

**ORIGINAL**Decision No. 38723

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER of the Application of )  
 SOUTHERN CALIFORNIA FREIGHT LINES )  
 for an order authorizing execution ) Application  
 of a note secured by mortgage on ) No. 27242  
 motor equipment. )  
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O P I N I O N

This is an application for an order of the Railroad Commission authorizing Southern California Freight Lines to execute a mortgage of chattels and to issue a note in the principal amount of \$173,000 for the purpose of paying outstanding indebtedness and of financing the cost of property.

Southern California Freight Lines is a corporation engaged in the business of transporting property as a highway common carrier in southern California. Its financial reports to this Commission show its revenues and expenses for the last three years as follows:

	<u>1943</u>	<u>1944</u>	<u>1945</u>
Revenues	<u>\$1,275,229</u>	<u>\$1,070,573</u>	<u>\$1,756,784</u>
Expenses:			
Operating expenses	1,093,964	846,498	1,551,405
Depreciation	60,403	63,134	64,634
Operating taxes and licenses	28,627	76,840	91,585
Rent expense	143,650	74,065	29,347
Total	<u>1,386,644</u>	<u>1,060,537</u>	<u>1,736,971</u>
Net income	<u>(111,415)</u>	10,036	19,813
Interest and other deductions	<u>8.075</u>	<u>9.797</u>	<u>10,849</u>
Profit	<u>\$ (119,490)</u>	<u>\$ 239</u>	<u>\$ 8,964</u>

Its assets and liabilities, as of December 31, 1945, are reported as follows:

<u>Assets</u>		
Current assets		\$ 117,136.95
Cash and deposits	\$ 26,565.98	
Tax refund claims	38,523.58	
Notes and accounts receivable	15,984.39	
Materials and supplies	<u>36,062.00</u>	
Tangible property		913,438.18
Intangible property		125,259.44
Deferred charges		<u>140,831.95</u>
Total assets		<u>\$1,296,666.52</u>

<u>Liabilities</u>		
Accounts payable		\$ 73,811.34
Taxes accrued		13,778.23
Notes payable		150,390.56
Contracts payable		127,723.70
Reserve for tax refund claims		38,523.58
Reserve for depreciation		587,807.21
Other deferred credits		715.09
Capital and surplus		
Preferred stock	\$ 18,000.00	
Common stock	50,000.00	
Premium on stock	1,350.88	
Capital surplus	128,279.49	
Earned surplus	<u>116,286.44</u>	
Total capital and surplus		<u>303,916.81</u>
Total liabilities		<u>\$1,296,666.52</u>

The outstanding notes payable consisted of three notes, bearing interest at the rate of 5 percent per annum, issued in favor of Bank of America, as follows:

<u>Date</u>	<u>Amount</u>
Jan. 5, 1945	\$ 67,500.00
Nov. 10, 1945	74,190.56
Dec. 30, 1945	8,700.00
Total	<u>\$150,390.56</u>

It appears that the \$67,500 note is payable in monthly installments of \$7,500 and the other two notes are payable in thirty-six monthly installments. Since December 31, 1945, the total amount was reduced to \$140,519.26, the reduction being \$9,871.30. The indebtedness was incurred pursuant to authoriza-

tion heretofore granted by the Commission for the purpose of paying earlier indebtedness and of financing the cost of property.

The company desires to use the proceeds to be received through the issue of the new note for the following purposes:

To pay outstanding notes, as above	\$140,519.26
To reimburse its treasury for capital expenditures in building a terminal dock at Colton	16,000.00
To pay current liabilities	<u>16,480.74</u>
Total	<u>\$173,000.00</u>

A review of the company's financial statements indicates that during 1945 it increased its ledger balances representing tangible properties by the sum of \$115,771 and intangible properties by the sum of \$28,992 and reduced its notes and accounts payable balances by the sum of \$72,844, the three items aggregating \$217,607, and that it obtained the sums necessary for these purposes through the issue of long-term debt, the use of current assets on hand at the beginning of the year, and the investment of earnings represented by reserves and surplus. It clearly appears that the earnings invested, during 1945, in the business and properties, exclusive of intangible properties, was in excess of the \$16,000 for which it now seeks reimbursement. (1)

The \$173,000 note now proposed to be issued is payable in the amount of \$7,500 on March 15, 1946; \$7,500 on the 15th day of each of the next succeeding twenty-three months thereafter;

(1)

As to the \$28,992 increase in intangible properties, it appears that this item arose from the purchase by the company of the business and properties of Dale C. Ramsey, doing business as Valley Truck Co. Under Decision No. 38260, dated October 2, 1945, applicant is required to amortize this amount within two years, by charges to income.

\$3,500 on the 15th day of each of the next succeeding twenty-two months thereafter; and \$2,500 on February 15, 1949, with interest at the rate of 5 percent per annum on deferred balances. A copy of the proposed note has been filed in this proceeding as Exhibit "B", and a copy of the proposed mortgage of chattels as Exhibit "C".

The financing here proposed by applicant will reduce its monthly principal payments on its notes by approximately \$2,500. The use of approximately \$32,000 of proceeds to reimburse its treasury and to pay current obligations should materially improve its financial position. It therefore appears that the transaction is not contrary to the public interest, and that an order granting the company's request should be entered.

#### ORDER

Southern California Freight Lines having applied to the Railroad Commission for authority to execute a mortgage of chattels and to issue a note for \$173,000, and the Commission having considered the matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for through the issue of the note is reasonably required for the purposes specified herein, and that, except as otherwise authorized herein, 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 as follows:

1. Southern California Freight Lines, after the effective date hereof and on or before April 30, 1946, may issue a

note in the principal amount of \$173,000 and may execute a mortgage of chattels, such note and mortgage of chattels to be in substantially the same form as the note and mortgage of chattels filed in this proceeding as Exhibits "B" and "C" respectively.

2. Of the proceeds to be realized through the issue of said note, Southern California Freight Lines shall use \$140,519.26 to pay the unpaid balances of the notes referred to in the foregoing opinion, \$16,000 to reimburse its treasury because of expenditures heretofore made from earnings and properly chargeable to tangible property accounts, and the balance, amounting to \$16,480.74, to pay current liabilities.

3. Southern California Freight Lines shall file a report, or reports, of the issue of the note and the disposition of the proceeds, as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when Southern California Freight Lines has paid the fee prescribed by Section 57 of the Public Utilities Act.

Dated at San Francisco, California, this 26<sup>th</sup> day of February, 1946.

*Harold C. Hull*  
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*Justice F. Cassin*  
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*Edw. H. Powell*  
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*Harold P. Hull*  
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Commissioners.

