

Decision No. 9020

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
the City of Eureka, a municipal cor-  
poration, for an order fixing the  
just compensation to be paid for the  
lands, properties, and rights of the  
Humboldt Transit Company, a corpora-  
tion.

Application No. 6727.

ORIGINAL

J. F. Coonan for Humboldt Transit Company,  
Hon. Geo. W. Cousins and James W. Henderson  
for City of Eureka,  
H. F. Charters for Stockholders' and Bond-  
holders' Committee.

LOVELAND, Commissioner.

O P I N I O N

The City of Eureka (hereinafter referred to as the City) asks that the Commission fix the just compensation to be paid by the City for all operative property of the Humboldt Transit Company (hereinafter referred to as the Company) including all tracks, roadbeds, franchises, poles, trolley lines, rolling stock, machinery, lands, and buildings of every kind and character used in the operation of the street car system.

The City proposes to submit on June 20th, of this year, to the voters of Eureka, a proposition to acquire under eminent domain proceedings, or otherwise, the property referred to. This is a proceeding, therefore, under Section 47 of the Public Utilities Act.

A public hearing was held in Eureka on the 19th instant under an order of the Commission directing the Company to appear and show cause why the Commission should not proceed

to fix and determine the just compensation to be paid for the property referred to. All of the parties to the proceeding were represented at that hearing and testimony and exhibits were introduced. It was also stipulated that the annual reports of the Company, on file with this Commission, should be considered in evidence in this proceeding. Mr. E. F. Charters, representing a bondholders' and stockholders' committee, filed copy of an agreement entered into on December 20, 1920, between the Company, on the one hand, and the owners and pledgees of all outstanding stock and bonds and certain other creditors, on the other hand. It appears from the terms of this agreement that the committee has full power to transfer the property in question from its present owners to the City and questions of ownership and title are not at issue.

#### Valuation of Property.

The Commission instructed its engineering department to make a valuation of the property and to prepare a report. This was done and copies of the report were furnished prior to the hearing to the City and to the Company. This report (Valuation Report Humboldt Transit Company, Eureka, California, by Richard Sachse, Chief Engineer, dated May 14, 1921) was introduced as Commission's Exhibit No. 1. This report contains a detailed description of the property based on an inventory made on the ground. The description of the property, as contained in Commission's Exhibit No. 1 is herein referred to as a description of the property and rights sought to be acquired by the City and is attached hereto as Exhibit "A."

Neither the City nor the Company submitted separate appraisals or valuations and no objections to the report and testimony of our engineers were made by either party.

As is usual in cases of this nature, our engineers made an estimate of the reproduction cost based on unit prices for labor and material during a reasonable construction period prior to the filing of the application. The one year ending April 9, 1921 (the date the application was filed) is considered a reasonable construction period. There was also made an estimate of the present condition of the property as compared with new and of the reproduction cost less depreciation. The three figures found were as follows:

Reproduction Cost	\$439,627.00
Reproduction Cost Less Depreciation	234,951.00
Present Condition	53 per cent of new

There was also made an estimate of the historical cost of the property based, to a large extent, on original cost data. The following figures were found:

Historical Reproduction Cost	\$249,092.00
Historical Reproduction Cost Less Depreciation,.....	133,115.00
Condition Per Cent	53

Commission's Exhibit No. 1 shows, and further testimony was given by the Commission's chief engineer on this point, that this street railway is now, and has been since 1912, operating at a loss. This was also the testimony of the Company's general manager, Mr. J. W. Hale. An analysis of the Company's revenues and expenses since 1912 (the first year that annual reports were filed with this Commission) shows that at no time has the Company earned from its street railway business what may be considered a fair return on the investment or historical reproduction cost. Prior to 1915 when, in addition to its street

railway operations, the Company was engaged in the oil business, book profits were shown and dividends were distributed. Aside from the fact that it is doubtful, from such records as are before the Commission, whether or not such profits were actually earned, there is no doubt that the street railway operations alone were not profitable at any time during the Company's history. It is apparent at this time that the Company has not, during the last ten years, been making earnings sufficient to meet its operating expenses, including depreciation and taxes. The earnings were not sufficient for any return on investment and such payments as were made for bond interest and other purposes, disbursing apparent profits, were paid out of capital and at the expense of deferred maintenance and by ignoring depreciation. The record shows that rail renewals have not been made since 1908 and that, at this time, the Company is facing very considerable maintenance and renewal expenses, the result largely of deferred maintenance and deferred renewals.

These facts, it is clear, have a marked influence on the present fair value of this property and on the amount of just compensation. The property can be considered a going-concern only in the sense that it is, at this time, in actual operation and can be continued in operation, but not in the sense that it is doing a profitable business, or even paying its way. Operations are being carried on at a loss.

The Commission's chief engineer testified, and this testimony was also concurred in by the Company's general manager, that there is little, if any, prospect of a favorable change in the future as regards the earning capacity of this property.

