VALUATION DOCKET NO. 666

DAYTON-GOOSE CREEK RAILWAY COMPANY

Submitted July 10, 1926. Decided July 15, 1932

Final value for rate-making purposes of the property of the Dayton-Goose Creek Railway Company, owned and used for common-carrier purposes, found to be $684,000, as of December 31, 1920, and of the property used but not owned, $396.

Frank Andrews and *Robert H. Kelley* for Dayton-Goose Creek Railway Company.

REPORT OF THE COMMISSION

DIVISION 1. COMMISSIONERS MEYER, AITCHISON, AND LEWIS

BY DIVISION 1:

A tentative valuation, as of December 31, 1920, of the property of the Dayton-Goose Creek Railway Company, hereinafter called the carrier, was completed and notice thereof was given to the carrier and other interested parties. The carrier filed a protest within the statutory period. A hearing has been had and briefs have been filed.

On date of valuation the carrier owned and operated a single-track, standard-gage, steam railroad, wholly within the State of Texas and extending from Dayton to Baytown, a distance of 24.988 miles. It also owned 4.189 miles of yard tracks and sidings. In addition, it owned equally and used jointly with the Texas and New Orleans Railroad Company 1.515 miles of yard tracks and sidings at Dayton.

The protest of the carrier is directed in part against the rules, methods, and principles employed in the preparation of the tentative valuation. Similar objections have been considered by us and overruled in previously decided cases. Other matters protested by the carrier, where made the subject of testimony or presented on brief, will be hereinafter considered.

At the opening of the hearing the carrier requested, and was granted, a conference between its representatives and representatives of our Bureau of Valuation with respect to engineering matters in controversy. The results of the conference were embodied in stipulations which were incorporated in the record. In these stipulations the conferees recommend a revision of certain unit quantities and prices upon which they agree. The proposed changes affect the items of ties, ballast, and telegraph and telephone lines, and would increase our estimated cost of reproduction new of the carrier's property $7,759, and cost of reproduction less depreciation $9,144. We have reviewed the proposed changes and they are approved. The tentative valuation will be revised accordingly.

ORIGINAL COST TO DATE

In our tentative valuation we stated that the original cost to date of the carrier's property could not be ascertained, as the necessary records were not available. We reported the sum of $631,035.31 as the actual outlay for the carrier's road and equipment, including land, as ascertained from its records. The carrier protests that our finding is incomplete and inaccurate, and that the original cost to date should be reported as approximately $650,531.92, but in no event could it be less than $631,485.31. R. S. Sterling, the promoter and owner of the carrier from the beginning, began construction of the property some months in advance of its incorporation. The carrier contends that capital expenditures amounting to $19,496.61 are reflected by his individual records which, by oversight or otherwise, were never carried into its investment account, and that this amount should therefore be included in our statement of original cost. An itemized statement thereof was presented for the record. With the exception of two items totaling $450, which the evidence shows are actual costs covering the charter fee and legal expenses incurred in connection therewith, the items submitted are estimates representing office rent and the salaries of general officers and clerks. During the period of construction these officers and clerks were employed by and their salaries paid by other interests. They were not engaged exclusively in connection with the construction work and the estimates are predicated on an apportionment of the time devoted to the construction work and their other activities. No vouchers, bills, or records were produced to support these estimates and in one instance the estimate is a revision of the amount originally charged to the carrier as the portion of an officer's salary. The amount expended for charter fee and legal expenses represents a part of the original cost of the property and will be included as a part of the recorded outlay, but the evidence is not sufficient to warrant the inclusion of any of the estimated items.

In our report on original cost we also stated that a check of the report made to us by the carrier indicated that the units of roadway machines should be reduced by two and that the costs should be reduced $236.96, as such units were not inventoried as machinery and equipment. The facts of record, however, disclose that the above amount represents the cost of two internal combustion engines which we considered as unapplied material, but which were installed on hand cars in 1919 for the purpose of converting them into motor cars. In view of the facts adduced our report on original cost will be corrected, and the engineering report will be modified by respectively reducing and increasing our inventory of hand cars and motor cars two units. This modification will result in net increases in the cost of reproduction new and the cost of reproduction less depreciation of roadway machines of $284 and $227, respectively.

The tentative valuation states that the total original cost of lands owned and used by the carrier for carrier purposes can not be ascertained, but that the original cost of a portion of these lands so far as it is supported by accounting records, is $43,222.99, and that the total recorded cost of its lands, land rights, and miscellaneous costs applicable thereto, is $46,134.89. It also states that the reports made by the carrier include certain lands for which nominal deed considerations only are shown and certain lands held by adverse possession. The carrier does not contend, however, that the recorded costs reported by it do not represent the total original cost to it of all of its common-carrier lands and rights therein, and it has not included any additional amount therefor in the amount which it contends should be reported as the approximate original cost to date for all of its property.

We find that the original cost to date of valuation, as nearly as it can be determined, of the land and land rights owned and used by the carrier for carrier purposes is $46,791.11 and for all of its common-carrier property is $632,378.49.

INVESTMENT IN ROAD AND EQUIPMENT

In the tentative valuation we stated that the investment of the carrier in road and equipment, including land, on date of valuation was shown in its books as $613,994.82, of which $18,000, less an undetermined portion thereof assignable to offsetting items recorded at $8,907.24, represented the par value of long-term debt issued, the money value of which at the time of the transaction was not known and could not be determined. Further, that a check of the reports filed with us by the carrier developed that it recorded as a charge to its investment account subsequent to valuation date money outlay in the amount of $17,277.45 for roadway property which was included in our inventory as of valuation date. The carrier contends that the items which go to make up the amount of $8,907.24 have no connection whatever with the item of $18,000, and that the statement in reference thereto is erroneous. It also contends that our investment figure should be increased by the net charge of $17,277.45 referred to.

The evidence shows that the item of $18,000 represents equipment notes covering the balance of the purchase price of one locomotive and that the item of $8,907.24, which covers revenues received from operations during construction and property sold or retired, has no connection therewith. Consequently the statement in reference thereto will be eliminated. The tentative valuation correctly states the entries on the carrier's books on valuation date, but it develops that the item of $17,277.45 should be increased to $17,933.67, which is a net charge applicable to both roadway property, including land, and equipment. It also represents a recorded money outlay of $17,739.46, a value assigned to donated land of $644.22 and credits of $177.90 for revenues in excess of expenses from operation during construction and $272.11 for adjustment of interest accrued applicable to the construction period. The tentative valuation will be clarified by stating that if this net charge were included and if the items were taken at the recorded amounts the balance in the investment account would be increased from $613,994.82 to $631,928.49.

