

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application
of STOCKTON TERMINAL and EASTERN
RAILROAD COMPANY for an Order
authorizing an issue of Bonds of
the Face Value of \$378,800.

Application No. 336.

W. H. H. Hart for applicant.

TRALEY, Commissioner.

O P I N I O N.

This is an application for an order of this Commission authorizing the issue of bonds and the use for other purposes of the proceeds of bonds heretofore authorized, as will hereinafter appear in greater detail.

Applicant was incorporated under the laws of California on October 28, 1908, for the purpose of constructing a railroad of standard gauge, to be operated by electricity or other motive power from the city of Stockton easterly and northeasterly to the town of Jenny Lind, in Calaveras county, a distance of some 30 miles. Applicant's line of railroad has now been completed along a portion of the route proposed from a point within the city of Stockton to Bellota, situated about 12 miles northeast of Stockton, and is being operated from Stockton to Fine, a distance of some 15.2 miles. For further information concerning applicant's general condition, see this Commission's opinion and supplemental opinion in Application No. 51, which opinion and supplemental opinion, in so far as applicable, are made a part of this opinion.

Applicant's authorized capital stock consists of 6,000 shares of the par value of \$100 each, whereof 2639 shares have been issued. From the sale of this stock applicant has received \$183,900 in cash and the agreement with The United Investment Company hereinafter referred to. Applicant has issued its trust deed,

dated April 1, 1911, to the Mercantile Trust Company of San Francisco, to secure the issue of thirty (30) year 6% bonds totalling \$500,000.00. Of the bonds so authorized, first mortgage bonds of the face value of \$116,000 have now been issued as follows:

Bonds sold and delivered,	\$47,000.00
Bonds pledged as collateral to secure promissory notes of \$27,000,	54,000.00
Bonds pledged to secure payment of collateral trust bonds of \$10,000,	15,000.00
Total,	<u>\$116,000.00</u>

Applicant has also issued 100 collateral gold bonds of the denomination of \$100 each under Trust Agreement with Mercantile Trust Company of San Francisco, providing for the issue of 500 such bonds, dated April 1, 1911, and due April 1, 1941, with interest at the rate of 6% per annum. Applicant has therefore now outstanding first mortgage bonds of the face value of \$116,000 and collateral bonds of the face value of \$10,000, making a total of \$126,000. Applicant also owes some \$12,000 on current bills and other unsecured indebtedness.

Applicant attached to its petition as Exhibit "B" a statement of expenditures for road and equipment as of October 31, 1912, totalling \$314,448.71. This amount, however, includes an item of \$66,660.85, of which amount \$60,000.00 consists of capital stock issued by applicant to The United Investment Company, the owner of all its capital stock except 9 shares, in return for the agreement of the Investment Company to issue its own stock at varying prices, ranging from 125 per cent of par upwards in exchange for such bonds of applicant as the purchasers thereof might, from time to time, desire to exchange for such stock. This agreement was supposed to render applicant's bonds more salable. As a matter of fact, this contract is of little or no value to applicant for the reason that few of applicant's bondholders would care to exchange their bonds for stock in the Investment Company. This Commission's engineering department has reported to the Commission that the original cost of that portion of applicant's property which is being operated is some \$213,059.13, that the cost of reproducing the physical

property is some \$215,267.46 and that the present value of the physical property is some \$199,717.85. The figures just given apply only to the operated portion of applicant's line of railway and only to the physical property. While the Commission has not as formally yet passed upon the question of the value of applicant's line of railway, the figures herein given have some bearing on that question and are given for what they may be worth in the present application.

Applicant now also asks for an order of this Commission as follows:

- (a) Authorizing the issue of first mortgage bonds of the face value of \$375,500 for the purposes hereinafter specified:
- (b) Authorizing the issue of collateral bonds of the face value of \$50,000 for the purposes hereinafter specified:
- (c) Authorizing the use of any or all of the first mortgage bonds as collateral security for funds to be borrowed on short-term loans for the purposes hereinafter specified at the ratio of \$2.00 per value of bonds for \$1.00 of funds borrowed:
- (d) Authorizing the application to the purposes of this application of the funds derived from the bonds authorized by this Commission's order in Application No. 51 and not necessary for the purposes specified in said order:

In support of its petition, applicant has presented an estimate of moneys necessary for the completion of its line of railway and for the purchase of a motor car and a steam locomotive, as shown on page 5 of the petition, totalling \$303,040.00. This item includes \$50,000 for legal expenses and interest during construction, clearly an excessive amount.

