

ES

Dec. No. 9470.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

* * *

ORIGINAL

In the Matter of the Application of)
THE WESTERN PACIFIC RAILROAD COMPANY,)
for an order authorizing the issue)
of \$3,000,000.00 principal amount of)
first mortgage six per cent bonds.)

Application No. 7031

A.R. Baldwin, General Counsel, Lester J. Hinsdale,
General Attorney, and Carl Taylor of
Counsel for The Western Pacific Railroad
Company.

LOVELAND, Commissioner.

O P I N I O N.

THE WESTERN PACIFIC RAILROAD COMPANY, hereinafter sometimes referred to as applicant, asks permission to issue and sell at not less than 94 per cent. of their face value and accrued interest, \$3,000,000 of first mortgage 6 per cent. bonds due March 1, 1946.

As of June 30, 1921, applicant reports \$47,500,000.00 of common and \$27,500,000 of 5 per cent. non-cumulative preferred stock. This stock was issued under the authority granted in Decision Number 3506, dated July 12, 1916, (Vol. 10, Opinions and Orders of the Railroad Commission of California, pg. 563) in payment for the properties of Western Pacific Railway Company. In the same decision the Commission authorized applicant to issue and sell for not less than 90 per cent. of their face value and accrued interest, \$20,000,000.00 of first mortgage bonds due March 1, 1946. Of the proceeds not exceeding \$2,000,000.00 applicant was permitted to use to pay distributive shares of non-assenting bondholders, reorganization expenses,

and expenses incident to the reorganization of the Western Pacific, as more fully set forth in Decision No. 3505. The remainder of the proceeds were from time to time to be expended for the acquisition and construction of new properties. On August 16, 1921, the day this application was heard, applicant's treasurer reported that it had \$7,087,085.30 on hand from the sale of the bonds. Since then, the Commission has authorized applicant to expend \$5,620,424.32 of this amount, leaving \$1,466,660.98 not covered by an order of the Commission.

On April 9, 1921, the Commission by Decision No. 8834 authorized applicant to issue \$4,180,000.00 of 5 per cent first mortgage bonds to enable The Western Pacific Railroad Corporation to purchase outstanding securities of Sacramento Northern Railroad. These bonds have been issued by applicant. Of the total ^{bonds} heretofore issued, \$176,500.00 have been retired through the sinking fund, leaving a total of \$24,003,500.00 outstanding on June 30, 1921.

It appears from the testimony in this proceeding that in 1918 and prior to the operation of applicant's properties under the Federal Control Act, applicant ordered five Mikado type freight locomotives, 400 steel frame Gondola cars and 1500 steel under-frame cars. The equipment cost \$4,112,648.17. Applicant expected to pay for this equipment out of the proceeds realized from the sale of the \$20,000,000.00 of bonds, the issue of which the Commission authorized in Decision No. 3505. Because applicant's properties were being operated by the federal government, the trustees under applicant's first mortgage, following the advice of their counsel, refused to release any of the proceeds to pay for the equipment. The result was that the company had to borrow money to pay for the equipment. Under the authority of the Director General of Railroads, applicant issued \$3,600,000.00 of 6 per cent. equipment gold notes payable in twelve consecutive installments of \$300,000.00 each, payable respec-

tively on the first day of February and, on the first day of August in each year commencing on the first day of August, 1920, and ending on the first day of February, 1926. The notes were sold to The Equitable Trust Company of New York at $97.0491\frac{2}{3}$ per cent of their face value, and accrued interest. They are callable at $101\frac{1}{2}$ and accrued interest. The sale agreement provided, among other things, that the trust company would charge applicant one per cent. interest only on the transaction, provided applicant kept on deposit with the trust company during the period the notes were outstanding an amount of cash equal to the face amount of notes. To secure the full benefit of this agreement, applicant had to deposit \$3,600,000.00 of the proceeds from the sale of the \$20,000,000.00 of first mortgage bonds with The Equitable Trust Company. The trust company agreed to allow applicant such rate of interest on the amount of the deposit, equal to the principal of the notes held by the trust company, as would result in the receipt by the trust company of a net interest rate (after deducting expenses) of one per cent on the purchase price of the notes held by the trust company (viz:- $97.0491\frac{2}{3}$) over and above the rate of interest allowed by the trust company on such amount of said deposit.

Of the \$3,600,000.00 of equipment gold notes, \$900,000.00 have been paid, leaving \$2,700,000.00 outstanding. These outstanding notes call for the deposit of \$2,700,000.00 of cash with the trust company. The testimony shows that applicant will require this cash during the current and following year for construction purposes. Applicant has therefore concluded to purchase at par from the trust company the \$2,700,000.00 of outstanding equipment gold notes. The trust company has agreed to deliver the notes to applicant at par and not insist on their redemption at the call price.

The record shows that The Equitable Trust Company has expressed a willingness to purchase at 94 per cent. of their face value

and accrued interest, \$3,000,000.00 of applicant's first mortgage 6 per cent. bonds, due March 1, 1946 and callable at 102-1/2 per cent of their face value and accrued interest thereon. Applicant asks permission to use the proceeds to pay the \$2,700,000.00 of outstanding equipment gold notes, and reimburse its treasury on account of moneys expended to pay \$300,000.00 of the notes due August 1, 1921. The financing of the payments made on the equipment prior to August 1, 1921 is covered in another decision of the Commission.

I herewith submit the following form of Order.

O R D E R

THE WESTERN PACIFIC RAILROAD COMPANY having applied to the Railroad Commission for permission to issue and sell \$3,000,000.00 of first mortgage bonds; a public hearing having been held, and the Commission being of the opinion that the money, property or labor to be procured by such issue are reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income;

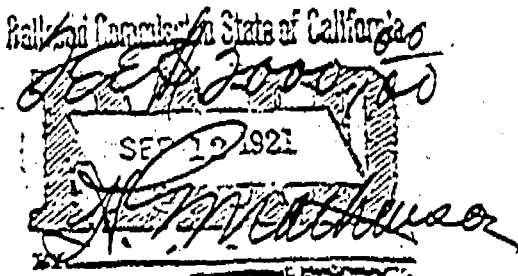
IT IS HEREBY ORDERED, that THE WESTERN PACIFIC RAILROAD COMPANY be, and it is hereby, authorized to issue and sell, for cash, on or before December 31, 1921, at not less than 94 per cent. of their face value and accrued interest thereon, \$3,000,000.00 of 6 per cent. first mortgage bonds due March 1, 1946, callable at 102-1/2 per cent. of their face value and accrued interest thereon, and use the proceeds to pay in whole or in part the \$2,700,000.00 of outstanding equipment gold notes referred to in this application and reimburse its treasury on account of moneys expended to pay \$300,000.00 of said notes due August 1, 1921, or on account of moneys hereafter expended from income or from other moneys not derived from the issue of stocks, bonds, notes, or other evidences of indebtedness, in the payment of said notes, or any of them.

The authority herein granted is subject to further conditions as follows:-

- 1.--The authority herein granted will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to Two Thousand Dollars (\$2,000.00).
- 2.--The Western Pacific Railroad Company shall keep such record of the issue and sale of the bonds herein authorized, and of the disposition of the proceeds, as will enable it to file on or before the 25th day of each month a verified report as required by the Railroad Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

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 7th day of September, 1921.



H. B. Brundage
H. L. ...
Charles ...
J. J. ...
Commissioners.