

Decision No. 5206

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application of
TIDEWATER SOUTHERN RAILWAY COMPANY
for an order authorizing the sale of
its first mortgage 5 per cent 30-year
gold bonds in the amount of \$500,000.)
Application No. 3510)

A. P. Matthew and R. W. Macdonald
for applicant.

GORDON, Commissioner.

O P I N I O N

TIDEWATER SOUTHERN RAILWAY COMPANY asks authority to issue \$500,000.00 of its 5 per cent first mortgage bonds payable April 15, 1942. It desires authority to sell the bonds at a price which will yield it 80 per cent of their face value. Applicant proposes to use the proceeds from the sale of its bonds to complete its present operated line of railroad from Stockton to Turlock and Hilmar, to complete a branch line at present operated from a station on its main line at Small to Manteca and to extend its main line from Hilmar to Stevenson.

In Exhibit "A" attached to the petition herein, applicant reports its assets and liabilities as of December 31, 1917, as follows:-

Assets:-

Road and Equipment	\$2,260,609.15
Sinking Fund	22,704.03
Cash,	87,592.78
Accounts Receivable,	30,164.12
Materials and Supplies	9,593.70
Discount on Funded Debt	77,201.22
Unadjusted Debit Items	<u>84,172.02</u>

Total Assets\$2,572,037.62

Liabilities:-

Stock Outstanding	\$1,795,703.00
Premium on Stock,	34,488.65
Funded Debt:-	
1st. Mortgage 5% 30-year Gold Bonds, dated April 15, 1912-Outstanding, \$466,500. Less 1st Mortgage Bonds held by this company, \$ 6,500.	460,000.00
Note due Western Pacific Railroad	54,600.00
Audited Accounts and Wages Payable	152,689.02
Miscellaneous Accounts Payable	77,275.89
Matured Interest Unpaid	2,300.00
Accrued Interest Payable	4,797.72
Unadjusted Credits	6,992.56
Corporate surplus - loss, \$37,675.47	
Less sinking fund payments	<u>20,866.25</u>
Net Loss	<u>16,809.22</u>

Total Liabilities\$2,572,037.62

For the years ending December 31, 1916 and 1917,
applicant has reported revenues and expenses as follows:-

I t e m	1917	1916
Railway Operating Revenues	\$187,418.04	\$129,952.27
Railway Operating Expenses	161,740.23	96,521.51
Net Revenue - Railway Operations	25,677.81	33,430.76
Railway Tax Accruals	10,163.83	9,239.34
Railway Operating Income	\$ 15,513.98	\$ 24,191.42
Other Income:		
Net Income from Misc. Physical Property:	846.40	535.50
Gross Income	\$ 16,360.38	\$ 24,726.92
Deductions from Gross Income:		
Net Loss on Misc. Physical Property	16.84	267.21
Interest on Funded Debt	22,664.97	20,888.92
Interest on Unfunded Debt	5,093.29	8,517.84
Amortization of Discount on Funded Debt	3,258.64	4,681.20
Total Deductions from Gross Income	\$ 31,033.74	\$ 34,355.17
Net Loss	\$*14,673.36*	\$ 9,628.25
* Loss		

The variations in applicant's surplus account for 1916 and 1917 are shown by the following statement:-

<u>I t e m</u>	<u>1917</u>	<u>1916</u>
Accumulated loss beginning of Year	\$21,212.04	\$11,559.14
Miscellaneous Credits	16,869.93	2,157.14
	\$ 4,342.11	\$ 9,402.00
<u>Debits:</u>		
Loss from income Account	14,673.36	9,628.25
Appropriations for sinking fund	18,660.00	1,943.75
Miscellaneous	-	238.04
Accumulated loss end of year	\$37,675.47	\$21,212.04

Applicant's reports show that its operating revenues increased from \$129,952.27 in 1916 to \$187,418.04 in 1917. During this period the passenger revenues increased from \$51,056.07 to \$58,215.93, the freight revenues from \$76,597.38 to \$124,478.20, and the miscellaneous operating revenues from \$2,298.82 to \$4,723.91. The operating expenses increased from \$96,521.51 in 1916 to \$161,740.23 in 1917. The increase in operating expenses is in part due to the increase in the amount of traffic handled, in part to the increased cost of operations, and in part to the rent of equipment. Applicant proposes to use \$39,000.00 of the proceeds from the sale of the \$500,000.00 of bonds to purchase two freight motors, a steam locomotive and a gasoline car. Through the purchase of this additional equipment applicant reports that it will be able to materially reduce its operating expenses.

In Exhibit "B" attached to the petition herein applicant reports the purposes for which it desires to expend the proceeds from the sale of the \$500,000.00 of bonds as follows:-

Clark Ortega Cutoff	\$ 8,000.00
Stockton to Modesto Spur tracks	400.00
Modesto to Turlock,	14,300.00
Hatch to Hilmar	14,900.00
Modesto Terminal Property	2,000.00
Turlock Terminal Property	2,500.00
Small to Manteca	25,875.00
Freight Warehouse	16,000.00
Equipment	<u>69,000.00</u>
	\$ 122,975.00
Extension Hilmar to Stevenson (8 miles).....	<u>186,650.00</u>
	\$ 309,625.00
Due Western Pacific R. R. for Rail ^{and} Fasten- ings Furnished	<u>98,827.00</u>
Total	\$ 408,452.00

