

Decision No. 38464

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)

of)

RIVERSIDE TRANSIT LINES, a cor-)
poration, to issue securities;)

W. PAUL BUTLER, to sell, and)
RIVERSIDE TRANSIT LINES, a cor-)
poration, to purchase, passenger)
stage lines operated in the City)
of Riverside and adjoining areas;)

RIVERSIDE TRANSIT LINES, a cor-)
poration, for directions with)
respect to accounting practices.)
-----)

ORIGINAL

Application
No. 27077

BY THE COMMISSION:

O P I N I O N

This is an application for an order of the Railroad Commission authorizing W. Paul Butler to sell passenger stage operative rights and properties to Riverside Transit Lines, a corporation; authorizing Riverside Transit Lines to issue and sell, at par, \$12,900 of its capital stock and directing Riverside Transit Lines to charge prescribed sums for depreciation of equipment.

The application shows that W. Paul Butler is engaged in the operation of passenger stage lines in, and in the vicinity of; the City of Riverside; that heretofore he has been granted certificates of public convenience and necessity by this Commission by Decision No. 34756, dated November 12, 1941,

and by Decision No. 35514, dated June 23, 1942; and that he now desires to sell said certificates, together with nine units of automotive equipment, to Riverside Transit Lines, a corporation recently organized for the purpose of receiving such property and thereafter of conducting the operations.

The consideration to be paid for the properties to be transferred is the sum of \$17,500, allocated as follows:

Equipment	\$17,250
Certificates of public convenience	200
Goodwill	50
Total	\$17,500

The equipment is described as follows:

<u>Description:</u>	<u>Ceiling Price:</u>	<u>Value:</u>
One 1942 GMC, C.O.E. with Crown Custom built body, 32 passengers	\$ 4,725.00	\$ 4,500.00
One 1942 GMC, C.O.E. tractor with 70 passenger semi-trailer body	5,125.00	2,500.00
Two 1935 Utility coaches	5,550.00	1,250.00
One 1941 Chevrolet, conventional type with Wayne body, 32 passengers	3,200.00	2,500.00
One 1936 GMC, 22 passengers	1,500.00	1,000.00
Two 1936 Twin Coaches, TR 31	7,000.00	3,000.00
One GMC, 1936, Model 714	5,125.00	2,500.00
	\$32,225.00	\$17,250.00

The purchaser, Riverside Transit Lines, is a corporation organized under the laws of the State of California on or about October 19, 1945, with an authorized capital stock of 5,000 shares of the par value of \$10 each divided into 2,500 shares of common stock and 2,500 shares of 6% cumulative

preferred stock. It proposes to issue and sell, at this time, 540 shares of common stock and 750 shares of preferred stock at par and to use the proceeds, \$12,900, to pay in part the purchase price of the properties to be acquired from W. Paul Butler. The balance of the purchase price and working capital will be provided either by short term indebtedness or by the common stockholders.

The purchaser alleges that it will operate upon a higher standard of service, that there will be no reduction in service and no change in fares. There has been filed in this proceeding a joint statement by W. Paul Butler and Richard Glasscock, president of Riverside Transit Lines, in which they show that the seller has been unable to meet all schedule requirements because of his inability to provide proper maintenance, but that the purchaser has the finances and management to enable it to replace worn-out equipment and to provide proper maintenance. It appears that on November 1, 1945, a representative of the purchaser began conducting the business as agent for W. Paul Butler and it is alleged that since that time the riding of the public has increased, revenues being as much as 50% higher than during the period immediately preceding the entrance of the new management into the business.

The Commission has been advised that the stock of Riverside Transit Lines will be sold to the following persons:

Preferred stock--750 shares

To Howard Younglove	500 shares
To Bailey Patterson	250 shares

Common stock--540 shares

To Howard Hays	111 shares
To R. J. Glasscock	94 shares
To B. T. McKissock	94 shares
To William Guthrie	94 shares
To J. B. Shapardson	73 shares
To W. H. Pattillo	74 shares

The Articles of Incorporation of the company provide, among other things, that the holders of the preferred shares shall not be entitled to vote at any meeting of stockholders except that if, at any time, there shall be any default in the payment of dividends to preferred shareholders, then such preferred shareholders shall be entitled to one vote, in person or by proxy, for each share of preferred stock held, in the same manner that common shareholders are entitled to vote.

Ordinarily, the Commission does not look with favor on the issue of non-voting preferred stock. However, some action must be taken at once to improve the public transportation service in Riverside and vicinity formerly rendered by W. Paul Butler. The present financing arrangements have been worked out by men who are willing to put their money into the enterprise under the conditions stated. In order to assist in bringing better transportation to the community, we will authorize the issue and sale of the common and preferred shares of stock as requested. We believe, however, that in the event the initial preferred shareholders hereafter dispose of the preferred stock herein authorized to be issued to them, or any part of it, the corporation should immediately take steps to amend its Articles of Incorporation so as to give the holders of the preferred shares the same voting rights per share as are enjoyed by the holders of the common shares.

