Decision No. 30439

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of LOS ANGELES RAILWAY CORPORATION for an order, pursuant to Section 52 of the Public Utilities Act, authorizing (1) the issuance of 200,000 shares of no par value common stock having a stated value of $2,000,000., and (2) the exchange of such stock for the outstanding 200,000 shares of $100 par value of common stock of the said corporation.

ORIGINAL

Application No. 21592

Gibson, Dunn & Crutcher, by Homer D. Crotty and Woodward M. Taylor, for applicant.
Ray L. Chesebro, City Attorney, by John S. Holmes, Deputy, and E. J. Burns, Transportation Engineer for the City of Los Angeles, interested party.
K. Charles Bean and Stanley M. Lanham, for the Board of Public Utilities and Transportation of the City of Los Angeles, interested party.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Commission is asked to enter its order authorizing Los Angeles Railway Corporation to issue 200,000 shares of no par value common stock having a stated value of $2,000,000., and to exchange such no par value common stock for the 200,000 shares of applicant's $100 par value common stock now outstanding.

Los Angeles Railway Corporation as of December 31, 1936 reports assets and liabilities as follows:-

Investments		$68,419,962.23
Road and equipment	$68,405,611.67	
Sinking fund	590.56	
Stock	10.00	
Bonds	13,750.00	
Current assets		1,585,035.86
Cash	937,713.24	
Loans and notes receivable	16,712.10	
Accounts receivable	92,859.61	
Materials and supplies	512,633.41	
Other current assets	25,117.50	
Unadjusted debits		188,233.45
Prepaid insurance	46,274.41	
Prepaid taxes	89,427.53	
Other unadjusted debits	52,531.51	
Total assets		$70,193,231.54

LIABILITIES		
Capital stock		$28,954,400.00
Common stock	20,000,000.00	
Preferred stock 5% non-cumulative	8,954,400.00	
Funded debt		15,860,000.00
Los Angeles Traction Company 5s due 12/1/38	250,000.00	
Los Angeles Railway Company 5s due 10/1/38	3,867,000.00	
Los Angeles Railway Corporation 5s due Dec.1,1940	2,743,000.00	
Los Angeles Railway Corp'n 5s due 12/1/71	9,000,000.00	
Current liabilities		809,745.67
Loans and notes payable	20,000.00	
Audited accounts and wages payable . . .	615,597.75	
Accrued interest, dividends and rents payable	98,308.33	
Other current liabilities	1,250.00	
Tax liability	74,589.59	
Depreciation accrued		17,537,469.83
Unadjusted credits		172,958.60
Surplus		6,858,657.44
Funded debt retired through surplus . .	3,225,000.00	
Sinking fund reserves	6,045,419.76	
Profit and loss-Debit	2,411,762.32	
Total liabilities.....		$70,193,231.54

The Commission in Decision No. 29086 dated August 31, 1936, written by Commissioner Carr, in Application No. 20714 says-

> "It seems to me that applicant, Los Angeles Railway Corporation, should give consideration to bring its stock issue in line with the equity in its properties and restate its corporate records so that they will more nearly be in conformity with the actual investment in the properties, a course which applicants indicate is under consideration."

To carry out the suggestion made by the Commission the Los Angeles Railway Corporation intends to write down its investment in road and equipment accounts from $68,405,611.67 to $45,463,749.59, the latter amount being segregated as follows:-

Account No.		Total Operative Property as of December 31,1936.
501	Engineering & Superintendence	$ 990,661.45
502	Right of Way	2,886,496.00
503	Other Lands	3,113,006.26
504	Grading	1,940,781.02
504 C	Drain Tile	89,285.36
505	Ballast	996,488.82
506	Ties	1,010,556.25
507	Rail, Rail Fastenings & Joints	3,624,983.36
508	Special Work	1,319,826.20
510	Track & Roadway Labor	1,967,407.83
511	Paving	3,545,957.20
512	Roadway Machinery & Tools	104,470.00
515	Bridges, Trestles & Culverts . .	1,050,972.34
516	Crossings, Fences and Signs . . .	135,987.69

Continued:

