Decision No. 40828

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the LOS ANGELES TRANSIT LINES, a corporation, for an order or orders authorizing a Credit Agreement for the acquisition of new equipment and for refinancing existing conditional sale contracts; authorizing a Refinancing Agreement pursuant thereto; authorizing the acceptance of certain waivers and consents by various bondholders and security holders; and authorizing the issuance of certain conditional sale contracts.	Application No. 28760

Gibson, Dunn & Crutcher, by Max Eddy Utt, for Applicant.
Theodore K. Resmey, in propria persona, and for California Progressives and Citizens Transit Committee.
K. Charles Bean, Chief Engineer and General Manager of Board of Public Utilities and Transportation of Los Angeles, for City of Los Angeles.

O P I N I O N

In this application, Los Angeles Transit Lines asks the Commission to enter its order authorizing applicant (a) to execute and deliver a credit agreement substantially in the same form as that attached to applicant's petition as Exhibit "B", (b) to execute and deliver a refinancing agreement covering its conditional sale contracts as provided for in said credit agreement, (c) to accept, receive and deliver to Bank of America National Trust and Savings Association, Agent, the various consents and waivers of bondholders and securityholders provided for in said credit agreement, (d) to execute and issue conditional sale contracts in the sum of $1,554,808.50 covering the purchase of 90 motor coaches to which reference will be made hereafter.

Applicant is a corporation organized and existing under and by virtue of the laws of the State of California. It is now and for many years last past has been rendering a unified public utility street railway, motor coach, and trolley coach passenger transportation service in and about the City of Los Angeles and various incorporated and unincorporated areas contiguous and adjacent thereto.

Applicant as of August 31, 1947, reports assets and liabilities as follows:

Assets	
Road and equipment	$47,873,830.16
Non-Operative property	59,087.53
Deposits in bond release, insurance accounts Cash and notes	563,086.30
Deposits as collateral for injuries and damages and indemnity bond accounts	200,000.00
Investment - marketable securities	246,000.00
Investment - U.S. bonds as collateral for franchise bond	418,455.40
Current assets	
Cash and working funds	954,853.71
U.S. Treasury notes and interest	284,256.00
Accounts receivable	421,771.45
Material and supplies	1,039,917.02
Interest receivable	32,530.40
Sub-total	2,733,328.58
Unadjusted debits	
Prepaid taxes, rents and insurance	115,533.08
Other unadjusted debits	88,974.23
Sub-total	204,507.31
Total Assets	$52,298,295.28

Liabilities and Corporate Surplus

Capital stock		
Common - $10 par value		$10,954,400.00
Funded debt		9,706,518.10
Current liabilities		
Auditing accounts and wages payable		1,265,763.11
Tax liabilities		1,246,600.33
	Sub-total	2,512,363.44
Unadjusted credits		
Accrued depreciation		23,980,305.83
Premium on funded debt		80,183.89
Reserve for injuries and damages		128,220.56
Unredeemed fare tokens		190,400.35
	Sub-total	24,379,110.63
Corporate surplus		
Balance as of January 1, 1947		4,394,044.97
Profit to August 31, 1947		351,858.14
	Corporate surplus	4,745,903.11
Total Liabilities and Corporate Surplus		$52,298,295.28

Applicant's funded debt of $9,706,518.10 consists of the following:

a.	First mortgage 3-7/8% bonds, dated March 1, 1945, payable semi-annually from September 1, 1950, to March 1, 1958	$5,350,000.00
b.	Unsecured 3% installment notes dated March 1, 1945, payable semi-annually	1,575,000.00
c.	Five year 2.18% notes payable in 60 monthly installments from date of issue	2,781,518.10
	Total	$9,706,518.10

All of the funded debt was issued and sold pursuant to decisions of the Commission.(1)

Applicant, under authority granted by Decision No. 38045, dated June 26, 1945, as amended, entered into a financing agreement under the terms of which Bank of America National Trust and Savings Association and Security-First National Bank of Los

(1) Decision No. 37794, dated April 17, 1945; Decision No. 38045, dated June 26, 1945; Decision No. 39055, dated June 5, 1946; Decision No. 39961, dated February 11, 1947; Decision No. 40213, dated April 29, 1947.

