

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of SAN DIEGO and SOUTHEASTERN RAILWAY COMPANY, a corporation, for an order authorizing an issue of bonds of the face value of \$600,000.

Application No. 607.

R. G. Dilworth for applicant.

THELEN, Commissioner.

O P I N I O N.

This is an application for authority to issue applicant's 5% thirty-year gold bonds of the total face value of \$600,000, partly to pay obligations which have heretofore been incurred for the acquisition of property and the construction, completion, extension and improvement of applicant's facilities and partly to enable applicant to incur similar expenditures for the years 1913, 1914 and 1915, as will hereinafter appear in greater detail.

San Diego and Southeastern Railway Company was incorporated on March 2, 1912, under the laws of this State for the purpose primarily of taking over and operating the properties owned by the San Diego and Cuyamaca Railway Company and the San Diego and Southern Railway Company in the county of San Diego. The San Diego and Cuyamaca Railway Company was incorporated on July 19, 1909, and was the successor of the San Diego, Cuyamaca and Eastern Railway Company, which company was incorporated on March 6, 1888, and of the San Diego and Cuyamaca Railway Company, which company was incorporated on August 30, 1887. The San Diego and Cuyamaca Railway Company, incorporated July 19, 1909, owned and operated what is known as the Cuyamaca Railroad, between San Diego and Foster, a distance of some 25.32 miles. The San Diego and Southern Railway Company was the successor of the National City and Otay Railway Company and of the Coronado Railroad Company. The National City and Otay Railway

Company was incorporated on October 1, 1888, and was the successor of the National City and Otay Railway Company and of the Otay Railway Company. The National City and Otay Railway Company owned a main line of some 15.12 miles between San Diego and Tia Juana and a branch line of some 7.88 miles between Sweetwater Junction and La Presa. The Coronado Railroad Company owned a line of railroad about 21 miles in length, running around the bay of San Diego between San Diego and Coronado. The present applicant, in addition to these properties, owns also a connecting track about 1.22 miles in length between Coronado Junction and what is known as the National City and Otay Junction. The total operative property of the present applicant amounts to 73.54 miles.

Applicant's authorized capital stock consists of 50,000 shares of the par value of \$100 each, being a total of \$5,000,000. Of the stock so authorized, 16,500 shares, having a total par value of \$1,650,000, have been issued. No dividend has ever been declared. Such profits as have been made have been reinvested in the property.

The entire bonded indebtedness of the constituent companies of which applicant is the successor has heretofore been cancelled and applicant has had no bonded indebtedness of its own. Applicant now proposes to authorize a bonded indebtedness of \$600,000 of 5% thirty-year gold bonds of the following serial numbers and denominations:

No.s 1 to 250, inclusive,	face value	\$100 each,	total	\$ 25,000;	
No.s 251 to 450,	"	"	\$500	"	100,000;
No.s 451 to 925,	"	"	\$1000	"	475,000;
			Total,	<u>\$600,000.</u>	

It is proposed to expend the proceeds of these bonds in the first instance to liquidate notes payable and amounts due for cash advanced in the sum of \$170,286.21, and to expend the proceeds of the remaining bonds for additions and betterments for the years 1913, 1914 and 1915. Attached to the application is a statement showing in detail the expenditures which have heretofore been incurred and also

an estimate of the expenditures for the years ¹⁹¹³1914 and 1915. The statement shows that applicant has outstanding two notes payable, one in the sum of \$10,000, now held by J. D. and A. B. Spreckels Securities Company, and the other in the sum of \$25,000, held by the First National Bank of San Diego, and that it owes to J. D. and A. B. Spreckels Securities Company for cash advances made between October 9, 1912 and February 10, 1913, the sum of \$100,978.33. The statement also shows that the Company has received its income from operation between March 2, 1912 and January 31, 1913, in the sum of \$34,307.88, which income was placed back into the property in the form of construction and betterment expenditures. The total of notes payable, amounts due for cash advances and moneys expended from income between March 2, 1912 and January 31, 1913, is \$170,286.21. Attached to the application is a detailed statement showing moneys amounting to \$170,286.21 which have been expended for additions and betterments between March 2, 1912 and January 31, 1913, which statement has been carefully checked over by this Commission's engineering department and found to be reasonable.

Applicant has attached to the application a statement showing proposed addition and betterment expenditures during the year 1913, subsequent to January 31, 1913. The details of these items are as follows:

2 Locomotives-----	\$23,000
60 Flat Cars and Box Cars-----	33,000
Passenger Stations at La Mesa, Lakeside, Santee and Palm Avenue-----	9,000
Roadway betterments-----	56,000
Total,	<u>\$121,000</u>

Attached to the application is also a statement of proposed addition and betterment expenditures for the years 1914 and 1915. The principal items in this statement are as follows:

New Equipment-----	\$ 58,000
Shops, Engine Houses and Turntables-----	58,000
Roadway Betterments-----	206,000
Miscellaneous-----	5,000
Total,-----	\$ 327,000

The roadway betterment items are principally to take care of heavier rails which the Company intends to lay, both on its eastern and its southern divisions, and of rail fastenings, ties, frogs and switches and other expenditures in connection with these improvements. The applicant was unable to state what portion of its expenditures would be incurred in 1914 and what portion in 1915. The applicant's officers stated that the expenditures to be made would depend largely on the salability of its bonds and on the Company's income and consequent ability to pay interest on the bonds during the ensuing two years.

