been filed with the Commission. At the present time, applicant desires to issue \$52,500.00 par value of stock and \$135,000.00 face value of bonds as follows:

\$45,000.00 par value of stock to Chas. King as part payment
for property transferred July 7, 1917;

5,000.00 par value of stock as part payment to Chas. King
for promotion services;

2,500.00 par value of stock for the purpose of qualifying
five directors.

\$52,500 par value of stock

135,000.00 face value of bonds to Chas. King in part payment
for property transferred July 7, 1917;

\$187,500.00

Applicant stated at the hearing that it had no intention of issuing any bonds to Mr. King until he had furnished deeds to the right of way for the 10 miles now constructed and until he had discharged the encumbrance of \$45,000.00 now resting upon the property transferred to the railroad company. It was also stated to the Commission that the proceeds from the sale of the first block of bonds will be used to provide funds for the completion of the railroad, -Mr. King to be thereafter reimbursed for such advances. Mr. King also assured the Commission that any bonuses acquired by him would immediately be turned over to the

railroad company, thereby reducing the amount of stocks and bonds to be issued in constructing the road. He stated for the information of the Commission that a bonus offer of \$40,000.00 had lapsed through his failure to complete the road by June 10, 1917, but that he would endeavor to have this offer re-instated.

It is Mr. King's intention to market the securities of the railroad company through his own efforts and to charge no brokerage or other fees in connection therewith. He has already spent approximately six months in the promotion and financing of this road. In view of these services, I believe there can be no objection to the issue of \$10,000.00 par value of stock as a promotion fee, --\$5,000.00 of said stock to be issued at the present time and the balance when the entire 21 miles of line has been completed and placed in operation.

It is understood that the proposed security issues are based upon the construction estimate submitted by applicant, and if for any reason the contemplated standards of construction should be changed or changes in the construction or location of the road should be made, the issue of securities will be modified accordingly. I understand it to be the intention of this applicant to have the issue of securities based entirely on the actual cost of construction without any intermediate construction profits to the builders and promoters of the road.

I am satisfied that this railroad project is one of the most meritorious that has come before the Commission, and I shall, therefore, recommend that the application be granted subject to the conditions contained in the following order.

O R D E R.

KINGS LAKE SHORE RAILROAD COMPANY having applied to this Commission for authority to execute a mortgage or deed of trust upon its property securing a total authorized issue of \$500,000.00 face value of first mortgage 6% twenty-year bonds, and to issue \$311,000.00 face value of bonds and \$104,000.00 par value of stock for the purpose of constructing its proposed line of railroad in Kings County, as hereinbefore more fully set forth,

And a hearing having been held and it appearing to this Commission that applicant's request is reasonable and should be granted, and that the money, property or labor to be procured or paid for by this issue of stocks and bonds is reasonably required for the purposes hereinafter set forth, which purposes are not reasonably chargeable in whole or in part to operating expenses or to income,

IT IS HEREBY ORDERED that Kings Lake Shore Railroad Company be, and it is hereby, authorized to execute a mortgage or deed of trust upon its properties as security for a total authorized issue of \$500,000.00 of first mortgage 6% twenty-year bonds.

IT IS HEREBY FURTHER ORDERED that Kings Lake Shore Railroad Company be, and it is hereby, authorized to issue \$311,000.00 face value of first mortgage 6% twenty-year bonds, and \$104,000.00 face value of stock.

The authority herein granted is granted upon the following conditions and not otherwise:

- 1.-- The bonds herein authorized to be issued shall not be issued until applicant shall have secured a supplemental order from this Commission approving the form of the

mortgage or deed of trust herein authorized to be executed.

2.-- \$135,000.00 face value of bonds herein authorized to be issued may be issued to Chas. King in part payment for the property deeded by him to the railroad company on July 7, 1917, as described in applicant's Exhibit No. 2, but only after any liens upon said property shall have been discharged and only after the deeds to the right of way for the first 10 miles of applicant's line shall have been executed in favor of the railroad company. When said liens have been discharged and said deeds executed, applicant shall advise this Commission and secure a supplemental order stating that the conditions of this section have been complied with.

The balance of the bonds herein authorized to be issued, amounting to \$176,000.00 face value, shall only be issued upon supplemental order from this Commission for the purpose of defraying a portion of the actual cost of completing applicant's line of railroad and only as the rights of way for said railroad are deeded to applicant. Detailed statements of said cost shall be filed with this Commission prior to the issue of any bonds hereunder.

3.-- \$52,500.00 par value of the stock herein authorized to be issued may be issued immediately to the following parties for the following purposes:

\$45,000.00 par value of stock to Chas. King in part payment for the property deeded to the railroad company on July 7, 1917, as described in applicant's Exhibit No. 2.

\$ 5,000.00 par value of stock to Chas. King in part payment for promotion services.

\$ 2,500.00 par value of stock to qualify 5 directors (5 shares to each director).

The balance of the stock herein authorized to be issued, amounting to \$51,500.00 par value, shall only be issued upon supplemental orders from this Commission for the purpose of defraying a portion of the actual cost of completing applicant's line of railroad, - detailed statements of said cost to be filed with this Commission prior to the issue of any stock hereunder, except that \$5,000.00 par value of said stock may be issued to Chas. King for promotion services under supplemental order of this Commission when applicant's projected line of railroad has been completed and placed in operation.

4.- The stock herein authorized to be issued shall be issued so as to net applicant not less than the full par value thereof.

5.- The bonds herein authorized to be issued shall be issued so as to net applicant not less than the full face value thereof plus accrued interest.

6.- The stocks and bonds herein authorized to be issued shall be issued in such ratio and in such proportion that the par value of the stock outstanding shall at no time be less than 25 per cent. of the face value of the bonds issued.

and outstanding under this order.

7.- Before this order shall become effective, a stipulation shall be filed with this Commission setting forth than any bonuses which may be acquired for the construction of this line of railroad will be turned over to the railroad company and accrue to the benefit of the construction of the road.

8.- Kings Lake Shore Railroad Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock 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.

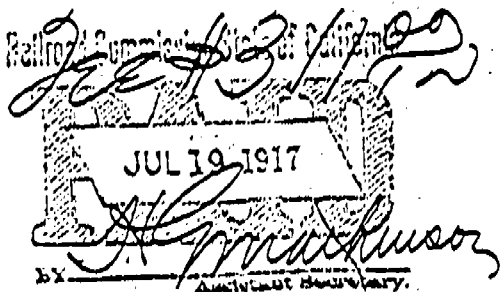
9.- The authority herein granted to issue stock and bonds shall not become effective until the payment by applicant of the fee prescribed in the Public Utilities Act, as amended.

10.- The authority herein granted to issue stock and bonds

apply only to such stock and bonds as shall have
been issued on or before July 1, 1918.

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 July, 1917.



Max Thelen
H. J. Davidson
Al. G. Foster
Frank P. Decker
Commissioners.