

ORIGINAL

Decision No. 771

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of the OAKLAND, ANTIOCH and EASTERN RAILWAY for authority to issue \$1,000,000 in bonds.

Application No. 608.

Jesse E. Steinhart for applicant.

LOVELAND, Commissioner.

ORIGINAL

OPINION.

This is an application by Oakland, Antioch and Eastern Railway for authority to issue \$1,000,000 of its first mortgage 5% thirty-year bonds and to use the proceeds for the completion of its line of railway from Bay Point, Contra Costa County, to Sacramento, a distance of 62.57 miles.

Applicant is constructing a standard gauge electric railway over this route through portions of Contra Costa, Solano, Yolo and Sacramento counties, with a branch from Bay Point to Antioch, and expects to place it in operation in August of this year.

It owns 34,700 shares of the 35,000 shares of capital stock of the Oakland and Antioch Railway which runs from Oakland to Bay Point. The Oakland and Antioch Railway, under agreement with the San Francisco, Oakland and San Jose Consolidated Railway, uses a portion of the latter's electric railway system in Oakland, its pier and ferry boats and thereby obtains an entrance into the city of San Francisco. Oakland, Antioch and Eastern Railway also owns the capital stock of the San Ramon Valley Railroad which operates from Walnut Creek to Danville, a distance of 9 miles.

Through direct ownership, stock ownership and by traffic agreement, therefore, Oakland, Antioch and Eastern Railway controls a line of railway extending from San Francisco Bay, with terminals in San Francisco and Oakland, to Sacramento, with branches extending to Antioch and to Danville. The railway line is approximately 100 miles in length and will be operated entirely by the Oakland, Antioch and

Eastern Railway.

This entire enterprise had its inception in January, 1909, with the formation of the Oakland and Antioch Railway with an issue of 35,000 shares of stock. This company built its line to Bay Point, which is now being operated. It issued bonds to the amount of \$2,000,000.

On March 28, 1911, Oakland, Antioch and Eastern Railway was incorporated with an authorized issue of stock consisting of 100,000 shares of the par value of \$100, or a total of \$10,000,000, and an authorized bond issue in the sum of \$5,000,000. It proceeded to acquire the stock of Oakland and Antioch Railway by issuing two shares of its stock for one and later issued the balance of its stock. It has issued \$2,500,000 of bonds. It has placed \$500,000 of bonds on a contract and holds in its treasury \$2,000,000 of bonds. It now asks for the authority of this Commission to issue \$1,000,000 of the bonds remaining in its treasury.

San Ramon Valley Railroad is now in process of construction. It has issued \$100,000 of bonds.

We find, therefore, treating these related enterprises as a unit, that, if the authorization herein requested be granted, there will be outstanding against these properties bonds to the total amount of \$6,100,000. While the present application is merely for authority to issue \$1,000,000 in bonds, it becomes necessary for the Commission to inquire into the general condition, physically and financially, of these properties.

It appears that the Oakland and Antioch and the Oakland, Antioch and Eastern Railways have been built, with the exception of certain small initial costs, from the proceeds from the sale of bonds. The applicant and the Oakland and Antioch Railway sold small quantities of bonds at par, but a very large proportion of the issue was sold at 85. In addition, a commission of 2½% of par was paid. Applicant, therefore, received in money 82½% of the face value of its bonds.

It is in evidence that the sale of the \$1,000,000 in bonds now requested will not provide the entire amount of money necessary to complete the line. The company will still have a

floating indebtedness, which would probably be not less than \$300,000, and perhaps considerably more. Applicant retains in its treasury \$1,000,000 of bonds for future financing.

In connection with its application, applicant submitted a statement placing the "original cost" of its properties at \$3,707,330 and the reproduction value as \$4,390,523. It submitted as the original cost of the Oakland and Antioch Railway a statement showing a total of \$2,202,022.55 and a statement of reproduction value of \$2,730,397. These figures give a combined "original cost" of \$5,909,352.55 and a total "reproduction value" of \$7,120,920.

While I am not able to agree with applicant's estimates of reproduction value, I find that there has been beyond doubt a great increase in real estate values in sections traversed by applicant's railway and no doubt a certain amount of this is reflected in the rights of way.

