

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application :
of SAN PEDRO, LOS ANGELES AND SALT :
LAKE RAILROAD COMPANY for authori- :
ty to issue first mortgage bonds un- : Application No. 582.
der its mortgage and deed of trust :
dated July 1, 1911. in the amount of :
\$1,119,000.00 face value. :

A. S. Halsted, for Applicant.

LOVELAND, Commissioner.

O P I N I O N

This is an application of the San Pedro, Los Angeles and Salt Lake Railroad Company for permission to issue bonds in the sum of \$1,119,000.00 to be sold at 90.

The application came on regularly for hearing in Los Angeles, California, Thursday, June 19th, 1913, and after a careful consideration of the testimony offered by applicant and of the report made by Mr. White of our Auditing Department, and the analysis by Mr. Sinsheimer, our Stock and Bond Expert, I recommend that the application be granted. As this recommendation is based upon facts different from those which usually form the basis of permission for a bond issue, I set out at some length my reason for approving this application.

The Railroad Commission of the State of California is at present engaged in ascertaining the physical value of applicant, the San Pedro, Los Angeles and Salt Lake Railroad Company but has not yet completed such valuation, nor is the work of ascertaining the value near enough to completion to properly estimate the relation existing between the value of the property and the bonded indebtedness thereof. The proceeds of the bonds asked for are to be applied to the repayment of sums expended for the property, such sums having been expended for such purposes as may be properly capitalized, and not from income.

It not being possible, as I have stated, to ascertain at this time the relation between the value of the property and its bonded indebtedness, I have based my approval of this application upon the following facts:-

The property is in a very healthy condition. While it is heavily bonded, the amounts being, previous to this issue, \$55,155,000.00, for the year ending April 30th, 1913 the road will have paid its bond interest on the \$55,155,000.00, its operating expenses, including taxes, and will have a surplus of \$252,000.00. I believe that a property in that condition can safely issue additional bonds in the sum asked for for the purposes mentioned. While the bonds will be sold at 90, applicant will make up the 10% from earnings and pay its obligation of \$1,119,000.00 in full.

While I am recommending that the Commission approve of this application, I further recommend that when the value of the property shall have been ascertained, if the relation between the value of the property and its bonded indebtedness is not such as would have warranted the Commission in approving of this application, applicant be required to invest its surplus earnings in additions and betterments until it shall have brought about such relationship between the value of its property and its bonded indebtedness as would have warranted, in the first place, an authorization of the bonds herein requested to be issued.

I recommend this action on the particular facts presented in this case.

Applicant proposes to issue \$1,119,000.00 of its first mortgage 4% fifty year bonds under its mortgage and deed of trust to Guaranty Trust Company of New York dated July 1, 1911, a copy of which was filed with the application herein and marked Exhibit "A". It is proposed to use the proceeds from the sale of these bonds for the purposes of reimbursing the applicant's treasury for expenditures for equipment and for additions and betterments.

The applicant submits in connection with its application

a list in detail of the items of expenditure embraced within the sum of \$1,119,000.00 which has been marked as Exhibit "F". This list covers expenditures from January 1, 1912 to March 31, 1913 which applicant has summarized as follows:-

Expenditure for construction of branch lines, detail shown on statement F-1.....	\$ 73,034.97
Expenditure for construction and improvement of trestles and bridges and for reduction of grades, detail shown on Statement F-2.....	161,660.85
Expenditure for betterment of real estate and wharf and dock property, per detail on statement F-3.....	42,808.53
Expenditure for construction or acquisition, improvement and enlargement of terminals, stations, shops, shop machinery and tools, depots, wharves, warehouses and other structures or of other terminal and station facilities, the construction or acquisition or extension of spur tracks, side tracks, passing tracks and yard tracks; detail shown on statement F-4.....	139,546.58
Expenditure for purchase or other acquisition of or improvement and enlargement of water tanks, pipe lines, etc., per detail on statement F-5...	6,579.99
Expenditure for purchase or other acquisition of additional engines, passenger cars, freight cars and other rolling stock per detail on statement F-6.....	503,384.23
Expenditure for construction or acquisition of any other additions to and improvements and betterments of and upon any of the lines of railroad of this company per detail on statement F-7.....	192,585.41
Total.....	\$1,119,600.56

For the full details of this list, reference is hereby made to Exhibit "F" filed in connection with the application herein.

The applicant has been unfortunate in past years on account of serious washouts necessitating large expenditures in the matter of change of grade, etc., which expenses were charged to Operating Expense, with the result that a deficit of \$4,034,748.69 existed at June 30, 1912.

This deficit will be materially decreased in the year ending June 30, 1913, by reason of a large increase in Operating Revenues and a decrease in its Operating Expense. After paying all fixed charges, including taxes, the books of the company show a surplus as of April 30, 1913, the date of its last balance sheet, of \$251,180.47. These bonds are to be placed at 90% of their face value, realizing \$1,007,100.00 cash; the difference, being discount on the bonds amounting to \$111,900.00, will be paid out of income of the applicant.

The books and accounts of applicant show that all expenditures properly chargeable to additions and betterments are handled in accordance with the classification and rulings prescribed by the Interstate Commerce Commission and the Railroad Commission of the State of California. The investigation made by this Commission develops the fact that no part of the expenditures for which the applicant now requests an issue of bonds, was chargeable to operating expenses or income.

I recommend that the application be granted and submit the following form of Order:-

ORDER

San Pedro, Los Angeles and Salt Lake Railroad Company
having made application to the Railroad Commission of the State of California for authority to issue \$1,119,000.00 of its first mort-

gage 4% fifty year bonds under its mortgage and deed of trust to Guaranty Trust Company of New York, dated July 1, 1911, copy of which is on file with this Commission in connection with the application herein and marked Exhibit "A", to which reference is hereby made; and a hearing having been held and it appearing that the purposes for which the applicant herein desires to issue said bonds are not, in whole or in part, chargeable to operating expenses or to income:

IT IS HEREBY ORDERED: That the San Pedro, Los Angeles and Salt Lake Railroad Company be authorized, and it is hereby authorized, to issue \$1,119,000.00 of its first mortgage 4% fifty year bonds under said mortgage and deed of trust to Guaranty Trust Company of New York; said bonds to be issued on the following conditions and not otherwise:-

(1) Said bonds shall be sold so as to net applicant herein not less than 90% of their face value.

(2) The proceeds from the sale of said bonds shall be used for the purpose of reimbursing applicant's treasury for expenditures heretofore made in the sum of \$1,119,000.00 as per applicant's list filed with this Commission and marked Exhibit "F" in connection with the application herein.

(3) The authorization hereby given shall apply to such bonds as may be issued on or before June 30, 1914.

(4) San Pedro, Los Angeles and Salt Lake Railroad Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued, and on or before the 25th day of each month shall make verified reports to the Commission stating the sale or sales of said bonds during the previous month, the terms and conditions of such sale or sales, 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

