

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)	
Pacific Electric Railway Company, a)	
corporation, for authority to issue)	Application No. 349.
refunding mortgage 50-year gold bonds)	
in the face value of \$7,034,000.)	

J. W. McKinley and Frank Karr for applicant.

EDGERTON, COMMISSIONER.

O P I N I O N

This is an application by Pacific Electric Railway Company for an order authorizing the issue by applicant of \$7,034,000 face value of its refunding mortgage 50-year gold bonds under a mortgage dated September 1, 1911. At the hearing the application was amended to a request for a total of \$6,839,000 of bonds, instead of the amount first asked for.

The financial condition of applicant is as follows:

Bonds - Authorized	- - - - -	\$100,000,000.00
Issued	- - - - -	20,839,000.00
Underlying bonds	- - - - -	31,740,000.00
Other indebtedness of applicant as of		
November 30, 1912	- - - - -	370,730.81
Miscellaneous indebtedness	- - - - -	1,366,939.85
Stock - Authorized	- - - - -	100,000,000.00
Issued	- - - - -	74,000,000.00

Applicant had for the fiscal year ending June 30, 1912, a gross income of \$8,864,872.92, and after paying operating expenses, fixed charges, sinking fund requirements and all other expenses, a net surplus earning of \$477,816.30, and for five months

of the fiscal year ending November 30, 1912, a gross income from all sources of \$4,195,229.75, and a total expenditure for said period of \$3,894,205.90, leaving a surplus after paying all operating expenses, fixed charges and other items, of \$301,023.85.

The additional interest to be borne by applicant upon the bonds to be issued under this obligation will amount to \$341,950 per annum, but it is clear that with a surplus of earnings for five months as above noted, there can be no question of applicant's ability to meet this additional fixed charge.

The Pacific Electric Railway Company was formed about September 1, 1911, by the consolidation of the Pacific Electric Railway Company, the Los Angeles Interurban Railway Company, the Los Angeles and Redondo Railway Company, the Riverside and Arlington Railway Company, the San Bernardino Valley Traction Company, the Redlands Central Railway Company, the San Bernardino Interurban Railway Company and the Los Angeles Pacific Company, all of which prior to said consolidation were separately organized corporations.

The aggregate face amount of bonds permitted to be issued under the terms of the trust deed, before mentioned, is \$100,000,000. Of this amount, \$39,693,000 is set aside for the purpose of refunding underlying bonds. \$10,000,000 was turned over immediately to applicant, and the testimony is that the proceeds derived from the sale thereof were used in extending the property and making improvements. \$50,307,000 was set aside for the purpose of extending and improving the road of applicant after September 1, 1911.

This trust deed provides that for these last mentioned bonds, the full face value thereof must be produced in money or property. The result of this provision is that if applicant sells these bonds below face value, it must make up any discount out of its earnings or from other sources.

It has been impossible to determine the physical value or cost of the various railroad properties at the time they were consolidated.

No complete detailed inventory and appraisal of the properties of applicant has been made, but there is submitted a valuation made by the employees of applicant and testified to as being correct, a statement of the physical value of applicant's plant, totaling \$75,820,960. Included in this valuation is an item of \$5,452,000, representing lands belonging to land companies, and it is not made clear that the capital stock of these land companies has been placed under the lien of the bonds proposed to be issued. The order herein should be made conditioned upon this being done.

The total outstanding indebtedness of applicant is \$54,316,670.66, and while I cannot find that the valuation placed by applicant upon its physical values is accurate, still there is sufficient evidence that there exists a reasonable margin between the total outstanding indebtedness, including the amount of bonds herein asked to be authorized, to-wit: \$61,155,670.66, and the physical value of applicant's property to warrant the granting of this application.

Furthermore, the purposes for which the money to be derived from the sale of the bonds asked to be authorized are to be used are such as will provide extensions and betterments and increase the capacity of applicant to handle business, and also open up new territory, thus furnishing applicant with additional traffic. Applicant is operating in a rapidly developing part of California, and viewing the rapid increase in income, shown in this proceeding, together with the known increase in population in the districts through which it operates, it seems certain that the future of this railroad system under any reasonably competent management is assured.

The purposes for which the money to be derived from the

sale of these bonds are to be used are extensions, additions and improvements, all properly capitalizable and all fully set out in the application and exhibits attached thereto. The details of the various items submitted have been checked by the engineers of the Commission and found to represent construction, acquisition and additions to property properly designed and purposed for the efficient enlarging of this system, and the valuations attached to the various items have been found by engineers to be approximately correct.

The Southern Pacific Company owns all of the outstanding capital stock of applicant and it has been suggested that the Southern Pacific Company may purchase the bonds hereby authorized. The owner of a utility should not be allowed to profit by taking its bonds at the minimum fixed by this Commission and reselling them at an advance and pocketing the difference.