Evidence was introduced on behalf of Oakland, Antioch and Eastern Railway for the purpose of demonstrating that it would, very early in its career, develop an earning capacity sufficient to take care of its necessities. While it is clear that this line of railway has been advantageously located and carefully constructed, estimates of future earnings must necessarily be estimates only.

This Commission must take a situation as it finds it, although that situation may not be such as it would in the first instance have authorized. We find here a line of railroad constructed from bonds and at this time more than 90% completed and about 90% financed. I am firmly of the belief that the necessary expenditures to complete the remaining 10% of construction will give to the enterprise a worth far beyond its proportion of the whole. In other words, I find that the expenditure of the remaining \$1,000,000 toward completing and equipping the railroad and to put it in first class condition for operation will serve to knit together the various portions of this property and to place them on a basis where they can become revenue producing to their maximum degree. It is in

view of this fact - that the expenditure of this remaining \$1,000,000 to complete the road will put the whole enterprise in a far better condition than we now find it - that I am willing to recommend that this application be granted.

I desire at the same time, however, to call attention again to what has been said repeatedly by this Commission: that public utility enterprises should be financed not alone from bonds, but both from bonds and stock.

While I recommend that this application be granted, I do so only upon certain conditions. Applicant herein will begin operations with a floating indebtedness incident to its construction costs. It is more than probable that in the early stages of its operation it will be under the necessity of further extending its credit to take care of at least a portion of its ordinary operating expenses, taxes and bond interest.

This Commission should be assured that at least such financing as may be necessary to take care of any deficit that may accrue from the early period of operation will be cared for from stock. To this end, I recommend that the applicant herein be required to file a statement satisfactory to this Commission that it will, during the year 1916, raise from its stock, if this Commission should so direct, such money as may be necessary to wipe out any deficit accruing from the present time from operation, maintenance, repairs, taxes and bond interest. I fix the time as 1916 for the reason that the sinking fund provided in the mortgage of the Oakland and Antioch Railway begins to operate in that year.

I am further persuaded to recommend the granting of this application upon the conditions enumerated by reason of the heavy ^{provisions} sinking fund in the mortgages of both the Oakland and Antioch Railway and the Oakland, Antioch and Eastern Railway.

I find that the two sinking funds provide for the retirement of 43.5% of the combined bond issues during the life of these issues. The combined sinking fund provisions call for the retirement of bonds as follows:

1916 -----	\$ 15,000.00
1917-----	15,000.00
1918 to 1925, inclusive,-----	50,000.00 per year
1926 to 1927, inclusive,-----	70,000.00 per year
1928 to 1935, inclusive,-----	110,000.00 per year
1936 to 1937, inclusive,-----	150,000.00 per year
1938 to 1940, inclusive,-----	235,000.00 per year
1941-----	160,000.00

There will be retired, therefore, under these mortgages, bonds to the amount of \$2,615,000 out of the whole issue of \$6,000,000. The proportion will, of course, be less when the additional \$1,000,000 of bonds of the Oakland, Antioch and Eastern Railway shall have been issued.

It is my belief that this sinking fund is unduly severe, but it is in view of this fact, and in view of the further fact that the issue of these bonds would improve the condition of this applicant, that I am willing to recommend that the application be granted without requiring in addition that a certain portion of the amount needed be raised from stock.

Applicant stated that it had placed \$500,000 of its bonds on contract and some uncertainty was expressed whether these bonds were actually issued under the terms of the Public Utilities Act. In order to obviate any misunderstanding on this point, applicant's attorney stipulated that before it finally placed these bonds it would submit the question of their issue to the Commission for determination. The hearing upon the present application included also the \$500,000 of bonds in question and the authorization to issue the \$1,000,000 of bonds as applied for assumes that there will be an early determination of the status of the \$500,000 of bonds above mentioned.

The applicant submitted a detailed statement of its expenditures covering its entire properties, marked "Exhibit B", and a detailed statement of its accounts and notes payable, marked "Exhibit L."

I find that the items which make up the detailed statement of cost are proper and reasonable.