COST OF REPRODUCTION NEW

Prices.—The major part of the railroad of the carrier, comprising the line from Dayton to Goose Creek, was constructed during the years 1917 and 1918 and was opened for operation on May 1, 1918. The remainder of the property, covering the extension from Goose Creek to Baytown, approximately 2.5 miles in length, was constructed during the year 1919 and was placed in service in August, 1919. In accordance with our regular practice in estimating cost of reproduction, we have applied prices to the physical units of property, except land, in existence on date of valuation, which are intended to reflect the fair average of the prices in effect during the period of five to 10 years ended on June 30, 1914.

The carrier protests that the application of such prices to its property, which not only was constructed at a subsequent time when all prices were substantially higher but is being valued as of a still later date when prices were higher than at the date of construction, is improper and unwarranted and results in an incorrect estimate of the cost to reproduce the property on valuation date as well as in an inadequate value therefor. Its witness submitted a summary estimate of cost of reproduction less depreciation as of valuation date of $827,932, which was received by the examiner as an offer of proof, but we consider that the testimony and the data that were presented in connection therewith are pertinent to the issues in the case and they will be considered as evidence herein. No evidence was offered by the carrier as to the prices which it considered applicable as of valuation date or as to the amount which it considered would be necessary to reproduce its property new. It relied entirely upon the estimate made by its witness of cost of reproduction less depreciation which was determined by applying a trend factor to the bureau's estimate of like costs on the so-called 1914 basis.

This trend factor is not based upon a comparison of the 1914 and the 1920 prices applicable to the carrier's property, but was determined from the testimony of a witness presented by the bureau in Finance Dockets No. 3647, Buffalo and Susquehanna Railroad Corporation, No. 3652, Cambria and Indiana Railroad Company, and No. 3803, Lehigh and New England Railroad Company. Two of these railroads are located wholly within the State of Pennsylvania and the other one extends from Pennsylvania into the State of New York. In those cases the witness for the bureau testified to the composite trend factors which should be applied in the case of each road to the estimated cost of reproduction new for each account and to composite trend factors which could be applied to the grand total estimated cost for each road as a whole, at 1914 prices, in order to estimate the cost of reproduction new of each road as of the several recapture periods there under consideration, which involved, among others, parts of the year 1920 and the entire year 1921. The witness for the carrier used the average of the six composite trends thus stated for each of the three railroads as a whole for the years 1920 and 1921 as his trend factor in determining his estimated cost of reproduction less depreciation for the carrier as of valuation date, but there is no evidence as to the applicability of the resulting trend to the carrier's property.

It is obvious that a composite trend applicable to one railroad as a whole would not be applicable to another railroad where the ratios of the units of property in the several accounts are different, or where the relationship of the individual accounts to the total of all of the accounts differs. This would be true even though the trends in the prices of labor and construction material were the same for both properties. In this instance, however, it does not appear that either the ratios of the quantities or the trends in the prices were the same or even similar. Consequently, no reliable conclusion can be drawn from the application of the average of the six trends for the three roads in question to the carrier's reproduction cost on a 1914 price level. Moreover, the trends testified to by the witness for the bureau at the original hearings in the three cases named were superseded at the later hearings in those cases by evidence that the bureau considered was more reliable for determining reproduction costs therein. Therefore, the estimated amount contended for by the carrier, which is based on the average trend, can not be accepted as the cost of reproduction less depreciation of its property on valuation date at prices current as of that date.

In the instant case the higher costs which prevailed during the carrier's construction period are reflected in the statement of original cost to date, and they have been considered herein in our determination of final value, but the record does not show that like prices prevailed as of valuation date. It is sufficient for present purposes, however, to indicate our intention to deal with the reproduction prices for any given date at such times as we may be called upon to fix a value for the property for any purpose under the act, when we can then give such costs the consideration which may be required by the law of the land.

Secondhand articles and materials.—We have inventoried certain rails, other track material, and equipment as secondhand and priced them as such. The carrier contends that we should have priced them as new. As we have stated in previous decisions we consider that the property to be reproduced is the existing property in the same condition as when put into its present service. We find no evidence in the record that would warrant any change in the method used in pricing secondhand articles and materials.

General expenditures.—We included $5,626 in our tentative valuation for general expenditures computed at 1.5 per cent of the total of the roadway accounts, except Land. The carrier protests that this sum is insufficient and should be increased to 4 per cent of those accounts. It relies in support of its protest on the testimony and cost data presented by a witness in *Chicago, R. I. & P. Ry. Co.*, 24 Val. Rep. 709, offered in evidence in this proceeding. This evidence has been carefully analyzed in other cases in which it was presented, including the Rock Island case, and we have reached the conclusion that the cost of reproduction of general expenditures should be determined by the application of a percentage to the roadway accounts, except Land, varying with the circumstances surrounding the reproduction of each particular carrier. In this case we approve the use of 2 per cent and the tentative valuation will be modified accordingly.

Construction period and interest during construction.—The carrier protests that our reported construction period of 10 months is inadequate for the complete reproduction of its property in existence on valuation date. The railroad has a main line about 25 miles in length and approximately 4 miles of yard tracks and sidings. The carrier contends for a construction period of 16 months, exclusive of time devoted to reconnaissance and preliminary surveys. The actual construction of the line from Dayton to Goose Creek commenced on or about March 10, 1917, and the first revenue train was operated over it on or about May 5, 1918, approximately 14 months later. The construction of the extension from Goose Creek to Baytown, 2.5 miles, consumed about three months. Practically all of the permanent ballast was placed after the line was opened for operation. The carrier's witness testified that ordinarily the heavy rainfall in this territory seriously impedes the progress of grading and work of a similar character, but that during the construction of its line unusually favorable weather conditions prevailed and the work was done without any delays and in an economical manner. It is admitted that if the carrier's line were reproduced in its entirety and not by piecemeal construction it could be constructed in less time than it took originally.

In estimating construction periods we consider topographical and climatic conditions and assume that the work would be done under average conditions and in an economical manner. The record is persuasive that the construction period should be increased to 12 months and our tentative valuation will be modified accordingly.