Angeles provided applicant with a credit of not exceeding $5,000,000 to pay not exceeding 80% of the cost of transportation equipment. Under such agreement, applicant has borrowed $3,648,563.32, leaving an unused credit of $1,351,436.68. The agreement under which the money was or can be borrowed provides that the loans must be paid in 60 equal monthly installments, with interest at the rate of 2.18%per annum, payable monthly.

The testimony shows that applicant is currently receiving delivery on an order for 90 Model TDH 4507 General Motors forty-five passenger, Transit Type, Diesel hydraulic motor coaches from G.M.C. Truck and Coach Division of General Motors Corporation. The cost of the 90 motor coaches including freight and taxes is reported at $1,554,808.50. The 90 motor coaches will be used to replace 36-passenger coaches presently being used as a supplement to trolley coaches in use on applicant's West 6th Street and Central Avenue line No. 3 and to replace older coaches of applicant now in use, which older coaches will be retired from use except as they may be necessary on tripper schedules and as spares and extras.

The testimony shows that within a few weeks applicant expects delivery on an order covering 50 additional motor coaches costing about $750,000. Applicant has on order for delivery in 1948, 40 PCC street cars, 80 trolley coaches and 150 motor coaches.(2) It is obvious that the present credit agreement does not provide applicant with sufficient funds to finance the

(2) In regard to this additional equipment, Cone T. Bass, Vice President and General Manager of Los Angeles Transit Lines, testified as follows:

purchase of said equipment. Moreover, such credit agreement expires December 31, 1947.

The new credit agreement (Exhibit "B") provides applicant with a maximum bank credit of $9,500,000 to be used in two ways. First, presently outstanding conditional sale contracts on which there was due on October 1, 1947, $2,720,708.70 are to be refunded and the monthly payments on the principal reduced from about $60,809 to $33,446. This results in extending the final payment three years. The balance of the $9,500,000 will be a standby credit to finance not to exceed 85% of the delivered price of new equipment during the two-year period next succeeding the signing of the credit agreement. The following banks are parties to the credit agreement:

Name of Bank	Amount of Commitment	Percent
Bank of America NT & SA	$5,125,000	53.95%
Security-First National Bank	2,375,000	25.00%
Anglo California National Bank	1,000,000	10.53%
American Trust Company	1,000,000	10.52%
Total	$9,500,000	100.00%

(2) continued

"There are on order forty PCC street cars and eighty trolley coaches and one hundred fifty motor coaches. These orders are not final, in that it has not as yet been determined in what exact locations they will be used or which of a number of plans for their use the Company will follow. Their use is, of course, subject to approval of these plans by the City of Los Angeles and by this Commission, and until that approval has been finally obtained, it would be improper to make any statement as to their expected use. The equipment on order, delivery of which is expected next year, will, if received, cost approximately $5,000,000. When the Company has definite plans for the use of all or portions of this equipment in connection with extensions, reroutings or substitutions, those plans will be promptly presented to the Commission for its action. Likewise, when the Company has definite knowledge of delivery dates and the amount of the invoices on deliveries of equipment expected to be received, application will be made to the Commission on supplemental applications to the one now being heard for authority to issue the necessary conditional sale contract financing the deferred balance on such purchase."

Any money borrowed under the agreement to pay in part the cost of motor coaches is payable in 96 monthly installments with interest at the rate of 2-3/8% per annum, payable monthly. Any money borrowed for the purpose of acquiring PCC trolley cars and trolley coaches is payable at the option of applicant, either in 96 equal monthly installments or in 120 equal monthly installments. If the money so borrowed is paid in 96 equal monthly installments, the interest on the deferred balances is 2-3/8%, whereas if paid in 120 monthly installments, the interest on the deferred balances is 2-3/4% per annum. The agreement provides that there shall at no time be outstanding more than $8,600,000 aggregate principal amount of indebtedness under the agreement and further, that after December 31, 1951, the aggregate principal amount of indebtedness outstanding shall not exceed $4,000,000 plus an amount to equal the principal amount of applicant's bonds maturing after such date which shall have theretofore been retired by purchase or redemption.

Under the credit agreement, applicant must pay a commitment fee at the rate of ¼ of 1% per annum on the difference between the amounts actually borrowed and the $9,500,000. Applicant may, however, at any time on thirty days' notice to Agent, reduce the amount of the credit without penalty. Thereafter, the reduced amount of the credit shall be used to determine the amount of the commitment fee. Applicant may at any time prepay the loans. Only in the event funds are obtained from borrowings without the consent of the Agent must applicant pay a premium. In that event, during the first year applicant must pay a premium of 2% of the principal amount paid. Thereafter, the premium decreases at the rate of 1/8 of 1% per annum or portion thereof.