It was testified that the alternative to a sale to

the City would be the discontinuing of operations and the scrapping of the street railway plant. An estimate was made by our engineers of the salvage value under favorable conditions in case of abandonment of service, and keeping in mind that the owner is obligated, under the terms of the franchise, to put the city streets back to their original condition after the removal of the tracks. Under these circumstances, the salvage value of all property considered in this proceeding is estimated to be between \$40,000.00 and \$50,000.00.

The system might be rehabilitated, the present equipment might be scrapped, and modern one-man car service be instituted. This would require a very considerable outlay of additional capital money. This required new capital added to the present investment would result in an investment figure so high that even with better service and larger income the Company's ability, under reasonable rates, to earn a fair return is doubtful. A complete financial reorganization, I believe, would be necessary to effect a rehabilitation and continued operation of this street railway.

A further factor having a bearing on the value of the property as a going-concern should be noted. Commission's Exhibit No. 1 shows that there is not included in the property to be transferred to the City under this application a certain rotary converter, together with switchboard equipment and certain transformers. These operating plant items are not owned by the Company but are leased to it and either this equipment, or other equipment of a similar nature, would have to be bought or leased by the City if the street railway system were taken over under municipal ownership and operation. The road cannot operate without such equipment. These items were not valued by our engineers and their purchase is subject to direct negotiation between the City and the owners.

In my opinion, it does not admit of doubt that, in this case, the factors of franchise value, going-concern, development cost, a reasonable forecast for the future, and the general operating condition and operating efficiency of the plant (as distinguished from the present condition of the individual depreciated items of the physical property) are all negative quantities. Such weight as is to be given these factors in their bearing on present fair value and just compensation must, in the nature of the case, be deductions from any figure found by a consideration of the positive elements of value.

Company's financial condition.

The annual reports which are in evidence in this proceeding show that the Company was organized on July 28, 1903, and has an authorized common stock issue of \$1,000,000.00 divided into 10,000 shares of \$100.00 each. Stock in the amount of \$500,000.00 is outstanding. The discount on the stock outstanding is reported at \$406,473.54. Prior to May, 1918, all of the Company's outstanding stock was charged to road and equipment. In May, 1918, the Company voluntarily transferred from its road and equipment account to discount on stock \$406,473.54.

On December 31, 1920, the Company reports \$172,000.00 of bonds outstanding of a total authorized bond issue of \$500,000.00. The bonds are dated October 1, 1904, bear 5% interest and mature on October 31, 1934. Bonds in the amount of \$211,000.00 have been issued from time to time. The Company paid none of its bond interest due in 1920 and only part of such interest falling due in 1919. The Company has also failed to pay interest on its floating indebtedness. The accrued and unpaid interest is reported on December 31, 1920, as \$19,508.90. Default has also

been made, it appears, on the sinking fund payments; such sinking fund liabilities being reported at \$6,880.00 on December 31, 1920. On December 31, 1920, the Company's notes and accounts payable are reported as \$70,849.25. Adding to the notes and accounts payable the unpaid interest and other current liabilities, there results a total current liability of \$97,038.15. The Company's balance sheet as of December 31, 1920, is as follows:

Humboldt Transit Company

Balance Sheet as of December 31, 1920.

A s s e t s

Road and Equipment . . . . .	\$253,676.10
Sinking Funds. . . . .	47.77
Miscellaneous Physical Property. . . . .	54,313.60
Cash . . . . .	5,955.26
Material and Supplies. . . . .	3,643.45
Discount on Capital Stock. . . . .	<u>406,473.54</u>
Total Assets. . . . .	<u>\$704,109.72</u>

L i a b i l i t i e s

Capital Stock. . . . .	\$500,000.00
Funded Debt Unmatured. . . . .	172,000.00
Loans and notes Payable. . . . .	64,900.42
Audited Accounts and Wages Payable . . . . .	5,948.83
Accrued Interest, Dividends and Rents Payable	19,308.90
Other Current Liabilities. . . . .	6,880.00
Tax Liability. . . . .	4,155.21
Sinking Fund Reserves. . . . .	34,756.86
Debit Balance. . . . .	<u>*103,840.50</u>
	<u>\$704,109.72</u>

\*Deficit.

It will be noted that the investment on December 31, 1920, consisting of "Road and Equipment" and "Miscellaneous Physical Properties" is reported at \$287,989.70. This figure, however, does not represent actual cost for the reason that, in 1910, it appears that the Company took an inventory, made an estimate of property values, and wrote such estimates on its books. The figure may be compared, however, with the historical repro-

duction cost found by our engineers.

Under the terms of the bondholders' and stockholders' agreement, heretofore referred to, provision is made for the distribution of the proceeds from the sale of the property, if such sale is made, to the bond and other security owners.

Findings of fact and conclusions on value.

The fair value of the property sought to be acquired by the City, in view of the facts and circumstances discussed in this opinion, lies, it appears to me, between, as the lower limit, the salvage value of the property in case operation is abandoned and, as the upper limit, the depreciated cost of the physical property minus certain deductions. Deductions must be made because of the facts that the system, taken as a whole, is not in a reasonably efficient operating condition, has not taken care of depreciation of the plant as a whole and requires the expenditure of large sums of money to overcome the effects of deferred maintenance and deferred renewals. The further fact that with continued operation large additional capital expenditures for new and more modern equipment will have to be made and that the track system, to a considerable extent, will have to be rehabilitated, must result in a further deduction from such fair value as would otherwise be found. These expenditures, it must be remembered, will have to be made regardless of ownership and regardless of whether the present owners retain the property, or whether the City buys and operates it.