Interest during construction was estimated at a rate of 6 per cent. It is the carrier's contention that the rate should be 8 per cent, which it alleges was the prevailing rate on well-secured farm loans in the immediate vicinity of the carrier's line on or about valuation date. The carrier also presented an exhibit showing moneys borrowed by R. S. Sterling, its promoter, from January, 1917, to May, 1918, aggregating $864,700. The record does not disclose the purposes for which the loans were made or the securities pledged, if any. It is noted that with the exception of one loan of $3,000, the balance carry interest rates varying from 5.5 to 8 per cent, the weighted average being slightly over 6 per cent. The interest rate used by us in estimating the cost of reproduction of this property is not shown to be insufficient.

WORKING CAPITAL

In the tentative valuation we found that on date of valuation the working capital used for common-carrier purposes was $5,000, consisting wholly of material and supplies. The amount contended for by the carrier is $50,879.72, consisting of cash sufficient to provide for the liquidation of the greatest net of two successive days' junction settlements during the year 1920 in the amount of $21,012.89, cash to meet demands of unforeseen contingencies, $15,000, and material and supplies in the amount of $14,866.83.

The testimony of the carrier is to the effect that it is an originating line for approximately 30 per cent of its total traffic and a delivering

175212—33—41 VAL. REP.——9

line for the remaining 70 per cent. With the exception of joint traffic having its origin or destination on the line of the Trinity Valley & Northern Railway, the carrier does not enjoy through interline billing arrangements. It is contended that this situation necessitates its having cash on hand for immediate disbursement to take care of the aggregate balance of lawful charges on not less than two days' business, based upon the testimony of its witness that it takes not less than 48 hours for money so expended to again reach its treasury.

From a study of the returns made by the carrier to a questionnaire, correspondence pertaining thereto, and its annual reports to us, the bureau ascertained that the cash receipts for services rendered by the carrier were in hand, on the average, sufficiently in advance of the time when payments in connection with such services were made to indicate that no cash working capital was necessary. The study and data relied upon were introduced in evidence in exhibit form and testified to by a witness for the bureau. Evidence presented by the carrier, however, indicates that the returns made to the questionnaire are inaccurate and incomplete and do not reflect its actual experience with respect to junction settlements or material and supplies.

A review of the testimony and the data relied upon by the carrier shows that, while the largest net amount of any two successive days' junction settlements during the year 1920 was $21,012.89, the average daily net payment for the 24 days that represent the highest 12 2-day successive junction settlements during the same year was $5,097.67. Of these two amounts $15,572.06 and $2,966.81, respectively, represent amounts paid by the carrier to its connecting lines for freight delivered to them for forwarding, but there is no evidence as to what proportions of these amounts were paid in advance by the consignors at the time the goods were shipped. It may be that some or all of these amounts were prepaid by the consignors and such amounts as were so paid do not represent outlays for which working capital should be provided. There was also no evidence presented as to the interline traffic with the Trinity Valley and Northern Railway Company and without information as to the daily receipts and disbursements in connection therewith we are unable to determine how the daily junction settlement balances would be affected thereby. The testimony relating to contingencies is of a general nature and does not show that the cash receipts for services rendered were not in hand in sufficient time to meet such requirements. For the reasons stated we are unable to determine all of the facts relating to the carrier's actual experience, but from the evidence of record it would appear that an amount equivalent to approximately twice the average daily net payments for the 24 days' junction settlements referred to would be sufficient to meet its cash working capital requirements as of valuation date.

The amount of material and supplies contended for by the carrier represents what its witness considered to be the average monthly balance on hand during the year 1920. The amount stated in the tentative valuation represents the average monthly balance of usable stock carried for operating purposes during the latter 10 months of the year 1920 and the calendar years 1921 and 1922, as developed from the carrier's returns to our questionnaire. As thus developed, the average monthly balance for that part of the year 1920 was $384 as compared with the amount of $14,866.83 claimed by the carrier, but its witness testified that the returns to the questionnaire for that year were improperly prepared and are not applicable to the conditions then existing. It is his contention that the carrier did not have any material and supplies account prior to valuation date, but that if it had maintained one then, as it did later, the monthly balances for the year 1920 would have reflected the amount claimed. In explanation thereof he stated that all material and supplies purchased for constructing the property were charged directly to the investment account and those purchased for operating purposes prior to valuation date were charged directly to operating expenses. Further, that on valuation date an inventory was made of all material and supplies on hand for all purposes, amounting to a total of $15,268.95, and a material and supplies account was opened up as of that date. Of this amount he considered that $12,588.17 represented surplus material originally charged to the investment in road and equipment account. It appears from the exhibit presented by the same witness, however, that the carrier did keep a ledger which shows amounts for each month, ranging from $781.55 in January to $7,689.56 in November and $15,268.95, the amount of the inventory, in December. No explanation was made of these ledger balances by the witness, but he used them as a base for deriving his monthly average for the year by adding to the amount so stated for each month the sum of $12,588.17 to represent surplus material charged to the investment account, which material he not only assumed was on hand at the beginning of the year but in a like amount for each and every month during the year. He also assumed that all of the material and supplies were held for operating purposes and made no attempt to separate the amount actually used for additions and betterments.

It is apparent from the evidence that the uncertainties relating to the accounting for the year 1920 prevent any reliable conclusion being drawn therefrom, but the situation is entirely different with respect to the calendar years 1921 and 1922. There is no dispute as to these years. The record shows that the average monthly balance of usable stock carried for operating purposes during these two years was $6,957, and we are of the opinion that this amount substantially represents the carrier's requirements as of valuation date. The amount stated for working capital in the tentative valuation will be increased from $5,000 to $17,000, consisting of $7,000 material and supplies and $10,000 cash.

FINAL VALUE

The carrier contends that the reported final value of all property owned and used by it in common-carrier service, $575,000, has been arbitrarily determined, and is much less than the true value of the property on valuation date. In support of its contention it presented an estimated value of $1,021,250, based on the reproduction estimate as of valuation date that we have previously discussed; a valuation of the property by the Railroad Commission of Texas as of June 30, 1922, under the Texas stock and bond law; and two separate contracts for the purchase of the entire stock of the company by the New Orleans, Texas & Mexico Railway Company and the Southern Pacific Company during the years 1922 and 1925, respectively.