Applicant does not at this time ask permission to borrow $9,500,000. It does request permission to execute an agreement (Exhibit "1") changing the terms of outstanding conditional sale contracts in the amount of $2,720,708.70, and to borrow under the credit agreement $1,321,587.22 to pay 85% of the cost of the 90 motor coaches to which reference is made herein. It is applicant's intention to file with the Commission, from time to time as it receives delivery on additional equipment, supplemental applications for permission to borrow additional moneys under the credit agreement.

Applicant has obtained the necessary consents and waivers from the holders of bonds, notes and conditional sale contracts to execute the credit agreement. Copies of such consents and waivers have been filed in this application as Exhibits "one", "three", "four" and "five".

Applicant requests the Commission to exempt the execution of the credit agreement and conditional sale contracts pursuant thereto from the provisions of Decision No. 38614, dated January 15, 1946. The testimony shows that no fee or remuneration is being paid to Agent for negotiating the credit agreement or to the participating banks except their interest in the commitment fee, and that difficulties were encountered in getting banks to participate in the credit agreement. As stated, part of the bank credit will be used to refinance outstanding conditional sale contracts. The order herein will exempt the execution of the credit agreement and the conditional sale contracts from the provisions of said decision.

No one protested the granting of this application. It was suggested that the application be considered in connection with the pending rate application and that applicant, before ordering equipment of any kind, have such order approved by the City of Los Angeles and by the Commission. The granting of this application does not dispose of any issues raised in the rate application. If applicant orders equipment which the Commission finds not suitable for use in its transportation service, it will not authorize applicant to issue stock or evidences of indebtedness to finance its purchase.

O R D E R

The Commission having considered the evidence submitted at the hearing had on this application before Examiner Fankhauser and it being of the opinion that the money, property or labor to be procured or paid for by Los Angeles Transit Lines through the exercise of the authority herein granted is reasonably required by applicant for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, that the execution of said credit agreement and conditional sale contracts pursuant thereto should be exempt from the provisions of Decision No. 38614, dated January 15, 1946, and that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Los Angeles Transit Lines may, after the effective date hereof and on or before December 31, 1947, execute and

deliver a credit agreement in form substantially the same as the credit agreement on file in this application as Exhibit "B", provided that applicant may not borrow any money under said credit agreement, except as authorized by paragraphs "2" and "4" of this order and by supplemental orders.

2. Los Angeles Transit Lines may, after the effective date hereof and on or before December 31, 1947, execute and deliver a refinancing agreement covering its existing conditional sale contracts as provided for in said credit agreement, said refinancing agreement to be in form substantially the same as the agreement on file in this application as Exhibit "1".

3. Los Angeles Transit Lines may, after the effective date hereof and on or before December 31, 1947, execute and deliver various consents and waivers of bondholders and security-holders provided for in said credit agreement, said consents and waivers to be substantially in the same form as the consents and waivers on file in this application as Exhibits "3", "4" and "5".

4. Los Angeles Transit Lines may, after the effective date hereof and on or before December 31, 1947, execute and deliver a conditional sale contract, or contracts, in form substantially the same as that attached to said credit agreement, such contract to be for the sum of $1,554,808.50 of which will remain unpaid as of the date of the execution of said contract a deferred balance of $1,321,587.22.

5. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is one thousand one hundred sixty-

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one ($1,161.00) dollars.

6. Within thirty (30) days after the execution and delivery of said credit agreement, applicant shall file with the Commission two (2) certified copies of said agreement.

7. Within thirty (30) days after the execution of the refinancing agreement and the conditional sale contracts herein authorized, applicant shall file with the Commission two (2) certified copies of said refinancing agreement, two (2) certified copies of said conditional sale contract together with a statement showing the type of equipment acquired, a general description of the equipment and the cost of the same.

Dated at San Francisco, California, this 21st day of October, 1947.

Harold P. Huls

Justus F. Craemer

R. L. [illegible]

Kenneth Potter

Commissioners

Public Utilities Commission
STATE OF CALIFORNIA
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By