

Decision No. 33757

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PACIFIC)
 ELECTRIC RAILWAY COMPANY, a corporation,)
 for permission to sell and assign certain)
 operative rights and property and to with-)
 draw from the rendering of certain local)
 service, all within Glendale, California,)
 and of Glendale City Lines, Inc., for per-)
 mission to exercise said operating rights)
 and for an order authorizing the issuance)
 of certain securities.)

ORIGINAL

Application
 No. 23775

FRANK KARR and C. W. CORNELL, for Applicant Pacific
 Electric Railway Company.

C. H. HASBROUCK and DIETHER & DELBRIDGE, by LEONARD
 A. DIETHER, for Applicant Glendale City Lines, Inc.

AUBREY N. IRWIN, City Attorney, and A. L. LAWSON, Assist-
 ant City Attorney, for the City of Glendale, inter-
 ested party.

RALPH W. SWAGLER, City Attorney, for the City of Burbank.

RAY L. CHESEBRO, City Attorney, and FREDERICK VON SCHRADER,
 Assistant City Attorney, for the City of Los Angeles,
 interested party.

W. P. NUTTER, D. H. SEERTS and E. L. SMITH, for Brother-
 hood of Railroad Trainmen, interested party.

K. CHARLES BEAN and STANLEY M. LANEAM, for the Board of
 Public Utilities and Transportation of the City of
 Los Angeles.

RILEY, COMMISSIONER:

O P I N I O N

In this proceeding Pacific Electric Railway Company,
 sometimes hereinafter referred to as "Pacific Electric," seeks
 authority to sell certain operative rights and property, and to
 withdraw from rendering certain local service in the City of Glen-
 dale, California, and Glendale City Lines, Inc., hereinafter some-
 times referred to as the "City Lines," seeks authority to exercise
 such operating rights and be authorized to issue certain securities.

A public hearing was held in this matter in Glendale on November 14, 1940, at which time the matter was submitted for determination.

As a part of its entire electric railway system in California, Pacific Electric operates local bus service in the City of Glendale, a portion of which bus service, however, extends into the City of Burbank and into a very small portion of the City of Los Angeles.⁽¹⁾

It is the proposal of the City Lines to acquire and operate the routes in Glendale and adjacent territory as now operated by Pacific Electric at the same rate of fare as now in effect. Glendale City Lines proposes to enter into joint tariff arrangements with Pacific Electric whereby passengers may use both local lines and Pacific Electric service to and from Los Angeles without any increase in fare.

In order to perform this service the City Lines proposes to use all of the equipment now used by Pacific Electric in Glendale, and augment this equipment with ten new 30-passenger motor coaches. The oldest of the equipment acquired, however, will be held for special occasions, school trippers, and times of emergency. City Lines, however, intends to thoroughly overhaul all the equipment acquired from Pacific Electric and to put it in good mechanical running order.

The City Lines expects to operate this service for the first year with a deficit of some \$9,000 (Exhibit No. 9); however, it expects that traffic will be increased sufficiently so that this deficit will be changed into a profit in about two years. It is the company's contention that due to its methods of operating and ad-

(1) Exhibit "A" attached to the application is a map showing the bus lines proposed to be relinquished by Pacific Electric Railway Company and taken over by the Glendale City Lines, Inc.

ministration, which will be conducted by Pacific City Lines, Inc. for a fee of 5 per cent of the gross revenue, the costs will be materially less than the costs of providing the same service by Pacific Electric. The personnel of the Pacific City Lines, Inc. takes care of the administration and auditing of the various operating companies owned by it, and as the number of operating companies increases the administrative cost for each of these operating companies tends to decrease.

The City of Glendale is in accord with the proposals contained in the application.

Glendale City Lines, Inc. is a corporation organized under the laws of the State of California. It has an authorized common stock issue of 5,000 shares of no par value. Its Articles of Incorporation do not provide for the issue of any preferred stock.

In this application it asks permission to issue at \$100 per share, 1,200 shares of its common stock and use the proceeds, to-wit: \$120,000 for the following purposes:

- To pay the purchase price of Pacific Electric Railway Company properties of \$94,000;
- To pay organization development expenses of \$7,000;
- To make a down payment on 10 new coaches of \$7,500;
- To provide a working capital of \$11,500.

Exhibit No. 11 filed in this proceeding shows that the \$94,000 is made up of the following items:

Land	\$15,000.00
Building	17,300.00
Motor coaches (29 in number)	
Appraised value	10,677.50
Garage equipment and tools	1,971.00
Operating rights	<u>49,051.50</u>
Total	<u>\$94,000.00</u>

Section 52 of the Public Utilities Act specifies the purposes for which the Railroad Commission may authorize a public

utility to issue stock, provided, among other things, that in the opinion of the Commission, the money, property, or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes or other evidences of indebtedness, such purpose or purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Another provision of Section 52 of the Public Utilities Act reads:

"The Commission shall have no power to authorize the capitalization of the right to be a corporation, or to authorize the capitalization of any franchise or permit whatsoever or the right to own, operate or enjoy any such franchise or permit, in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, permit or right."