Its estimated value of $1,021,250 was determined by adding to its estimated cost of reproduction less depreciation, the average value of its lands for the years 1920 and 1921 as determined by the bureau, $5,000 for working capital as stated in the tentative valuation, and $82,040 for going-concern value. No consideration was given to original cost or any other items. However, the reasons previously stated in connection with our discussion of the reproduction estimate are sufficient for present purposes, without considering the other items mentioned, to indicate why this estimated amount can not be accepted as indicative of the value of the property on valuation date.

The valuation by the Railroad Commission of Texas, amounting to $929,020.82, was made 18 months subsequently to our valuation date and includes an item of $52,586.08 for franchise value. The carrier admits that this valuation does not reflect the value of its property on valuation date, but undertook by making certain adjustments therein to determine a value which would serve to illustrate approximately what would result if the reproduction theory were applied in this case. The item of franchise value was eliminated and an amount of $80,791 was deducted for additions and betterments made subsequently to valuation date, but no evidence was offered to show that they had been valued by the Texas commission at that amount. In addition, an amount of $208,903 to represent present value of lands, cost of acquisition of lands in excess of their present value, and interest on land during construction was substituted for the item of $79,220.02 stated for land value. The carrier thus derived a total of $925,327, to which it contended that an additional amount should be added for working capital, going-concern value, and other intangible elements, but it did not state what this amount should be. We have repeatedly explained our reasons for disregarding cost of acquisition and interest on expenditures for land during construction in determining the value of a carrier's lands and nothing further need be said here respecting such items. There is also no evidence as to the basis of this valuation or the principles and methods that guided the Railroad Commission of Texas in making it, and we are therefore, unable to draw any conclusions therefrom that would be helpful to us in determining the value of the property for rate-making purposes on valuation date.

On valuation date the entire capital stock of the carrier, consisting of 250 shares of the par value of $100 each, was owned or controlled by R. S. Sterling. The two contracts for the purchase of this stock by the New Orleans, Texas & Mexico Railway Company and the Southern Pacific Company, dated May 9, 1922, and November 25, 1925, for considerations of $925,000 and $900,000, respectively, were entered into by Sterling and the carriers named, subject to our approval. Both contracts provided for a transfer of the property free of all encumbrances in the event they were approved. We disapproved the first agreement but approved the second one for the purchase of the stock by the Southern Pacific Company for $900,000 by our order entered April 1, 1926, in *Control of Dayton-Goose Creek Ry.*, 105 I. C. C. 792. The carrier contends that the approximate value of its property to these two carriers as of valuation date can be determined by deducting from the considerations stated in these two contracts the amounts expended for additions and betterments between valuation date and the date of each agreement. An exhibit presented in evidence by the carrier shows $80,791 so expended from valuation date to June 30, 1922, and $134,817 from valuation date to December 31, 1925. By deducting these amounts from the agreed purchase prices it arrived at approximate values of $845,000 and $765,000, respectively, for the commercial value of its property as of valuation date, both of which it contends indicate that the value reported by us is too low. The two values thus derived were determined on the same basis, but it is obvious that they can not both be right. The difference is due to the fact that the carrier has assumed that the value for all of the property other than the additions made subsequently to valuation date was the same in 1922 and

1925 as it was on valuation date, but there is no evidence to this effect. The value used as a base in each instance also represents a sale or commercial value instead of the rate-making value, and they seldom coincide.

The value we are here determining is the rate-making value and the conditions and considerations which are presented in a sale of the property are therefore not before us in this proceeding. The reasons which led us to conclude that a valuation under section 19a should be a value for rate-making purposes are fully stated in *Atlanta, Birmingham & Atlantic R. R. Co.*, 75 I. C. C. 645, 666, and in *San Pedro, Los Angeles & Salt Lake R. R. Co.*, 75 I. C. C. 463, 504, and need not be repeated here. Having reached that conclusion, it is unnecessary for us to determine to what extent or in what manner the values for other purposes which the carrier relies on may differ from the value for rate-making purposes. Furthermore the carrier did not offer any evidence to show that the values it used and determined were the equivalent of the rate-making values or how such values could be used by us as a guide in determining its rate-making value.

Our attention was called to the fact that the carrier had produced a net railway operating income ranging from 10 per cent to 30 per cent per annum on the amount of its investment ever since the road was opened for operation, but in *Kansas City Southern Ry. Co.*, 84 I. C. C. 113, 117, we rejected capitalization of earning power as a criterion of the value of property of a carrier for rate-making purposes and reached the same conclusion in *Atchison, Topeka & Santa Fe Ry. Co.*, 127 I. C. C. 1, 94; *Chicago, Burlington & Quincy R. R. Co.*, 134 I. C. C. 1, 53, and *Chicago & North Western Ry. Co.*, 137 I. C. C. 1, 27, as well as in other valuation cases. In *Atlanta, B. & A. Ry. Co. Reorganization*, 158 I. C. C. 6, we also reaffirmed the previous distinction between value for rate-making purposes and market value. That case involved the reasonableness of the purchase price of the property of the old Atlanta, Birmingham & Atlantic Railway, which had been bought for a fraction of the amount which we had formerly fixed upon as its value for rate-making purposes and in adhering to our former approval of the purchase price we said:

As there stated, the properties had been operated at great losses for many years, due principally to inherent traffic weakness, although aggravated by a strike of employees. Under these circumstances great difficulty was met in finding a purchaser at any price, with the obligation to operate. As further said in that report, experience only would determine whether or not the investment of the Atlantic Coast Line would be profitable even at the price paid. The contention was then made, but in that instance by the stockholders of the old company, that the value found by us under section 19a was evidence of inequity in the price to be paid, but it was pointed out that there was no necessary relationship between the cash or exchange value and value for rate-making purposes, and that the courts had recognized the distinction. From the standpoint of the former owners, the railroad properties had proven to be a liability rather than an asset; and it is apparent that their prospective value to the Atlantic Coast Line lay in their utility as adjuncts of its operating system rather than in the ability of the new company to earn a profit as a separate entity. If the prospect were otherwise, it would be impracticable to recognize that fact in a definite assignment of value. * * * The report of valuation of the railroad properties operated by the old company, 75 I. C. C. 645, endeavored to make it plain that such valuation had no relation to the market worth of the properties, but was merely a sum upon which the carrier was entitled to earn a fair return, if it could do so. That the new company could, as a separate and independent carrier, earn such a return, is more than doubtful; on the other hand, the mere fact that the investment stated in the balance sheet does not correspond with value for rate-making purposes in no way prevents the carrier from earning a fair return on that value.

