

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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ORIGINAL

In the Matter of the Application
of FRESNO-HANFORD and SUMMIT LAKE
INTERURBAN RAILWAY COMPANY for an
order authorizing the issue of
bonds.

Application No. 374

H. P. Brown for applicant.

LOVELAND, Commissioner.

O P I N I O N

The Fresno-Hanford and Summit Lake Interurban Railway Company was organized in 1908 with a capital stock of \$1,250,000. This stock was all issued and distributed among the promoters of the proposition principally without anything being paid therefor other than the services rendered in promotion, although a small amount of the stock was sold for cash and the promoters sold some of their stock. A bond issue was thereafter authorized of \$1,250,000, of which issue approximately \$98,000 were sold. So that at the time the first application was made under the Public Utilities Act to this Commission for authority to issue bonds there were bonds outstanding of the former authorized issue in the sum of approximately \$98,000.

The first application under the present Public Utilities Act was filed January 23, 1913, and the hearing thereon was held at Fresno January 31, 1913. In the meantime the \$98,000, or such sum as had been received for the sale of \$98,000 in bonds, had been expended in purchasing rights of way, putting up grades, building bridges, culverts, promotion expenses, etc., the value of which was stated by applicant at about \$209,000. Applicant was advised after the first hearing that the Commission could not authorize the issue of bonds prayed for and was told what it would be necessary

to do to place itself in position to justify the Commission in authorizing any bond issue.

At the time the first application was made, applicant proposed to construct an electric railroad running from the terminal in the City of Fresno easterly to the Town of Centerville in Fresno County and southeasterly to the Town of Kingsburg, Fresno County, with a total mileage, single track, of forty miles. Later applicant amended its petition and asked for authority to issue \$600,000 worth of bonds, but upon the hearing of said application applicant was again advised that the Commission could not authorize said issue of bonds for the reason that the value of the road when completed plus the present valuation of rights of way, bridges, culverts and such expenses as could properly be capitalized would not justify said issue. Various hearings were held by the Commission and conferences with the promoters of the enterprise were also held; which finally resulted in an agreement upon the part of applicant to ask for a bond issue with the proceeds of which it would build the first unit of its road, namely, from Fresno to Selma, a distance of approximately twenty miles including necessary side tracks, spurs, etc.

At the adjourned hearing of the application held on August 7, 1913, applicant testified that it had complied with the conditions theretofore set forth by the Commission as follows:

1st. That it has opened and is keeping a regular set of books.

2nd. That its franchises have been renewed and are properly held in the name of the corporation.

3rd. That it has renewed its titles to its rights of way.

4th. That it has approved by proper action of its directors this application to the Railroad Commission, and that such approval was properly recorded in the minutes of the meetings of its directors.

At this hearing on August 7th, applicant presented by testimony the following statement of facts to the Commission:

That it proposes to build the first unit of about twenty miles of its road at an estimated cost of \$357,820. That the present value of its property is \$117,236.42 made up as follows:

Rights of way.....	\$ 49,765.00
Franchises.....	1,950.00
Culverts.....	4,543.10
Concrete work.....	1,242.00
Excavation and embankment.....	13,385.40
Cash expenditures.....	41,614.62
Cash advanced W. D. Mitchell.....	3,005.91
Cash advanced W. M. Giffin.....	<u>1,730.45</u>
Total.....	\$117,236.42

The former Chief Engineer of the Railroad Commission, Mr. R. A. Thompson, had investigated the value of applicant's property and had reported it to the Commission as between ninety and one hundred thousand dollars. This valuation of Mr. Thompson comprehended the full length of the proposed road. Our present Chief Engineer, Mr. W. C. Earle, made an examination and reported to the Commission that the present value of the property is \$89,233.92. In arriving at this valuation Mr. Earle had declined to accept the multiple of two used by applicant as to the value of its rights of way and had deducted the amount which applicant had placed in its valuation as the value of franchises, thereby reducing the valuation furnished by applicant from a little over \$117,000 to about \$89,000, as stated above. Mr. Earle agrees with applicant as to the probable cost of building the road, namely, \$357,820. This amount of \$357,820 plus our Engineer's present valuation of \$89,233.92 gives the value of the road when completed as \$447,053.92.

At the hearing on August 7th, applicant agreed to furnish such further data as the Commission and its Chief Engineer desired and that thereafter after the same had been considered, to amend its application in conformity to the decision of the Engineer of the Commission as to the present and completed value of its road. Such an amended application was filed on August 29th with the stipulation that no further hearing was necessary and that applicant would accept the decision of the Commission upon the data and testimony heretofore presented. At this hearing also the Commission

notified applicant and Mr. Summers, who is to purchase the bonds, that some provision should be made to insure the payment of the bond interest for the first two years, and Mr. Summers has since filed a stipulation with the Commission that as he is to be the purchaser of the bonds he will guarantee the payment of the bond interest for the first two years.