If this property were, at this time, able to earn its way, including a fair return on a proper rate base or if, in the recent past, it had been able to earn its operating expenses plus a fair return; or if there were reasonable prospects of such a condition being brought about in the future, the fair value of



the property, in my opinion, could not be less than its reproduction cost less depreciation plus a reasonable development cost (assuming that such development cost had not been returned to the utility out of earnings over and above fair return). Such a condition, however, does not exist in this case. It is established that for at least ten years the Company has carried on its street railway operations at a loss. The testimony of the Commission's chief engineer and of the Company's general manager is unanimous that there is no reasonable prospect of this property making even operating expenses plus taxes and depreciation in the future. There is uncontradicted testimony that the most economical step for the Company to take, in case the City does not buy this property, is discontinuance of operation and the salvaging of the scrap.

I am satisfied, nevertheless, that the present fair value is considerably higher than the mere scrap value. The City, if it should buy, will acquire an operating plant. I see no reason why, under municipal ownership and operation the street railway system should not earn all of its expenses and prove a valuable asset to the City. The City will be relieved from important expense items which the privately owned and operated utility cannot avoid. The largest of these are taxes, certain overhead expenses and street paving costs. While these matters, perhaps, have no immediate bearing on the present value of this property, they go to show that in acquiring this street railway the City would not in any sense acquire a worthless property.

I think it is also proper for me to say in this connection that discontinuance of street railway operation in Eureka would, without question, result in serious direct and indirect losses to the community and there appears to be no

possibility, at this time, of a substitute for an electric street railway that can furnish equally satisfactory service at an equal cost. Should the City not buy and this property be scrapped and should, thereafter, the City find it necessary to build a system of its own, it is apparent that a reasonably satisfactory street railway plant would cost at least \$300,000.00. It would unquestionably be more economical for the City to acquire the existing property at a reasonable price and thereafter rehabilitate the system in such manner as the City might desire.

I find that the just compensation for all of the property sought to be acquired by the City, including physical properties plus overheads, franchises, and all other elements of value, as the property is described in Exhibit "A," attached hereto, is the sum of \$100,000.00.

There is no severance damage.

I recommend the following order and findings:

#### ORDER AND FINDINGS.

The City of Eureka, a municipal corporation, having filed with the Railroad Commission a petition setting forth the intention of the City to acquire, under eminent domain proceedings or otherwise, all of the operative property of Humboldt Transit Company, a public utility, including all tracks, roadbeds, franchises, poles, trolley lines, rolling stock, machinery, lands, and buildings situated in the City of Eureka and used in the operation of the street railway system, and praying that the Railroad Commission fix and determine the just compensation to be paid to the Humboldt Transit Company for said property and rights, a public hearing having been held, evidence received, and the evidence having been submitted;

The Railroad Commission of the State of California, after full consideration of all matters presented, and being fully advised in the premises, hereby finds the just compensation to be paid by the City of Eureka for the property and rights sought to be acquired, and which are specifically set forth and described in Exhibit "A," attached to this decision, to be the sum of \$100,000.00, and the said sum is hereby declared to be the just compensation as of the day on which the petition was filed herein by the City of Eureka, to wit: the 9th day of April, 1921.

The Commission further finds that by reason of the taking of said operative property and rights no severance damage will result to the property and rights of the Humboldt Transit Company not sought to be acquired by said City.

The foregoing opinion and findings are hereby approved and ordered filed as the opinion and findings of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 28<sup>th</sup> day of May, 1921.

H. C. Boudiege  
J. W. Loveland  
James Martin  
Chas. H. Howell  
J. P. Benedict

Commissioners.

Attached-  
Exhibit "A" - Description  
of Property.

Exhibit "A"

Accompanying Decision No. \_\_\_\_\_ in Application 6727.

Description of property and rights sought to be acquired by City of Eureka and comprising:

1st: All property described in the detailed inventory of property listed in the report of the engineering department of the Railroad Commission of the State of California, dated May 14, 1921, and referred to in this decision as Commission's Exhibit No. 1.

2nd: All franchises and rights of whatever nature owned by the Humboldt Transit Company in the City of Eureka and including the following:

<u>Ordinance No.</u>	<u>Date Granted:</u>	<u>Date of Expiration</u>	<u>Remaining</u>		
			<u>L i f e</u>	<u>Grantor</u>	<u>Grantee</u>
305	2/25/03	2/25/53	52 yrs.	Eureka City	Humboldt Transit Co.
318	11/13/03	11/13/53	32 yrs.	Eureka City	Humboldt Transit Co.
344	6/ 7/04	6/ 7/54	53 yrs.	Eureka City	Humboldt Transit Co.
377	3/14/05	3/14/55	34 yrs.	Eureka City	Humboldt Transit Co.
387	6/13/05	6/13/55	34 yrs.	Eureka City	Humboldt Transit Co.