The distinction between rate-making value and market value has also been recently reaffirmed by the courts in *United Fuel Gas Co.* v. *Railroad Commission*, 13 F. (2d) 510, 519; *Temmer* v. *Denver Tramway Co.*, 18 F. (2d) 226, 229; and *Vincennes Water Supply Co.* v. *Public Service Commission of Indiana*, *et al.*, 34 F. (2d) 5, 6, 7. In the latter case it was specifically held that the price paid for stock of a utility company which is dependent on its earnings does not furnish an adequate test of the value of the property for rate-making purposes. The several values derived by the carrier can not therefore be accepted as a guide for determining the value of its property for rate-making purposes on valuation date.

The cost of reproduction new and the cost of reproduction less depreciation of the property owned and used for common-carrier purposes, exclusive of land, and including the carrier's portion of jointly owned minor facilities, we find to be $439,495 and $401,063, respectively. The value of lands owned and used for carrier purposes on date of valuation, determined in accordance with our usual methods, is $101,076, and of those used but not owned, $396. The carrier's books record an investment of $613,994.82 in carrier property, including lands. The original cost to date as nearly as can be ascertained is $632,378.49.

We find that the value for rate-making purposes of the property of the carrier, owned and used for purposes of a common carrier, including $17,000 for working capital, is $684,000 and of the property used but not owned, $396.

An order will be entered in accordance with our findings.

ORDER

Entered July 15, 1932

This case having been heard and submitted by the parties, and full investigation of the matters and things involved having been had, and said division having, on the date hereof, made and filed a report containing its conclusions thereon, which report is hereby referred to and made a part hereof:

It is ordered, That the following be, and it is hereby declared to be, the final valuation of the property of the Dayton-Goose Creek Railway Company as of December 31, 1920.

Location and general description of property.—The railroad of the Dayton-Goose Creek Railway Company, herein called the carrier, is a single-track, standard-gage, steam railroad, located in the southeastern part of Texas. The owned mileage consists of a main line from Dayton to Baytown 24.988 miles in length and 4.189 miles of yard tracks and sidings. Its road thus embraces 29.177 miles of all tracks owned. In addition, it owns equally and uses jointly with the Texas and New Orleans Railroad Company 1.515 miles of yard tracks and sidings at Dayton.

Capitalization.—The carrier had outstanding, on date of valuation, a total par value of $34,607.52 in stocks and long-term debt, of which $25,000 represented common stock and $9,607.52 funded debt.

Results of corporate operations.—For the period from May 1, 1918, to date of valuation, the aggregate railway operating expenses were 73.6 per cent of the railway operating revenues. The records do not indicate that any dividends have been declared during the period of operation.

Original cost to date.—The original cost to date of valuation, as nearly as it can be determined, of the land and land rights owned and used by the carrier for carrier purposes, is $46,791.11, and for all of its common-carrier property is $632,378.49. Further details will be found in Appendix 2.

Investment in road and equipment.—The investment in road and equipment, including land, on date of valuation, is stated in the books of the carrier as $613,994.82. After adjustments this amount is increased to $631,928.49, of which $43,664.20 represents considerations other than money and $4,942.75 a credit for property sold or retired.

Cost of reproduction new and cost of reproduction less depreciation.—The cost of reproduction new and cost of reproduction less depreciation of all common-carrier property, other than land and material and supplies, owned and used by the carrier, including its portions of jointly owned minor facilities, are $439,495 and $401,063, respectively. These amounts, classified in conformity with the classification of expenditures for road and equipment as prescribed by us, are shown in the summary sheet in Appendix 1.

Cost of lands, rights of way, and terminals at time of dedication to public use, and their present value.—The carrier owns and uses for common-carrier purposes 320.49 acres of lands. The total original cost of lands owned and used by it for carrier purposes, so far as supported by accounting records, is $44,417.29, including $1,183.55 of miscellaneous attendant costs. A portion of the latter amount may be assignable to rights in private lands. Other data on their original cost will be found in Appendix 2.

The area and present values of the carrier lands owned or used are found to be—

Classification	Acres	Present value
Wholly owned and used	320.49	$101,076
Used but not owned, leased from the Trinity Valley & Northern Railway Company	2.73	396
Total owned	320.49	101,076
Total used	323.22	101,472

Rights in private lands.—The carrier owns rights in private lands in the State of Texas used for common-carrier purposes, the cost of which as supported by accounting records is $1,729.60. No present value is found for rights in private lands owned and used.

Property held for purposes other than those of a common carrier.—The investment of the carrier in miscellaneous physical property on date of valuation is stated in its books as $240, comprising the recorded value of abandoned right of way. We have not included this item in this report, for the reason that the carrier in its return to us has not reported either the area or the cost of lands owned.

The carrier owns and holds cash on hand and material and supplies in the amount of $68,740. Of this amount, $17,000 is necessary for its use as working capital and that sum is, therefore, included in the final value stated elsewhere in this report. The remainder, $51,740, is owned and held by the carrier for noncarrier purposes.

Aids, gifts, grants of rights of way, and donations.—Of the lands owned by the carrier and included in the preceding summaries of lands owned, 26.05 acres of carrier lands with a present value of $2,357 were acquired through aids.

The title to these lands was conveyed by deeds reciting nominal considerations only. We are not able to report their value at the time acquired.

The accounts of the carrier do not show any moneys or other consideration received for sales of any portion of lands conveyed to it as grants, gifts, or aids.

The carrier reports certain land with an estimated value of $644.22 and expense of acquisition of $1.25, donated to it by an individual.

Material and supplies.—The book value of material and supplies on hand on date of valuation is shown in the records of the carrier as $15,268.95.

Final value.—After careful consideration of all the facts herein contained, including appreciation, depreciation, going-concern value, working capital, and all other matters which appear to have a bearing upon the values here reported, the values, for rate-making purposes, of the property of the carrier, owned or used, devoted by it to common-carrier purposes, are found to be as follows:

	Final value
Wholly owned and used	$684,000
Used but not owned, leased from the Trinity Valley & Northern Railway Company	396
Total owned	684,000
Total used	684,396

The sum of $17,000 is included in the value above stated as wholly owned and used on account of working capital, including $7,000 of material and supplies.