Upon acquiring the properties of W. Paul Butler, Riverside Transit Lines should charge not more than \$17,250 to its tangible property accounts. It appears that the present owner of the certificates of public convenience and necessity has paid to the Commission the sum of \$100 as filing fees in obtaining such certificates, and this amount properly may be charged to intangible capital. The remaining \$100 of the purchase price allocated as cost of the certificates and the \$50 allocated as goodwill at the outset should be charged on the purchaser's books as a deferred debit and written off during 1946 by a charge to income.

The action taken herein shall not be construed to be a finding of value for any purpose other than the proceeding herein involved. Riverside Transit Lines is hereby placed upon notice that operative rights, as such, do not constitute a class of property which may be capitalized or used as an element of value in rate fixing for any amount of money in excess of that originally paid to the State as the consideration for the grant of such rights. Aside from their purely permissive aspect, they extend to the holder a full or partial monopoly of a class of business over a particular route. This monopoly feature may be changed or destroyed at any time by the State, which is not in any respect limited in the number of rights which may be given.

Riverside Transit Lines requests the Commission to fix a rate for accumulating depreciation on the equipment to be purchased so as to provide for the amortization of its investment over the probable life of the equipment, such rate to be an over-all one for the equipment as a whole and not one

which may be applicable to each separate unit of equipment. In making this request it has submitted no information of the estimated life of the equipment, the amounts necessary to expend for repairs or the plans to replace the same. It reports that the use, wear and tear upon such equipment which heretofore has occurred and the miles it has operated are unknown to it.

We will not prescribe the amount of depreciation to be charged by the corporation on its books. In accordance with the uniform system of accounts for Class II carriers, which will become effective on January 1, 1946, Riverside Transit Lines will be expected to set up records so as to show the depreciation accrued on each unit of equipment, rather than an accumulation on a group plan as suggested by it. The company, based on its own experience in operating its equipment, should determine the amounts to be charged for depreciation. The Commission, of course, when fixing rates or passing upon other matters, will determine what consideration should be given the amounts included in any of the company's accounts.

O. R. D. E. R.

The Commission, having considered this matter and being of the opinion that a public hearing is not necessary, that the requests of applicants should be granted only to the extent provided herein, and that the money, property or labor to be procured or paid for through the issue of \$12,900 par value of stock by Riverside Transit Lines is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. W. Paul Butler, after the effective date hereof and on or before February 28, 1946, may sell and transfer to Riverside Transit Lines, a corporation, the certificates of public convenience and necessity defined in Decision No. 34756, dated November 12, 1941, and in Decision No. 35514, dated June 23, 1942, and the autostage property and equipment referred to in the preceding opinion.

2. Riverside Transit Lines, after the effective date hereof and on or before February 28, 1946, may issue and sell, at par for cash, 750 shares of its preferred stock and 540 shares of its common stock, all shares having a par value of \$10 each, to the following persons:

Preferred stock

To Howard Younglove	500 shares
To Bailey Patterson	250 shares

Common stock

To Howard Hays	111 shares
To R. J. Glasscock	94 shares
To B. T. McKissock	94 shares
To William Guthrie	94 shares
To J. B. Shapardson	73 shares
To W. H. Pattillo	74 shares

3. Riverside Transit Lines shall use the proceeds of \$12,900 received through the issue and sale of the stock herein authorized, to pay in part the purchase price of the rights and properties to be acquired from W. Paul Butler.

4. Applicants shall comply with the provisions of General Order No. 80 and Part IV of General Order No. 93-A by filing, in triplicate, and concurrently making effective,

appropriate tariffs and time tables within sixty days from the effective date hereof and on not less than one day's notice to the Commission and to the public.

5. Within thirty (30) days after acquiring the operative rights and properties under the authority herein granted, Riverside Transit Lines shall file with the Commission a copy of the journal entry or entries used to record such acquisition on its books of account.

6. Riverside Transit Lines shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A.

7. The authority herein granted to transfer rights and properties and to issue common stock will become effective upon the date hereof. The authority herein granted to issue preferred stock will become effective when Riverside Transit Lines has filed with the Commission a stipulation duly authorized by its Board of Directors in which it stipulates and agrees that in the event Howard Younglove and/or Bailey Patterson transfer all or any part of the 750 shares of preferred stock herein authorized to be issued to them, it will forthwith cause appropriate proceedings to be taken to amend its Articles of Incorporation so as to provide that the holders of its preferred shares of stock shall enjoy equal voting rights with the holders of its common shares of stock.

Dated at San Francisco, California, this 10th day
of December, 1945.

Harold Ruden

Frank W. Crow

Grant Russell

Harold P. Hule

Commissioners