It appeared at the hearing that applicant desires money

principally for three purposes (a) to complete its line of railway from the end of its present track in Stockton to Stockton Channel and ship's side, a distance of some 2.11 miles; (b) to make improvements in its line of railway as now constructed between Stockton and Bellota, and to purchase a steam locomotive and a motor car; and (c) to extend its line of railway from Bellota to the proposed terminus at Jenny Lind, a distance of some 10.9 miles.

Applicant has a valuable franchise in the city of Stockton, authorizing the extension of its line of railway through and along the streets of Stockton to Stockton Channel. Applicant must construct this portion of its line of railway during the next few months or lose its franchise. The evidence shows that when this track to ship's side has been completed, applicant will be able to handle a much larger percentage of the produce of the territory which it traverses than is the case at present. Because of applicant's ^{hitherto} inability to deliver its freight at ship's side, and also because of its poor and unreliable service, due to inadequate and unreliable motive power, the farmers living along the line of applicant's railway have preferred, where possible, to haul this produce in wagons into Stockton. Applicant desires now to remove both of these causes of its failure to do a larger business. In addition to completing its line of railway to the water front, applicant desires also to improve its present line, principally by the purchase of a steam locomotive and a motor car and the providing of adequate depot facilities, station building and terminal grounds.

Applicant desires, further, to complete its line of railway to Jenny Lind, near which place are located beds of gravel from which applicant expects to derive a considerable revenue.

Mr. R. A. Thompson, this Commission's chief engineer, has prepared the following estimates of the cost of the three main extensions or improvements which applicant has in view:

Estimate of Cost to Construct as per Specifications filed.

1. End of present track in Stockton to Stockton Channel,
2.11 Miles.

Grading 26 blocks,	@ \$105.00 - \$	2,730.00
Trestles,		35,200.00
Ties, 5942,	@ .62 -	3,624.62
Rails, 199 tons 60 lb.,	@ 39.00 -	7,761.00
Railroad Crossings, 21,	@ 214.00 -	4,500.00
Fastenings,		893.42
Tracklaying, etc.,		2,325.00
Paving in Stockton,		7,000.00
Engineering and Superintendence - 5%,		3,196.70
Legal Expenses & Contingencies - 3%,		1,918.02
Interest during Construction, - 3%,		2,071.44
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Total Estimated Cost,		\$ 71,120.20

2. Improvements, Stockton to Bellota, 15.23 Miles.

Right-of-way - The Oaks Addition - Stockton, \$	1,600.00
2.07 Acres along line,	1,242.00
Depot Grounds - Stockton,	7,000.00
Terminal Grounds, "	7,000.00
Trestles,	550.00
Tools,	1,150.00
Fencing,	6,090.00
Telephone,	2,000.00
Station Buildings,	3,500.00
Fuel Station,	1,000.00
Equipment, 1 Steam Locomotive,	12,500.00
1 Motor Car,	12,500.00
Engineering and Legal Expenses - 5%,	2,796.60
Contingencies, - 3%,	1,761.84
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Total Estimated Cost,	\$60,490.44

3. New Extension - Bellota to Jenny Lind, 10.9 Miles.

Right-of way,	\$ 5,000.00
Grading,	28,029.00
Trestles,	5,924.00
Culverts,	1,586.00
Ties - 36,327,	@ 61¢, 22,159.47
Rails - 1135.14 tons,	@ \$39.00 46,220.46
Switches - 21 sets,	@ \$80.00 1,680.00
Fastenings,	5,196.58
Tracklaying, etc.,	6,450.00
Tools,	1,350.00
Telephone,	1,000.00
Station Buildings, etc.,	750.00
Turn table,	2,500.00
Water Station,	500.00
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Amount carried for.	\$128,347.51

Amount bro't forward,		\$128,347.51
Engineering and Superintendence, 5%,		6,417.35
Legal and Contingencies, 3%,		3,650.41
Interest during Construction, 3%,		4,158.45
Total Estimated Cost,		<u>\$142,773.72</u>

SUMMARY.

1. Stockton,		\$ 71,120.20
2. Stockton to Bellota (including Equipment)		60,490.44
3. Bellota to Jenny Lind,		142,773.72
Grand Total,		<u>\$274,384.36</u>

The matter of the greatest difficulty in connection with this application is that applicant has been and is now operating at a loss. Applicant's annual report for the year ending June 30, 1912, on file with this Commission, shows as follows:

Operating Revenue,	\$ 15,447.10
Operating Expenses,	<u>20,952.93</u>
Net operating deficit,	\$ 5,505.83
Hire of equipment,	<u>785.60</u>
Net Corporate Loss,	\$ 6,291.43