No other values or elements of value to which specific sums can now be ascribed are found to exist.

Appendixes.—Attached hereto and made a part hereof are Appendixes 1 and 2. Appendix 1 gives the explanatory text, and the classification of the cost of reproduction new and cost of reproduction less depreciation, above set forth, in conformity with the classification of expenditures for road and equipment prescribed by us.

Appendix 2 shows in detail the history and organization of the present corporation; moneys received by reason of issues of stocks, bonds, and other securities, together with the syndicating, banking, and other financial arrangement attending their issue; the net and gross earnings; a statement of the expenditures of moneys accompanied by a statement of the purposes thereof; the development of fixed physical property; investment in road and equipment; the cost of lands, rights of way, and terminals; the general balance sheet statement; and other pertinent information.

Reference is made to Appendix 3, *Texas Midland Railroad*, 75 I. C. C. 1, 108, which is hereby made a part hereof, for a statement of the methods employed and of the reasons for the differences between the various cost values reported. Reference is also made in like manner to Appendix 3, *Northampton & B. R. Co.*, 149 I. C. C. 244, 263, for a statement of the method for determining working capital.

The accounting, engineering, and land reports, copies of which have been furnished to interested parties and the State officials of the State in which the carrier embraced in this proceeding operates, give the details respecting the figures here reported and are on file in the Bureau of Valuation of the commission, open to public inspection, and subject to the direction of Congress. These reports are referred to for greater particularity as to the matters herein stated.

APPENDIX 1

Traffic connections.—The carrier has direct connections for interchange of traffic at Dayton, Tex., with the Trinity Valley & Northern Railway Company and the Texas and New Orleans Railroad Company.

Physical conditions affecting construction.—The country traversed is low and level, the soil being a sandy loam and clay.

Economic conditions relating to traffic.—The principal products of this region are of the farm and oil fields at Goose Creek.

Physical characteristics of road.—The grading is very light. There are no important bridges. The track is 60-pound relay rail with the exception of a small amount of new 75-pound rail in the jointly owned trackage.

Equipment.—The carrier owns and uses the following equipment.

Locomotives	1
Locomotives (second-hand)	2
Freight-train cars	6
Passenger cars	2

ENGINEERING AND GENERAL EXPENDITURES

Engineering has been estimated at 4 per cent of the road accounts 3 to 47. General expenditures, exclusive of interest, have been estimated at 2 per cent upon the road accounts 1 to 47, exclusive of account 2. Interest during construction has been estimated for one-half the construction period of 12 months plus 3 months, at 6 per cent per annum on all road and general-expenditures accounts, except accounts 2 and 76. Interest on equipment has been estimated for 3 months at 6 per cent per annum.

SUMMARY

Wholly owned and used, including owned portions of joint minor facilities

Account	Classes	Cost of reproduction new	Cost of reproduction less depreciation
	I. ROAD		
1	Engineering	$14,746	$14,746
3	Grading	41,384	41,384
6	Bridges, trestles, and culverts	21,629	18,569
8	Ties	60,959	49,244
9	Rails	73,883	72,434
10	Other track material	17,698	15,505
11	Ballast	55,547	49,974
12	Tracklaying and surfacing	47,120	42,408
13	Right-of-way fences	5,935	4,820
15	Crossings and signs	1,498	1,323
16	Station and office buildings	7,629	6,833
17	Roadway buildings	9,921	9,312
18	Water stations	633	602
19	Fuel stations	250	238
20	Shops and engine houses	4,372	4,372
26	Telegraph and telephone lines	4,050	3,647
27	Signals and interlockers	11,526	10,940
37	Roadway machines	1,332	1,024
38	Roadway small tools	875	656
44	Shop machinery	2,416	2,378
	Total, 1, and 3 to 47, inclusive	383,403	350,409
	II. EQUIPMENT		
51	Steam locomotives	22,696	21,238
53	Freight-train cars	3,042	1,521
54	Passenger-train cars	4,632	4,493
	Total, 51 to 58, inclusive	30,370	27,252
	III. GENERAL EXPENDITURES		
71	Organization expenses		
72	General officers and clerks		
73	Law		
74	Stationery and printing	7,668	6,978
75	Taxes		
77	Other expenditures, general		
76	Interest during construction	18,054	16,424
	Total, 71 to 77, inclusive	25,722	23,402
	Grand total, 1, and 3 to 77, inclusive	439,495	401,063

APPENDIX 2

INTRODUCTORY

The carrier is a corporation of the State of Texas, having its principal office at Dayton, Tex. This company is controlled by R. S. Sterling through ownership of its entire outstanding capital stock. On the other hand, the records do not indicate that this company, itself, controls any common-carrier corporation. The property of the carrier has been operated by its own organization during its entire life.

CORPORATE HISTORY

The carrier was incorporated July 24, 1917, under the general laws of the State of Texas, for the purpose of constructing and operating a railroad extending from Dayton to Goose Creek, Tex., about 25 miles. The date of its organization is stated by the company as July 21, 1917, which is the date the articles of incorporation were executed.

DEVELOPMENT OF FIXED PHYSICAL PROPERTY

The owned mileage of the carrier, amounting to 24.988 miles, was constructed, with the exception of bridges, by its own forces. Construction commenced in 1917 and the road from Dayton to Goose Creek was placed in operation on May 1, 1918. The extension from Goose Creek to Baytown was placed in operation in August, 1919. Bridges were constructed by H. H. Patton, contractor, and others whose names were not determined.

HISTORY OF CORPORATE FINANCING

Syndicating, banking, and other financial arrangements.—The records indicate that R. S. Sterling financed the carrier in the construction of its railroad. Its indebtedness to Sterling was partly liquidated by the issuance of capital stock and short-term notes.

The conditions under which and the considerations for which the carrier issued its securities and incurred other indebtedness are described in detail in the sections of this chapter devoted to capital stock, long-term debt, and other obligations.