While I am of the opinion that all the expenditures which applicant proposes to make during the years 1913, 1914 and 1915 are desirable to be made, both from the point of view of the applicant and of the public, many changes are likely to take place in applicant's plans between now and the years 1914 and 1915. It may be that other purposes may seem more desirable in the course of a year and a half or two years than those which now appear to the applicant to demand expenditures. While the Commission is desirous of offering every possible assistance to applicant in the development of its railroad, I think it would be a far better policy not to authorize at the present time the issue of specific bonds for the purpose of making the improvements contemplated for 1914 and 1915. When the time comes, if applicant still desires to make the improvements which it now specifies for those years, it will find the Commission ready to co-operate in every possible way. When the time comes for making definite plans for the year 1914, the applicant may file in this proceeding a supplemental application, setting forth the specific expenditures which it desires to make for that year. The same policy may be pursued with reference to

the expenditures for the year 1915. The order in the present proceeding will be limited to the issue of bonds to repay applicant for expenditures which it has heretofore made and for expenditures for the remaining portion of 1913.

Attached to the application is the form of a proposed trust deed from San Diego and Southeastern Railway Company to Bank of Commerce and Trust Company of San Diego, conveying all of applicant's real and personal property as security for the proposed bond issue in the maximum authorized amount of \$600,000. The deed, in addition to the usual provisions, provides for a sinking fund, commencing with the year 1924. On the 2nd day of January, 1924, and of each year until maturity or full payment of the bonds, at least \$50,000 shall be paid into said fund. The bonds provided for in the trust deed are to be known as "San Diego and Southeastern Railway Company, general first lien, five per cent, sinking fund, thirty-year, gold bonds." The trust deed provides that the bonds shall be delivered by the trustee upon receipt of a certificate from the Railway Company to the effect that all bonds previously delivered have been used for the purposes authorized and further showing that the surplus of the net earnings of the Railway Company after payment of operating expenses for the six months next preceding the date of the certificate is at least equal in amount to the interest upon the bonds proposed to be certified and delivered and also equal to twice the amount of the interest on the bonds then outstanding.

While no evidence was introduced at the hearing concerning the value of applicant's property so as to enable the Commission to see the relationship between the value of the property and the amount of bonds, this Commission's engineering department has prepared a valuation which, while not binding on the Commission, throws some light on this question. The engineering department has reported to the Commission that the reproduction value of the property is \$2,307,089.38, and that the present value is \$1,935,512.14.

While these figures may be altered after the Commission has held its hearing in the matter of ascertaining the value of the property of applicant, they are sufficient to show that there is a wide margin between the value of the property and the amount of the proposed bond issue. At the hearing the Commission made inquiry into the net profits of the applicant, so as to ascertain whether or not the applicant would be able to pay interest on the proposed bond issue. The following figures with reference to operations of the Company between March 2, 1912, the date of its incorporation, and May 31, 1913, were presented by applicant's auditor:

Gross revenue-----	\$531,871.55
Additional income-----	4,749.14
Total receipts,-----	<u>536,620.69</u>
Operating expenses-----	\$451,653.65
Income deductions-----	34,790.47
Sundry charges to profit and loss-----	2,769.15
Total expenses,-----	<u>489,213.27</u>
Net profit,-----	\$ 47,407.42

It appears further that no depreciation has been charged except off ~~through~~ depreciation of rolling stock, which item is included in operating expenses. The income of applicant is undoubtedly lower at the present time than it will hereafter be, for the reason that the frost of last winter has destroyed practically the entire lemon and orange crop, on which applicant places its chief reliance for freight.

An inquiry into applicant's franchise situation shows that applicant claims perpetual franchises for what is known as the "Old Coronado Belt Line," also the lines formerly owned by the National City and Otay Railway, and also the lines of the ^{San Diego and} Cuyamaca Railway Company easterly from the easterly boundary of the city of San Diego. The Company also claims a franchise on the old Cuyamaca line from the water front easterly to 31st Street in

San Diego, this franchise having been granted in the year 1888, for a fifty-year period. It appears that applicant has no franchise for that portion of the Cuyamaca line which lies between 31st Street in San Diego and the easterly limits of the city. While a large portion of this line runs over private right-of-way, it would undoubtedly be better for applicant to secure a franchise, so as to give to it the undoubted right to operate along and across such streets as are included within this portion of its line. It is, of course, clear that the security of the bonds of a railway company is dependant in part, at least, on sufficient franchises over its route.