But the Southern Pacific Company should not be precluded from buying the bonds of a company which it owns or controls because it may be the only or the best customer. However, this situation can be safeguarded by a provision in the order to the effect that if these bonds are purchased by the Southern Pacific Company and re-sold at an advance within a year, any advance in price obtained by said Southern Pacific Company shall be turned over to applicant.

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

O R D E R

Application having been made to the Railroad Commission of the State of California by Pacific Electric Railway Company for an order authorizing the issue by said company of its refunding mortgage fifty-year gold bonds dated September 1, 1911, bearing interest at the rate of 5 per cent per annum,

And a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said bonds is necessary and reasonably required by said company for the discharge of its obligations properly chargeable to capital, and the improvement, additions to and betterments of its plant and railway system, and that the purposes for which the proceeds of the sale of said bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California does hereby authorize the issue by Pacific Electric Railway Company of \$6,839,000 face value of refunding mortgage fifty-year gold bonds bearing interest at the rate of 5 per cent per annum, dated September 1, 1911, or so much thereof as may be necessary for the purposes set out herein.

Said bonds to be issued under and in pursuance of the terms of a mortgage dated September 1, 1911, executed by Pacific Electric Railway Company to United States Mortgage and Trust Company, a copy of which said mortgage is on file with the application herein, upon the following conditions and not otherwise:

1. Pacific Electric Railway Company shall sell the bonds herein authorized so as to net said company not less than 87½ per cent of the face value thereof, plus accrued interest at the date of their delivery to the purchaser.

2. The proceeds from the sale of said bonds shall be used for the following purposes only:

(a) For the payment for work now under way or finished, as shown in detail in Exhibit A, attached to the application herein, said Exhibit having been in some respects amended at the hearing, the specifications of such amendment being filed herein

and marked Supplement to Exhibits A and B, said purposes being summarized as follows:

Extensions and Branches,	Items 1 - 33	Ex. A	\$3,046,598.96
Additional Main Tracks	" 34 - 36	"	12,536.92
Tunnels, Bridges, etc.	" 37 - 122	"	269,870.72
Additional Real Estate	" 123 - 132	"	21,663.50
Stations, Shops, etc.	" 133 - 229	"	146,060.33
Light and Power Plants.	" 230 - 263	"	123,827.04
Water, water rights, etc.	" 264 - 265	"	940.00
Rolling Stock.	" 266 - 288	"	1,457,139.05
Additions & Betterments.	" 289 - 326	"	<u>554,334.00</u>

Total Exhibit A - \$5,632,970.52

(b) For the purpose of paying for work and construction and acquisition of property which is proposed to be undertaken as shown in detail in Exhibit B attached to the application, said Exhibit having been in some respects amended at the hearing, the specifications of such amendment being filed herein and marked Supplement to Exhibits A and B, said purposes being summarized as follows:

Extensions & Construction,	Items 1 - 10	Ex. B	\$ 357,940.00
Equipment,	" 11 - 21	"	68,630.00
Additions & Betterments.	" 22 - 86	"	<u>779,230.00</u>

Total Exhibit B - \$1,205,800.00

Grand Total Exhibits A & B \$6,838,770.52

3. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said bonds hereby authorized to be issued and on or before the 25th day of each month the company shall make a verified report to the Commission in accordance with the Commission's General Order No. 24, stating the sale or 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 such moneys. Said report to be made in detail as to expenditures for each of the items numbered 1 to 326, set out in Exhibit A, and items 1 to 80 in Exhibit B.

4. As a condition precedent to the effectiveness of

this order there shall be submitted to and approved by this Commission, an instrument in writing placing the capital stock of the following companies, or so much thereof as is owned by Pacific Electric Railway Company, under the lien of the mortgage dated September 1, 1911, and heretofore described.

Newport Beach Company.

Los Angeles Pacific Land Company.

Pacific Electric Land Company.

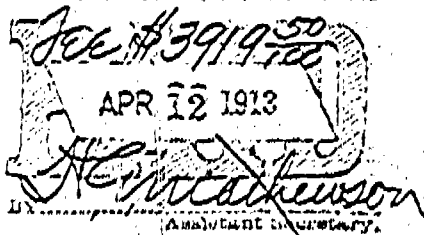
5. If any of the bonds hereby authorized be sold to the Southern Pacific Company by applicant, a contract of sale shall be executed to the effect that if the Southern Pacific Company sell such bonds within a year from the date of such sale, at an advance in price, the difference in the price paid to the price received by the Southern Pacific Company, shall be turned over to applicant.

6. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 1st day of May, 1914.

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 8th day of April, 1913.

Railroad Commission State of California



John W. Eschler
H. C. Johnson

Max Shelton

Edwin O. Edgerton

Commissioners.