Capital stock and long-term debt.—From the date of its incorporation, July 24, 1917, to the date of valuation, the carrier has issued capital stock and funded debt, as indicated by its records, aggregating $44,125 par value, of which $34,607.52 are actually outstanding, as summarized in the following table:

Class	Issued	Retired	Actually outstanding
Capital stock, common, par value	$25,000		$25,000.00
Funded debt, par value, issued	19,125	$9,517.48	9,607.52
Total	44,125	9,517.48	34,607.52

Capital stock.—The carrier issued its authorized capital stock of $25,000 par value, divided into shares of $100 par value each, to R. S. Sterling in part payment for advances for construction of road, and it is all actually outstanding.

Funded debt.—The carrier issued equipment notes dated August 28, 1919, due serially to September 28, 1921, of $19,125 par value, comprising the unapportioned part of equipment of a recorded value of $18,000 and interest included in the face of the notes of $1,125. Of such notes $9,517.48 were retired for cash, leaving $9,607.52 actually outstanding.

Short-term notes.—The carrier has issued short-term notes of $35,000 par value, of which $20,000 par value have been retired, leaving $15,000 actually outstanding on the date of valuation. The considerations recorded as passed in connection with the issuance of these notes and the partial reacquirements thereof are detailed in the statement following.

Par value	Consideration	Recorded value
Issued		
$5,000	Cash	$5,000
10,000	Equipment purchased	10,000
20,000	Charged to R. S. Sterling, in open account	20,000
35,000	Total issued for considerations	35,000
Reacquired and retired		
$10,000	Cash	10,000
10,000	Paid by R. S. Sterling and credited to him in open account	10,000
20,000	Total reacquired for considerations	20,000
Outstanding		
$15,000		

Open accounts.—The carrier has incurred indebtedness in open account to R. S. Sterling, who financed construction of its railroad, aggregating $424,114.18, of which $122,649.46 has been repaid, leaving $301,464.72 owing on date of valuation. Such indebtedness is classified by the carrier as loans and bills payable. The considerations recorded as passed in connection with incurring and repayment in part of this debt follows:

Amount	Consideration	Recorded value
Incurred		
$414,114.18	Cash	$414,114.18
10,000.00	Short-term notes retired and credited to this account	10,000.00
424,114.18	Total	424,114.18
Repaid		
$77,649.46	Cash	77,649.46
25,000.00	Capital stock, par value	25,000.00
20,000.00	Short-term notes, par value	20,000.00
122,649.46	Total	122,649.46
Owing		
$301,464.72		

RESULTS OF CORPORATE OPERATIONS

The results of corporate operations, as shown in the income and profit and loss accounts of the carrier, are given below.

Income statement.—A condensed summary of the income accounts for the year ending on date of valuation, and for the period May 1, 1918, to date of valuation, follows:

	Year	Period
Operating income:		
Railway operating revenues	$370,921.68	$605,773.88
Railway operating expenses	262,832.82	446,878.50
Net revenue from railway operations	108,088.86	158,895.38
Railway tax accruals	3,598.29	6,263.29
Total operating income	104,490.57	152,632.09

	Year	Period
Nonoperating income, miscellaneous rent income		$13,680.00
Gross income	$104,490.57	166,312.09
Deductions from gross income:		
Hire of equipment	22,741.98	40,210.21
Joint-facility rents	253.90	253.90
Interest on funded debt	1,106.98	1,106.98
Interest on unfunded debt	29,507.42	56,213.75
Total	53,610.28	97,784.84
Net income	50,880.29	68,527.25
Disposition of net income, income credit balance transferred to profit and loss	50,880.29	68,527.25

An examination shows that under the present classification of accounts, an item of $3,879.85 recorded in the profit and loss account representing railway tax accruals would be includible in the income statement for the period.

If this item were transferred to the income account, and if the items then contained therein were taken at their recorded amounts, the credit balance transferable to profit and loss would be reduced by $3,879.85, or to $64,647.40.

Profit and loss statement.—A condensed summary of the profit and loss accounts for the period May 1, 1918, to date of valuation, follows.

Credit, net credit balance transferred from income	$68,527.25
Debits:	
Loss on retired road and equipment	3,987.23
Delayed income debits, railway tax accruals	3,879.85
Miscellaneous debits, other miscellaneous debits	584.22
Total	8,451.30
Credit balance as of date of valuation	60,075.95

Dividends.—The records do not indicate that the carrier has declared any dividends.

INVESTMENT IN ROAD AND EQUIPMENT

The investment of the carrier in road and equipment, including land, on date of valuation is stated in its books as $613,994.82, of which the following is a general analysis:

For original construction and equipment, not completely separable:		
Recorded money outlay	$579,609.97	
Short-term notes issued for equipment, par value	10,000.00	
Interest accrued on short-term notes and open accounts, applicable to the construction period	15,292.09	
	604,902.06	
Less revenues in excess of expenses from operations during construction period	3,964.49	
		$600,937.57
For additions and betterments, equipment notes issued, par value		18,000.00
		618,937.57
Less property sold or retired, credited at		4,942.75
Total recorded as of date of valuation		613,994.82

The carrier recorded in its investment in road and equipment account, subsequently to date of valuation, a net charge of $17,933.67 which is applicable to road property, including land, and equipment included in the inventory. The amount consists of $17,739.46 of recorded money outlay, a value of $644.22 assigned to land donated to it by an individual, and credits of $177.90 for revenues in excess of expenses from operation during construction and $272.11 for adjustment of interest accrued applicable to the construction period.

If this net charge were included and if all the items in the account were taken at the recorded amounts, the balance in the investment in road and equipment account would be increased from $613,994.82 to $631,928.49.