Applicant asks authority to sell its bonds for the minimum sum of 80% of their face value. In view of the fact that these bonds are to be secured by a first mortgage and that there is a large margin between the value of the property and the amount of the bonds proposed to be issued, and of the large increase in population in the territory which applicant is alone serving, I am of the opinion that the bonds have a value considerably in excess of 80% of their face. Applicant urged the present financial stringency as a reason for an order authorizing an issue at the minimum price of 80% of the face value of the bonds. I do not believe that applicant ought to sacrifice its bonds at so low a figure, and particularly in view of the fact that a large portion of the expenditures which it is desired to make from the proceeds of these bonds will not be made until the years 1914 and 1915. I am convinced that the bonds are worth at least 85% of par and shall recommend an issue on this basis. If applicant finds it impossible to dispose of the bonds at this figure of the bonds which it needs for its immediate additions and betterments, supplemental application setting forth the facts may be made to the Commission.

I find that the purposes for which it is desired to expend the proceeds of the bonds herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income and

recommend that the application be granted to the extent indicated in the order.

I submit herewith the following form of order:

C R D E R.

SAN DIEGO AND SOUTHEASTERN RAILWAY COMPANY having applied to the Railroad Commission of the State of California for an order authorizing the issue by said Company of bonds of the face value of six hundred thousand (\$600,000) dollars, said bonds to be payable thirty (30) years after the date thereof and to bear interest at the rate of five (5%) per cent per annum, payable semi-annually, and secured by a trust deed or mortgage upon all the property of the Company, and a public hearing having been held upon said application, and the Commission finding that the money to be secured by the issue of the bonds hereinafter authorized is necessary to and reasonably required by said Company for the purposes hereinafter specified and that said purposes 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 hereby authorizes the issue by San Diego and Southeastern Railway Company of three hundred and forty-three thousand (\$343,000) dollars, face value, of principal of bonds of said Company, to bear interest at the rate of five (5%) per cent per ^{payable} annum, semi-annually, under and in pursuance of the terms of a trust deed or mortgage to be made and executed by said San Diego and Southeastern Railway Company to Bank of Commerce and Trust Company of San Diego, as trustee, substantially in the form annexed to the application in this proceeding, upon the following conditions and not otherwise, to-wit:

1. San Diego and Southeastern Railway Company shall sell said bonds so as to net said Company not less than eighty-five (85%) per cent of the par value of the principal thereof, besides interest accrued thereon.

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

(a) The proceeds from the sale of said bonds in an amount not to exceed the sum of one hundred seventy thousand two hundred eighty-six & 21/100 (\$170,286.21) dollars shall be expended to pay that certain note dated July 12, 1912, in favor of J. D. Spreckels and Brothers Company, amount ten thousand (\$10,000) dollars; that certain note dated August 6, 1912, in favor of First National Bank of San Diego, amount twenty-five thousand (\$25,000) dollars; amounts due J. D. and A. B. Spreckels Securities Company for cash advances from October 9, 1912 to February 10, 1913, inclusive, total, one hundred thousand nine hundred seventy-eight & 33/100 (\$100,978.33) dollars; and to reimburse applicant for expenditures amounting to thirty-four thousand three hundred seven & 88/100 (\$34,307.88) dollars for construction and betterments made from income during the period from March 2, 1912 to January 31, 1913.

(b) The proceeds from the sale of said bonds not to exceed the sum of one hundred twenty-one thousand (\$121,000) dollars shall be expended for proposed additions and betterment expenditures during the year 1913 subsequent to January 31, 1913, for the items appearing on statement headed "Proposed additions and betterment expenditures of the San Diego and Southeastern Railway Company during the year 1913 after January 31, 1913," which statement is attached to the application in this proceeding and made a part thereof.

3. San Diego and Southeastern Railway Company may hereafter file a supplemental petition stating the expenditures which it desires to make for the year 1914, when such expenditures become imminent, and thereafter a similar statement with reference to the year 1915, whereupon the Commission will in this proceeding make such order as may seem proper.

4. San Diego and Southeastern Railway Company shall, before it issues any of the bonds hereby authorized, file with this

Commission a certified copy of a trust deed in substantially the form annexed to the application.

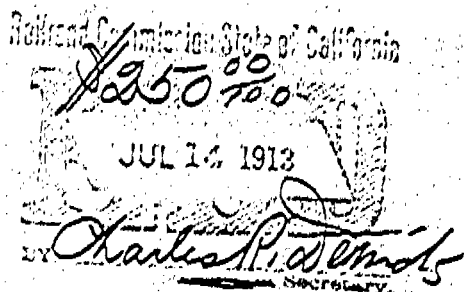
5. San Diego and Southeastern Railway Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued, and on or before the 25th day of each month the Company shall make a verified report to the Commission stating the sale or sales of said bonds during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with the provisions of this Commission's General Order No. 24, which order in so far as applicable is made a part of this order.

6. This order shall not become effective until the fee specified in Section 57 of the Public Utilities Act shall have been paid.

7. The authority hereby given to issue bonds shall apply only to bonds issued by said Company on or before the first day of July, 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 10th day of July, 1913.



John M. Castleman

Wm. Gordon

Mar. Thelen

Commissioners.