Account No.		Total Operative Property as of Dec.31,1936
516 X	Signs, Coach Division	$ 3,717.00
517	Signals and Interlocking Apparatus	14,889.34
518	Telephone & Telegraph Lines	61,948.84
518 X	Telephone, Coach Division	2,656.00
519	Poles and Fixtures	456,812.21
521	Distribution System	1,478,935.34
522	General Office Buildings	818,325.00
523	Shops and Carhouses	1,228,220.62
524	Miscell. Buildings and Structures	331,264.08
524 W	Miscell. Buildings, L.A.M.C.Co.	64,547.00
524 X	Miscell. Buildings, Coach Division	235,717.34
529	Other Expenditures, Way & Structures	5,940.58
530	Passenger & Combination Cars	6,308,670.67
532	Service Equipment	212,989.00
533	Electric Equipment of Cars	3,448,119.81
536	Shop Equipment	434,794.64
536 W	Shop Equipment, L.A.M.C.Co.	5,163.00
536 X	Shop Equipment, Coach Division . . .	80,682.49
537	Furniture	173,651.57
537 W	Furniture, L.A.M.C.Co.	2,378.00
537 X	Furniture, Coach Division	10,131.75
538	Automobiles, Buses & Trucks	2,668,691.65
538 J	Miscellaneous(Trailers,etc.)	8,959.69
540	Substation Buildings	330,574.51
543	Substation Equipment	1,439,711.89
544	Transmission System	218,830.24
545	Franchises	197,151.00
547	Interest During Construction	1,517,875.28
546	Law Expenditures)	
548	Injuries & Damages)	
549	Taxes)	925,521.27
550	Miscellaneous)	
	Total.....	$45,463,749.59

The accrued depreciation on the properties is estimated at $16,994,874.00, as contrasted with the depreciation reserve of $17,537,469.83, reported on the books of the company.

The revised charges to road and equipment accounts and the accrued depreciation represent figures developed through an engineering and accounting study undertaken by representatives of the company, of the Board of Public Utilities and Transportation of the City of Los Angeles, of the City Attorney's office, and of the Railroad Commission.

The several representatives concluded that the $45,463,749.59 represents a reasonable estimate of the historical cost of the properties of applicant. The figures, with the exception of those reported in Accounts 501, 547, 546, 548, 549 and 550 collectively, referred to as the overhead accounts, have as their starting point the joint report of

1923 prepared by engineers representing the company, the City of Los Angeles and the Commission. To the figures appearing in such report have been added the additions and betterments at cost from 1923 to December 31, 1936, less retirements. Because of a study made by the Commission's engineers in 1926, the amounts included in the overhead accounts in the joint report of 1923 were adjusted to a lower base and such adjusted figures have been brought forward to December 31, 1936. The $45,463,749.59 is not being submitted as representing the value of the company's properties. It is being offered as a figure which more nearly represents the historical cost of the company's transportation properties than the $68,405,611.67 now charged by the company to its road and equipment accounts.

The company will reduce the charges to its road and equipment accounts by the sum of $22,941,862.08. The liability side of the company's balance sheet will be changed as follows:- first, the value assigned to the common stock will be reduced from $20,000,000. to $2,000,000.; second, the reserve for accrued depreciation will be reduced from $17,537,469.83 to $16,994,874.00 by the transfer of $542,595.83 to Account 451, profit and loss; and third, Account 451, profit and loss, will be charged with the sum of $4,941,862.08.

O R D E R

A public hearing having been held in the above entitled matter before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes herein stated and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED that Los Angeles Railway Corporation be, and it is hereby, authorized to issue on or before March 1, 1938

200,000 shares of its no par value common stock having a stated value of $2,000,000. in exchange for the 200,000 shares (par value $20,000,000.) of common stock now outstanding.

IT IS HEREBY FURTHER ORDERED that Los Angeles Railway Corporation may, as of December 31, 1936, reduce the charges to its road and equipment accounts from $68,405,611.67 to $45,463,749.59, said $45,463,749.59 to be segregated as shown in the foregoing opinion and may adjust other accounts mentioned in said opinion, as indicated therein, provided that the authority herein granted does not constitute a finding as to the value of the transportation properties of the Los Angeles Railway Corporation.

IT IS HEREBY FURTHER ORDERED that Los Angeles Railway Corporation shall, within thirty(30) days after the issue of said 200,000 shares of stock, file with the Commission,(1) a report showing to whom said stock was issued; and (2) a certified copy of its amended articles of incorporation; and (3) a copy of each journal entry adjusting its charges to road and equipment accounts and its charges and credits to other accounts necessary to carry out the authority herein granted.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 20th day of December, 1937.

Commissioners.