Moreover, this Commission for many years past, when granting a certificate of public convenience and necessity to a common carrier, has placed such carrier upon notice that operative rights do not constitute a class of property which should be capitalized or used as an element of value in determining reasonable rates.

There is no evidence before us showing how much Pacific Electric Railway Company, or its predecessors in interest, have paid the State of California or its political subdivision for any of the franchises or permits which it now proposes to transfer to Glendale City Lines, Inc. It is not incumbent upon the Commission to produce such evidence. In the absence of any evidence on that point, the entire amount of \$49,051.50, which Glendale City Lines, Inc. proposes to pay for operative rights, will be disallowed for the purpose of issuing stock. For the purpose of acquiring Pacific Electric Railway Company properties, the order herein will authorize Glendale City Lines, Inc. to issue 450 shares of stock of a stated value of \$100 per share. If Glendale City Lines, Inc. receives

for such stock more than \$100 per share, it must credit the difference between the price which it receives for such stock and \$100 per share to Paid-in surplus, and in turn credit the amount to account 2900, Unearned surplus, and offset such excess by a charge to account 1550, Other intangible capital.

W. E. Andersen, Secretary of City Lines, testified that the company should deposit \$11,500 in a bank account for the purpose of establishing banking connections, and provide itself with funds to establish its business.

The testimony shows that all the stock, which the Glendale City Lines, Inc. will be authorized to issue, will be acquired by the Pacific City Lines, Inc. It further shows that the latter stands ready to acquire additional stock of the Glendale City Lines, Inc. when that company needs stock proceeds to acquire additional equipment. As indicated at present, it will acquire ten new motor coaches. These coaches will cost about \$75,000. Of this amount, \$7,500 will be paid in cash and the balance will be financed through the issue of notes and the execution of a mortgage. The note issue and the execution of the mortgage are not now before the Commission.

After considering the testimony submitted I am of the opinion that Glendale City Lines, Inc. should be authorized to issue 710 shares of its no par value common capital stock at not less than \$100 per share, and that it should be authorized to use the proceeds realized from the issue of said stock to pay the cost of the properties which it will acquire from the Pacific Electric Railway Company, to pay actual organization expenses, to make a down payment of about \$7,500 on new motor coaches, and provide itself with \$11,500 of working capital.

A review of the entire record in this proceeding leads me to the conclusion that the transfer of rights and property herein

involved is in public interest, therefore the following form of order is recommended.

O R D E R

Public hearings having been held in this proceeding, the matter having been submitted, and it being found that public convenience and necessity require the transfer from Pacific Electric Railway Company to Glendale City Lines, Inc. of the local operations in and about the City of Glendale:

PART I

IT IS HEREBY ORDERED that:

I. Pacific Electric Railway Company, a corporation, is hereby authorized to transfer to Glendale City Lines, Inc., a corporation, and Glendale City Lines, Inc. is hereby authorized to acquire said operative rights and property mentioned in the foregoing opinion, in accordance with the agreement filed as Exhibit No. 1, and to thereafter operate thereunder, subject to the following conditions:

- (1) The consideration to be paid for the property herein authorized to be transferred shall never be urged before this Commission or any other rate fixing body as a measure of value of said property for rate fixing, or for any purpose other than the transfer herein authorized.
- (2) Applicant Pacific Electric Railway Company shall, within thirty (30) days after the effective date of this order, and upon not less than one (1) day's notice to the Commission and the public, withdraw all time schedules and tariffs applying to its local service in Glendale, filed in its name, and make effective concurrently with tariffs and time schedules of Glendale City Lines, Inc., as hereinafter prescribed.

II. A certificate be and it is hereby granted to Glendale City Lines, Inc., a passenger stage corporation, to perform local passenger stage service within the City of Glendale and territory contiguous thereto, subject to the following conditions:

- (1) The service herein authorized shall commence within a period of not to exceed sixty (60) days from the effective date hereof.
- (2) The service herein authorized shall be placed into effect concurrently with the withdrawal of local passenger service by Pacific Electric Railway Company.
- (3) The service herein authorized shall not be commenced until there shall have been established, in conformity with the rules of this Commission, a joint fare arrangement between Pacific Electric Railway Company and Glendale City Lines, Inc., for joint use of the lines of both carriers by passengers traversing between the Glendale local area and Los Angeles, at fares for such through passage not to exceed those presently in effect by Pacific Electric Railway Company.