The balance in the investment in road and equipment account as above adjusted would comprise the following classes of recorded outlay:

Recorded money outlay, including credit of $4,142.39 for revenues in excess of expenses from operation during construction	$593, 207. 04
Notes issued for equipment, par value	28, 000. 00
Interest accrued applicable to construction period	15, 019. 98
Value assigned to donated land	644. 22
Less property sold or retired, credited at	4, 942. 75

ORIGINAL COST TO DATE

The original cost to date of the road and equipment, including land, owned by the carrier and used for common-carrier purposes, as nearly as it can be determined, is $632,378.49. The data obtained on the outlays for creating and improving the property are those found in the investment in road and equipment account of the carrier, as adjusted, together with $450 representing expenditures by R. S. Sterling, promoter and owner of the carrier, for organization expenses, summarized as follows:

Recorded money outlay:	
By the carrier, including credit of $4,142.39 for revenues in excess of expenses from operation during construction	$593, 207. 04
By R. S. Sterling	450. 00
Notes issued for equipment, par value	28, 000. 00
Interest accrued applicable to construction period	15, 019. 98
Value assigned to donated land	644. 22
Less property sold or retired, credited at	4, 942. 75

A classification by primary accounts follows:

Road:	
Engineering	$11, 443. 03
Land for transportation purposes	46, 791. 11
Grading	48, 627. 55
Bridges, trestles, and culverts	27, 916. 72
Ties	80, 047. 28
Rails	92, 063. 75
Other track material	28, 250. 70
Ballast	81, 788. 25
Tracklaying and surfacing	70, 011. 17
Right-of-way fences	10, 199. 40
Crossings and signs	2, 738. 56
Station and office buildings	10, 711. 56

Road—Continued.

Roadway buildings	$13, 175. 98
Water stations	933. 12
Fuel stations	241. 25
Shops and engine houses	6, 157. 48
Telegraph and telephone lines	4, 464. 93
Signals and interlockers	19, 225. 24
Roadway machines	1, 807. 62
Roadway small tools	1, 515. 35
Revenues and operating expenses during construction	Cr. 4, 142. 39
Other expenditures, road	681. 75
Shop machinery	5, 297. 30
Total	559, 946. 71

Equipment:

Steam locomotives	40, 354. 58
Freight-train cars	4, 189. 47
Passenger-train cars	4, 632. 09
Total	49, 176. 14

General expenditures:

Organization expenses	582. 05
General officers and clerks	6, 983. 43
Stationery and printing	484. 38
Taxes	10. 80
Interest during construction	15, 019. 98
Other expenditures, general	175. 00
Total	23, 255. 64
Grand total	632, 378. 49

Cost of lands.—The carrier reports amounts aggregating $46,146.89 as the outlays by itself in connection with lands and rights owned or used by it. In addition to the lands represented by the $46,146.89, the returns made by the carrier include certain lands donated for which the carrier reports an appraised value of $644.22, certain lands for which nominal deed considerations only are reported, certain lands held by adverse possession, and certain lands used but not owned, without reported costs.

The amounts reported by the carrier as costs for the remaining lands owned are made up of costs supported by accounting records. These amounts, classified according to the classification herein of the lands to which they apply, are summarized as follows:

Classification	Costs supported by accounting records
Lands classified as carrier, owned and used	$43, 233. 74
Rights in private lands classified as carrier, owned and used	1, 729. 60
Miscellaneous attendant costs unassignable to the above groups and other lands	1, 183. 55

Cost of machinery and equipment.—The carrier reports that it owns and uses 11 units of equipment, 12 roadway machines, and certain machinery, with costs aggregating $56,281.06. A check of the returns indicates that the units of roadway machines should be reduced by two, as these units represent motor equipment installed on handcars.

After making the change noted above and classifying the returns according to the classification herein of the property to which they apply, they are summarized as follows:

Classification	Units	Costs supported by accounting records
Machinery:		
Roadway machines	10	$1,807.62
Shop machinery		5,297.30
Total		7,104.92
Equipment:		
Steam locomotives	3	40,354.58
Freight-train cars	6	4,189.47
Passenger-train cars	2	4,632.09
Total	11	49,176.14

MISCELLANEOUS PHYSICAL PROPERTY

The investment of the carrier in miscellaneous physical property on date of valuation is stated in its books as $240, comprising the recorded value of abandoned right of way.

AIDS, GIFTS, GRANTS, AND DONATIONS

The carrier reports certain land with an estimated value of $644.22 and expense of acquisition of $1.25, donated to it by an individual.

The report of the carrier upon the cost of its lands shows that certain parcels were acquired by it through deeds that recite merely nominal considerations. Since the records do not indicate that any actual payment was made in the acquisition of these parcels, they have been herein designated as apparent aids.

MATERIAL AND SUPPLIES

The investment of the carrier in material and supplies on date of valuation is stated in its books as $15,268.95.

LEASED RAILWAY PROPERTY

The carrier used on date of valuation facilities owned by other companies and other companies used facilities owned by the carrier to the extent indicated in the statement below. The description of the property and the terms of use are as follows. The rentals accrued and charged or credited to income for the year ending on date of valuation were not ascertained.

	Rentals
Jointly used, but not owned; owned by Texas and New Orleans Railroad Company:	
Freight and passenger station at Dayton, Tex.; rental, 25 per cent of cost of maintenance and operation.	
Interlocking plant at Dayton, Tex., rental, 50 per cent of cost of maintenance and operation	----------
Jointly owned and jointly used; owned equally with Texas and New Orleans Railroad Company. Tracks, 1.515 miles, at Dayton, Tex.; each company pays 50 per cent of cost of maintenance	----------

GENERAL BALANCE SHEET STATEMENT

The general balance sheet statement, as of date of valuation, follows:

ASSETS

Investments:	
Investment in road and equipment	$613, 994. 82
Miscellaneous physical property	240. 00
Total	614, 234. 82
Current assets:	
Cash	53, 470. 98
Traffic and car-service balances receivable	1, 446. 38
Net balance receivable from agents and conductors	5, 794. 70
Miscellaneous accounts receivable	29, 079. 63
Material and supplies	15, 268. 95
Other current assets	1, 507. 12
Total	106, 567. 76
Deferred assets, other deferred assets	108. 02
Unadjusted debits, other unadjusted debits	4, 848. 78
Grand total	725, 759. 38

LIABILITIES

Stock, capital stock	25, 000. 00
Long-term debt, funded debt unmatured	9, 607. 52
Current liabilities:	
Loans and bills payable	316, 464. 72
Traffic and car-service balances payable	4, 933. 38
Audited accounts and wages payable	119, 005. 59
Miscellaneous accounts payable	6, 513. 03
Interest matured unpaid	40, 379. 17
Unmatured interest accrued	28, 065. 51
Other current liabilities	2, 584. 90
Total	517, 946. 30

Unadjusted credits:	
Accrued depreciation, road	$93, 466. 31
Accrued depreciation, equipment	8, 948. 48
Other unadjusted credits	10, 714. 82
Total	113, 129. 61
Corporate surplus, profit and loss, credit balance	60, 075. 95
Grand total	725, 759. 38