In the amended application applicant asks for permission to issue 40-year 6% bonds in the amount of 80% of \$447,053.98, or in round figures \$358,000, said bonds to be sold at 80, netting \$286,400, which sum applicant proposes to devote, under the jurisdiction of the Railroad Commission, to the building of the first unit of its road.

It will be seen that applicant will still lack the difference between \$286,400 and \$357,643.18, or about \$71,000, which sum applicant proposes to provide for as follows:

Mr. W. D. Mitchell and Mr. Wiley M. Giffin, stockholders of the road and men of ample means, have each agreed to subscribe for \$25,000 of the preferred stock of applicant at par, such subscription to be paid in time to be available for the building of the last five miles of the first unit of applicant's road. This would still leave an amount in the neighborhood of \$20,000 which applicant states it can easily raise from further sales of stock when the proceeds of the bonds and the proceeds of the stock subscribed for by Mr. Mitchell and Mr. Giffin have been judiciously expended in the construction of its road. I agree with them that there will be no difficulty in providing the further small sum necessary. The proposition appeals to me as one which if properly handled will prove profitable. In past considerations of the subject I have severely criticized the promoters for the manner in which the proposition has been handled and have made it plain to applicant that the Commission could not view with approval such actions by which \$1,250,000 worth of stock, for which but little had been paid could be offered and sold to the public. Such stock was issued long before the effective date of the Public Utilities Act, and is of course beyond

the jurisdiction of the Commission, but in its present application applicant stipulates that practically all of the \$1,250,000 of stock issued shall be turned over to Mr. J. H. Summers, who is to take this issue of bonds now prayed for, and Mr. Summers stipulates that no part of said \$1,250,000 issue of stock shall be offered or sold to the public until the road is completed and in operation; the only part of said stock which will pass out of his possession before that time will be such amounts as he finds it necessary to give with the bonds to effect the sale thereof. Applicant agrees to make an application to the Commission to retire the \$92,000 in bonds issued under the former authorization, as above set forth, and also to care for current indebtedness in a small amount by the issuance of preferred stock which the holders of the \$92,000 worth of bonds agree to take at par, the remainder of the issue to be issued at par to liquidate current indebtedness.

I believe and I find as a fact that the merits of this proposition are such as to justify the Commission in authorizing the issue of bonds as prayed for in the amended application and I recommend the following order:

O R D E R .

WHEREAS the Fresno-Hanford and Summit Lake Interurban Railway Company in its amended application prayed for authority to issue 40-year 6% bonds in the sum of \$352,000 to be sold at 80, the proceeds to be devoted to the building of the first unit of its electric road from Fresno, California, to Selma, California; and

WHEREAS after a careful and exhaustive study and consideration of this proposition which has been at different times presented to the Commission and thereafter modified until the application has reached its present form; and

WHEREAS the Commission believes and has found as a fact that said application should be granted,

IT IS HEREBY ORDERED that the Fresno-Hanford and Summit Lake Interurban Railway Company be and it is hereby granted per-

mission to issue its 40-year 6% bonds in the sum of \$358,000 and to sell the same at 80% of par, the proceeds of the sale of said bonds to be devoted to the construction and equipment of the first unit of an electric road from Fresno to Selma, under the jurisdiction of the Railroad Commission of the State of California; provided, that this order shall not become effective until the Fresno-Hanford and Summit Lake Interurban Railway Company shall have deposited substantially all of the \$1,250,000 worth of stock heretofore issued with Mr. J. E. Summers, and Mr. J. E. Summers shall have filed with the Railroad Commission of the State of California a stipulation that no part of said \$1,250,000 worth of stock shall be offered or sold to the public until said first unit of the electric road of the Fresno-Hanford and Summit Lake Interurban Railway Company from Fresno, California, to Selma, California, shall have been completed and put in operation. Said J. E. Summers shall further stipulate that the only part of said \$1,250,000 stock of the Fresno-Hanford and Summit Lake Railway which will leave his possession will be such amounts as he finds it necessary to give as a bonus to effect the sale of the bonds herein authorized.

Applicant shall keep separate, true and accurate accounts showing the disposition of the bonds herein authorized to be issued, the amount of money derived from the issue of said bonds and the application of said moneys, and on or before the 25th day of each month shall make a verified report to the Commission showing the amount of bonds issued, the proceeds derived therefrom and the application of the same during the preceding month, all in accordance with the terms of this Commission's General Order No. 24, which in so far as applicable are made a part of this order.

This opinion and order shall not become operative until the legal fee provided in such cases by the Public Utilities Act shall have been paid.

The authority herein granted applicant to issue bonds shall only apply to bonds issued on or before one year from the date of this order.

The foregoing opinion and order are hereby approved
and ordered filed as the opinion and order of the Railroad Com-
mission of the State of California.

Dated at San Francisco, California, this 30th day of
August, 1913.

H. D. Howard
Alfred G. ...
Max ...

Commissioners.