The question which confronts this Commission is whether a railroad which is unable to pay the interest on its present bonded debt should be authorized to issue several hundred thousand dollars of additional bonds. Applicant contends that if it can complete its line of railway at both ends and secure adequate motive power, it can convert the present deficit into a profit and pay the interest on all its outstanding bonds, including the proposed new issue. To support this contention, applicant presented estimates showing the revenue which it expects to derive from freight and passenger traffic when its line has been completed as proposed. If these hopes are realized, applicant will be able to meet all fixed charges, including interest on the bonds now applied for. I am unable to say from the evidence whether or not applicant will be able to earn the revenue which it anticipates. In this case, as in all others

involving the development of the state, in which there is a reasonable doubt, I believe that the doubt should be resolved in favor of the utility. The Commission can see to it that the money derived from the sale of the securities goes into the property, but it cannot say whether or not the enterprise will succeed and will be able to pay the hoped for interest on bonds or dividends on stock.

I was at first disinclined to recommend the issue of any additional bonds unless they were all sold, so as to guarantee the completion of the railroad. Otherwise, a portion of the bonds might be sold and the proceeds invested in the property, and then, because of the impossibility of disposing of the remaining bonds, the entire enterprise might go into the hands of a receiver. In view of the urgent need, however, of building to the water front to save applicant's franchise, as well as to increase its traffic, and also of the further immediate need of a steam locomotive and a motor car and of the further fact that applicant can not improve its condition unless it secures funds for these purposes, I have decided to recommend the issue of bonds for these purposes, to be sold so as to realize not less than 80% of the face value of the principal thereof, besides interest accrued thereon, or to be pledged as collateral security, to secure the moneys necessary for these purposes, at a ratio of not to exceed \$2.00 in bonds to \$1.00 of indebtedness. The remaining bonds hereby authorized may be sold so as to realize not less than 80% of the face value thereof, besides interest accrued thereon, but only when the entire issue has been sold, so as to provide funds to take up the indebtedness secured by bonds and to complete the railroad. I recommend that applicant be authorized to apply to the completion of its line of railway to the Stockton water front or to the acquisition of a steam locomotive and a motor car the moneys derived from the issue of the bonds authorized by this Commission's order in Application No. 51 and not necessary for the purposes specified in said order. I recommend further that applicant be authorized to issue its collateral bonds of the face value of \$30,000.00, to be secured by its first mortgage bonds of the

in accordance with the provisions of the collateral trust deed, face value of \$45,000/ and to be sold so as to realize not less than 80% of the face value of the principal thereof besides interest accrued thereon, the proceeds to be used in the extension of the line of railway to the Stockton Channel or in the purchase of said locomotive engine or motor car.

I find that the proceeds from the issue of the bonds authorized to be issued by the order which follows this opinion are not in whole or in part reasonably chargeable to operating expenses or to income and submit herewith the following form of order:

O R D E R

STOCKTON TERMINAL AND EASTERN RAILROAD COMPANY having applied to the Railroad Commission of the State of California for an order authorizing the issue by said company of first mortgage gold bonds of the face value of \$372,200.00, said bonds to be payable on the 1st day of April, 1941, unless sooner redeemed, and to bear interest at the rate of six (6) per cent per annum payable semi-annually on the first days of April and October of each year until the principal is paid, and secured by a trust deed or mortgage upon all the property of the company and also authorizing the issue by said company of collateral gold bonds of the face value of \$30,000.00, said bonds likewise to be payable on the 1st day of April, 1941, unless sooner redeemed, and to bear interest at the rate of six (6) per cent per annum, payable semi-annually on the first days of April and October of each year until the principal is paid, and issued under the trust agreement hereinafter referred to, and also authorizing applicant to apply to the purposes herein specified the proceeds derived from the issue of the bonds authorized by this Commission's order in Application No. 51, in so far as not necessary for the purposes specified in said order, and a public hearing having been held upon said application and the Commission finding that the money to be secured by the issue of said bonds is necessary to and

reasonably required by said company for the acquisition of property, the construction, completion, extension and improvement of its facilities, and the improvement and maintenance of its service and that said purposes are not in whole or in part properly chargeable to operating expenses or to income,

IT IS HEREBY ORDERED AS FOLLOWS:

1. Stockton Terminal and Eastern Railroad Company is hereby authorized to issue one hundred and twenty-one thousand (\$121,000) dollars face value, or so much thereof as may be necessary for the purposes hereinafter specified, of principal of first mortgage bonds of said company, maturing the 1st day of April, 1941, unless sooner redeemed, to bear interest at six (6) per cent per annum, payable semi-annually, under and in pursuance of the terms of the deed of trust or mortgage heretofore and on the 1st day of April, 1911, made and executed by said Stockton Terminal and Eastern Railroad Company to Mercantile Trust Company of San Francisco, as trustee, upon the following conditions and not otherwise, to-wit:

(a) Stockton Terminal and Eastern Railroad Company shall sell the bonds hereby authorized so as to net the said company not less than eighty (80) per cent of the face value of the principal thereof besides interest accrued thereon.