Applicant has completed and is operating its line of railway from Stockton to Modesto via Escalon, a distance of 33.1 miles. In addition the company is operating, though uncompleted, a branch line from Small, a station on its main line, 7.9 miles from Stockton, to Manteca, a distance of three and one-half miles, and the main line from Modesto to Hilmar, a distance of about 17.9 miles, together with a branch line from Hatch, a station on the main line, to Turlock, a distance of about six miles. The main and branch line mileage being operated, though the construction has not been entirely completed, amounts to about 27.4 miles. The work still to be done on this mileage consists of grading, ballasting, fencing, concreting culverts, bonding rail, improving road crossings, etc. For these various purposes applicant proposes to spend \$77,975.00 of the proceeds from the sale of its \$500,000.00 of bonds. Applicant proposes to extend its main line from Hilmar to Stevenson, a distance of eight miles. The cost of this extension is reported at \$186,650.00. The extension will run parallel to the east side of the San Joaquin Valley main line of the Southern Pacific and will be located from five to six miles west of said line. The San Joaquin River is from two to four miles west of the proposed

extension of the Tidewater Southern. The extension will open up, according to the testimony in this proceeding, a rich agricultural section which is in need of railway transportation facilities.

The Engineering Department of the Railroad Commission has checked the estimated expenditures reported by the Tidewater Southern in its Exhibit "B" and finds the same to be reasonable and properly chargeable to capital account with the exception of \$680.00 representing replacement of ties in Hunter Street in Stockton and \$1,000.00 representing the estimated cost of taking up track to be used on the Small-Manteca branch. The Commission's engineers are of the opinion that these amounts are more properly chargeable to operating expenses than to capital account. I am inclined to agree with the views of the Commission's engineers and believe that the \$1,680.00 mentioned should not be capitalized through the issue of bonds.

The Western Pacific Railroad Company through stock ownership controls the Tidewater Southern Railway Company. It has purchased at 80 the \$600,000.00 par value of stock which the Railroad Commission has authorized the Tidewater Southern Railway Company to issue by Decision Number 3931, dated December 13, 1916, (Vol. 12, Opinions and Orders of the Railroad Commission of California, page 62). From stockholders the Western Pacific has acquired additional stock in the amount of \$537,968.00. On December 31, 1917 Western Pacific owned \$1,137,968.00 par value of the outstanding \$1,795,703 of Tidewater Southern Railway Company stock. The Western Pacific in addition to purchasing \$600,000.00 of stock has advanced to the Tidewater Southern \$54,600.00 which is represented by a note and has sold it rails and fastenings costing \$98,827.00. The major portion of the rails and fastenings have been used in extending the line of the Tidewater Southern from Modesto to Hilmar.

The Western Pacific has agreed to purchase the \$500,000.00 of bonds of the Tidewater Southern Railway Company

at 80. It is materially interested in the extension of the Tidewater Southern line and looks upon it as valuable feeder and for that purpose is willing to advance to it through the purchase of bonds additional funds to enable applicant to extend its lines further south into the San Joaquin Valley. The funds for that purpose are now in the Western Pacific's treasury.

I herewith submit the following Order:-

O R D E R

TIDEWATER SOUTHERN RAILWAY COMPANY having applied to the Railroad Commission for authority to issue \$500,000.00 of bonds, a hearing having been held and the Commission being of the opinion that the money, property or labor to be procured by such issue is reasonably required for the purpose or purposes specified in the order, and that such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Tidewater Southern Railway Company be, and it is hereby, granted authority to issue \$500,000.00 of its first mortgage 5 per cent bonds, payable April 15, 1942 upon the following conditions and not otherwise:-

1.-The bonds herein authorized to be issued shall be sold by applicant for cash at not less than 80 per cent of their face value.

2.-The proceeds obtained from the sale of the bonds herein authorized to be issued shall be used by applicant to pay in part for the completion and extension of its line of railway, the cost of which, as reported by applicant in Exhibit "B" and modified as indicated in the foregoing opinion, is as follows:-

Clark Ortega Cutoff.	\$ 7,320.00
Stockton to Modesto Spur Tracks.	400.00
Modesto to Turlock	14,300.00
Hatch to Hilmar.	14,900.00
Modesto Terminal Property	2,000.00
Turlock Terminal Property	2,500.00
Small to Manteca.	24,875.00
Freight Warehouses.	16,000.00
Equipment.	39,000.00
	<u>\$ 121,295.00</u>
Extension Hilmar to Stevenson (8 miles)	186,650.00
Due Western Pacific Railroad for rail and fastenings.	<u>98,827.00</u>
Total	\$ 406,772.00

3. The authority herein granted to issue bonds shall not become effective until applicant has obtained the necessary authority to issue said bonds from the Director General of Railroads or such other Federal authority, if any, as may have jurisdiction over the issue of said bonds.

4. Tidewater Southern Railway Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds herein authorized to be issued and on or before the twenty-fifth day of each month the company shall make verified reports to this Commission in accordance with the Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

5. The authority herein granted shall not become effective until applicant has paid the fee prescribed by the Public Utilities Act.

6.-The authority herein granted shall apply only to such bonds as shall have been issued on or before November 15, 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 14th day of March, 1918.

Max Thelen

Alex Gordon

Edwin O. Engstrom

Frank R. Wallace

Commissioners.