III. In the operation of said passenger stage service, pursuant to the foregoing certificate, Glendale City Lines, Inc. shall comply with and observe the following service regulations:

- (1) Written acceptance of the certificate herein granted shall be filed within a period of not to exceed thirty (30) days from the date hereof.
- (2) Subject to the authority of this Commission to change or modify such at any time by further order, Glendale City Lines, Inc. shall conduct such passenger stage operations over and along the following described routes:

LINE NO. 1

From Fletcher Drive and Atwater Avenue, via Atwater Avenue, Glendale Boulevard, Brunswick Avenue, Los Feliz Road, San Fernando Road, Pacific Avenue, Broadway, Glendale Avenue, Lexington Drive, Verdugo Road, Chevy Chase Drive, and Glenoaks Boulevard, to Ashburton Place; and return via reverse of said route.

LINE NO. 2

From Verdugo Road and Towne Avenue, via Towne Avenue, Canada Boulevard, Verdugo Road, Mountain Street, Rossmoyne Avenue, Stocker Street, Geneva Street, Doran Street, Jackson Street, Broadway, to Brand Boulevard; from Broadway and Brand Boulevard, via Broadway, Central Avenue, California Street, Pacific Avenue, Kenneth Road, Grandview Avenue, Bel Aire Drive, Elm Avenue, and Mountain Street to Alameda Avenue. Return via reverse of said route to Verdugo Road, thence Verdugo Road to Towne Avenue.

LINE NO. 3

From Los Feliz and Brand Boulevard, via Brand Boulevard, Chevy Chase Drive, Boynton Street, Palmer

Avenue, Adams Street, Garfield Avenue, Verdugo Road, Colorado Street, Brand Boulevard, to Broadway and Brand Boulevard; from Broadway and Brand Boulevard, via Brand Boulevard, Wilson Avenue, Concord Street, Glenwood Road, 5th Street, Sonora Avenue, Lake Street, Irving Avenue and Victory Boulevard to Allen Avenue.

From Victory Boulevard and Allen Avenue, via Allen Avenue, Lake Street, and reverse of above route to Palmer and Boynton Street, thence via Palmer Avenue, Glendale Avenue, and Los Feliz Road to Brand Boulevard.

LINE NO. 4

From Olive Avenue and San Fernando Road (Burbank), via Olive Avenue, Kenneth Road, Harvard Road, 10th Street, Alameda Avenue, Kenneth Road, Pacific Avenue, California Street, Central Avenue and Broadway to Brand Boulevard; from Brand Boulevard via Broadway, Sinclair Avenue and Wilson Avenue to Broadway.

From Broadway and Wilson Avenue, via Broadway and return via reverse of above route.

- (3) File in triplicate and concurrently make effective on not less than ten (10) days' notice to the Commission and the public a tariff or tariffs constructed in accordance with the requirements of the Commission's General Orders and containing rates and rules, which in volume and effect shall be identical with the rates and rules now on file by Pacific Electric Railway Company for said local service, in so far as they conform to the certificate hereinbefore granted, or rates and rules satisfactory to the Commission.

PART II

Glendale City Lines, Inc. having asked permission to issue 1,200 shares of its no par common capital stock at \$100 per share for the purposes stated in the foregoing opinion, and the Railroad Commission having considered the evidence submitted in support of such request and it being of the opinion that Glendale City Lines, Inc. should be permitted to issue not exceeding 710 shares of its no par common capital stock at not less than \$100 per share for the purposes herein stated, that the money, property, or labor to be procured or paid for by the issue of said stock is reasonably required for the purposes specified in this order, and that the expenditures for said purposes are not, in whole or in part,

reasonably chargeable to operating expenses or to income, therefore

IT IS HEREBY FURTHER ORDERED that:

I. Glendale City Lines, Inc. be, and it is, hereby authorized to issue and sell on or before April 1, 1941, at not less than \$100 per share not exceeding 710 shares of its no par common capital stock for the purpose of acquiring from the Pacific Electric Railway Company, the properties to which reference is made in the foregoing opinion, to make a down payment of \$7,500 on ten new motor coaches, to pay organization expenses actually incurred, and to provide working capital in the amount of \$11,500.

II. Glendale City Lines, Inc. shall file with the Railroad Commission reports as required by the Commission's General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

III. This application in so far as it involves the issue of 490 shares of stock be, and the same is, hereby dismissed without prejudice.

For all other purposes the effective date of this order shall be ten (10) days from the date hereof.

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 23rd day of December, 1940.

Ray L. Rice

Justus F. Coe
(COMMISSIONERS)