The applicant herein has sold most of its bonds so as to net 82½% of their face value. It asks, however, that the order in this case fix a minimum of 80. It asks also that authority be given to pledge the bonds as collateral and requests that it be authorized to issue notes which shall be for not less than 60% of the face value of the collateral.

I find that the purposes for which the applicant herein desires to expend the proceeds from the sale of the said \$1,000,000 of bonds are reasonable and not chargeable to operating expenses or to income.

I recommend the following form of order:

ORDER.

OAKLAND, ANTIOCH AND EASTERN RAILWAY having made application to this Commission for authority to issue \$1,000,000.00 of its first mortgage 5% bonds under its mortgage and deed of trust to Union Trust Company of San Francisco, dated October 1, 1911, a copy of which is on file with this Commission in the application herein, and marked "Exhibit A", to which reference is hereby made, and its amended mortgage and deed of trust to Union Trust Company of San Francisco, marked "Exhibit G", said bonds maturing in 1941;

And a hearing having been held, and it appearing that the purposes for which said Oakland, Antioch and Eastern Railway proposes to issue said bonds are not, in whole or in part, chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that Oakland, Antioch and Eastern Railway be given authority, and it is hereby given authority, to issue \$1,000,000.00 of its first mortgage 5% bonds under said mortgage and deed of trust to Union Trust Company of San Francisco, a copy of which is on file with this Commission in the application herein and marked "Exhibit A," and under said amended mortgage and deed of trust, a copy of which is on file with this Commission and marked "Exhibit G", said authority to be upon the following conditions and not otherwise:

1. Oakland, Antioch and Eastern Railway, through its Board of Directors shall file with this Commission a stipulation, in form satisfactory to this Commission, that it will, during the year 1916, if so directed by this Commission, raise from assessment upon its stock a sum of money sufficient to extinguish any deficit that may have accrued in the operation, maintenance, taxes and bond interest of said railway.

2. Oakland, Antioch and Eastern Railway shall sell said bonds so as to net not less than 80% of the face value thereof plus accrued interest thereon.

3. Oakland, Antioch and Eastern Railway shall use the proceeds from the sale of said bonds for the purpose of completing its line of railway from Bay Point, Contra Costa county, to Sacramento, Sacramento county, and in the completion of its branch line from Bay point to Antioch, Contra Costa county, and for such items and substantially for such amounts as are set forth as "original cost" in applicant's "Exhibit B" filed with the application herein and, more specifically, accounts payable and notes payable, as per applicant's list filed with this Commission in the application herein, as per "Exhibit L", and particularly as follows:

Accounts payable-----	\$331,311.06
Notes payable-----	553,084.48
Total-----	\$884,395.54

4. IT IS FURTHER ORDERED, that Oakland, Antioch and Eastern Railway be given authority, and it is hereby given authority, to pledge as collateral security said \$1,000,000.00 of bonds herein authorized to be issued, or any part thereof, as collateral security for notes it may issue upon the following conditions and not otherwise:

(a) The face value of said note or notes shall be not less than 60% of the face value of such bonds as may be pledged as collateral security. The proceeds from said notes shall be applied to the same purposes as it is herein provided that the proceeds from the sale of the \$1,000,000.00 in bonds herein authorized shall be used.

(b) Applicant herein shall file with this Commission

a list of such notes as it may issue upon the collateral security of the bonds herein authorized and it shall not the face value of said notes and the interest thereon shall not exceed 7%.

5. Oakland, Antioch and Eastern Railway shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or pledge of the bonds hereby authorized, ^{to be issued} and on or before the 25th day of each month it shall make a verified reports to the Commission stating the sale or sales or pledge of said bonds during the preceding month, the terms and conditions of sale or pledge, moneys or properties 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.

6. The authority hereby given to issue bonds or to pledge said bonds as collateral security shall apply only to such bonds as may be issued or pledged prior to June 30, 1914.

7. The authority hereby given to issue or pledge bonds is contingent upon the payment of the fee provided in the Public Utilities Act.

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 2nd day of July, 1913.

Railroad Commission State of California

File # 44700

JUL 2 1913

BY J. H. MacArthur
Assistant Secretary

John M. Cushman

H. P. Tauland

W. S. Gordon

Commissioners.