(b) The proceeds from the sale of said bonds shall be used for the following purposes only:

(1) For the extension of said company's line of railway from its present terminus in Stockton to Stockton Channel, the proceeds from bonds not to exceed the face value of - - - - - \$90,000.00

(2) For the purchase of one steam locomotive and one motor car, the proceeds from bonds not to exceed the face value of - - - - - \$31,000.00

2. Stockton Terminal and Eastern Railroad Company is hereby authorized to pledge as many of its first mortgage bonds as may be necessary, at the ratio of not to exceed \$2.00 in bonds to

\$1.00 of funds borrowed, to secure the amount of ninety-seven thousand (\$97,000) dollars or so much thereof as may not have been secured from the sale of the bonds authorized in section (1) hereof, said funds to be used solely for the purposes specified in section (1) hereof. The authority herein given is alternative with and not in addition to the authority conferred in section (1) hereof.

3. Stockton Terminal and Eastern Railroad Company is hereby authorized to issue thirty thousand (\$30,000) dollars, face value, of principal of its collateral gold bonds maturing the 1st day of April, 1941, unless sooner redeemed, to bear interest at six (6) per cent per annum, payable semi-annually, under and in pursuance of the terms of the trust agreement, heretofore and on the 1st day of April, 1911, made and executed by said Stockton Terminal and Eastern Railroad Company to Mercantile Trust Company of San Francisco, as trustee, to be secured by first mortgage bonds in an amount not to exceed \$1.50 of first mortgage bonds to secure \$1.00, face value of collateral bonds, upon the following conditions and not otherwise, to-wit:

(a) Stockton Terminal and Eastern Railroad Company shall sell the bonds hereby authorized so as to net the said company not less than eighty (80) per cent of the face value of the principal thereof besides interest accrued thereon.

(b) The proceeds from the sale of said bonds shall be used only for the purposes specified in section (1) hereof.

(c) The authority herein given is alternative with and not in addition to the authority conferred in sections (1) and (2) hereof, the intention being that in no event shall the moneys used for the purposes specified in section (1) hereof exceed the sum of \$72,000 for extending said company's line of railroad to Stockton Channel and \$25,000 for purchasing a steam locomotive and a motor car.

4. Stockton Terminal and Eastern Railroad Company is hereby authorized to issue two hundred and twenty-four (\$224,000)

thousand dollars, face value, or so much thereof as may be necessary, of its said first mortgage bonds, upon the following conditions and not otherwise, to-wit:

(a) Stockton Terminal and Eastern Railroad Company shall sell the bonds hereby authorized so as to net the said company not less than eighty (80) per cent of the face value of the principal thereof, besides interest accrued thereon.

(b) The proceeds from the sale of said bonds shall be used for the following purposes only:

(1) For improvements on said company's line of railway from Stockton to Bellota, as specified in Mr. R. A. Thompson's estimate appearing in the opinion herein, and excluding the one steam locomotive and the one motor car, the proceeds from bonds not to exceed the sum of - - - - - \$ 45,000.00

(2) For the extension of said company's line of railway from Bellota to Jenny Lind, as specified in Mr. R. A. Thompson's said estimate, the proceeds from bonds not to exceed the sum of \$179,000.00

(c) None of the bonds in this section authorized shall be issued until Stockton Terminal and Eastern Railroad Company shall have presented to the Railroad Commission evidence satisfactory to the Commission to the effect that said company has entered into a binding contract or contracts for the sale of all the first mortgage bonds in this order authorized to be issued, including those which may be pledged as collateral security, so that the Railroad Commission may be satisfied that said company can secure from the sale of its said bonds funds sufficient for all the purposes in this order authorized.

5. Stockton Terminal and Eastern Railroad Company shall keep separate, true and accurate accounts, showing the receipt and application in detail of the proceeds of the sale or disposal of the bonds hereby authorized to be issued and on or before the 25th day

of each month the company shall make a verified report to this Commission stating the sale or other disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the moneys realized therefrom and the use and application of said moneys, all in accordance with this Commission's General Order No. 24 which, in so far as applicable, is made a part of this order.

6. The effectiveness of this order is conditioned on the prior payment of the fee specified in section 57 of the Public Utilities Act.

7. The authority hereby given to issue bonds shall apply only to bonds issued on or before the 1st day of April, 1914. If any of the bonds hereby authorized to be issued have not been issued by said time, application may be made to the Commission for an extension of said time.

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 20th day of March, 1913.

H. H. Overland
W. H. Gordon
Man. J. Heelan

Commissioners.

