

Plan for  
re-organization of  
Northern Pacific R.R.

Feb 15/96

James J. Hill Papers  
Minnesota Historical Society



St Paul, Minn., February 15th 1896.

Right Hon. Lord Mount-Stephen

#25 St James's Place,

London, S.W. England.

My dear Lord Mount-Stephen:

Herewith I beg to send you the proposed plan for re-organization of the Northern Pacific, worked out with some detail, which I hope will be readily understood. All the figures of their indebtedness are, I think, correct up to date, and the statement shows that the charges can be very greatly reduced from what was proposed.

You will remember our wheat case, and the decision of the Court in regard to low capitalization. This plan will bring the bonded indebtedness under \$40,000. a mile and, with the addition of Branch Lines Leased, will reduce it to less than 35. The sales of land should within ten or fifteen years reduce it to 30. I do not think any railroad investment in this country is at all safe when over-capitalized.

The total net income of the Northern Pacific lines owned by the Company and covered by its Mortgages, now being foreclosed, was, for the year ending June 30th 1895, \$4,716,731.04.

Owing to the enormous crop of all kinds of grain harvested last autumn, the earnings have been largely increased during the first six or seven months of the present fiscal year. The men in charge of the property have strained every nerve to make the best showing possible, and to try at all events to show net earnings above the sum guaranteed by the Great Northern Company under the so called London agreement. In order to increase the net earnings, the maintenance of track, cars, and other property has not received the



usual attention, but later on will require more money to restore them than if they had been maintained regularly every month. Making due and liberal allowance in favor of that Company, should the net income after paying rentals, taxes, and all proper expenses reach \$6,250,000., it would not be safe to base any plan of re-organization of the Company under the usual crop conditions of an ordinary year, at more than \$5,500,000. You will remember that in London, when Mr. Adams read us his cables from America stating that the net income would be over \$6,000,000., I estimated it \$4,750,000., or within \$45,000. of the actual amount for the year then current. I consider the foregoing estimates of \$6,250,000. for the present fiscal year, and \$5,500,000. for the following year, as high as it would be at all prudent to place them.

The increased earnings and other reasons have increased the market price of some of the Northern Pacific securities, so that it will be necessary to make more liberal provision for some of these securities than was proposed a year ago. I would suggest the following, as being about what I think will be required to carry out successfully any plan of re-organization in a way which should be reasonably well received by the security holders, allowing three and one half years interest on the several issues of bonds in default, which would carry the interest to January 1st 1897. It may be necessary to carry this interest to a longer date.

Make a new general mortgage covering the entire property owned by the Company, 3,342 miles, bearing interest at the rate of 4% per annum, to run fifty years with the privilege to the Company of retiring or paying off annually, on one years notice after twenty five years from the date of the mortgage, in sums of one million dollars or more at 100%, to provide for lower rates of interest. This Mortgage should be made for \$200,000,000., so as to allow for taking up the Branch Lines Leased and to provide for any future extensions.



BONDS NOT IN DEFAULT.

Missouri River Division Mortgage - Int. 6% - S.F. 1%

Principal outstanding	\$ 1,834,500.
Interest & Sinking Fund paid from current income.	

Pend d'Oreille Division Mortgage - Int. 6% - S.F. 1%

Principal outstanding	369,000.
Interest & Sinking Fund paid from current income.	

General First Mortgage - Int. 6% - S.F. 1%

Principal outstanding	42,212,000.
Interest & Sinking Fund paid from current income.	

Total principal outstanding	\$ 44,415,500.
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Provide for exchanging these securities at a premium of 30%	13,324,650.
	<u>\$ 57,740,150.</u>

BONDS IN DEFAULT.

Second Mortgage - 6%

Principal outstanding	\$19,206,000.	
Interest to Jan. 1st 1897	4,321,350.	
	<u>\$23,527,350.</u>	
Provide for exchange at premium of 15%	3,529,103.	27,056,453.

Third Mortgage and Dividend Certificates Extended - 6%

Principal outstanding	11,971,500.	
Interest to Jan. 1st 1897	2,571,275.	
	<u>\$14,542,775.</u>	
Provide for exchange at discount of 20%	2,908,555.	11,634,220.

Consolidated Mortgage - 5%

Principal outstanding	48,867,000.	
Interest to Jan. 1st 1897	10,506,405.	
	<u>\$59,373,405.</u>	
Provide for exchange at discount of 60%	35,624,043.	23,749,362.

Total requirements to retire outstanding securities	\$120,180,185.
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Add for improvements, new rails, equipment, &c.	<u>3,000,000.</u>
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Total amount of bonds of the new fours required for exchange, &c.	\$123,180,185.
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Leaving balance to be sold for cash	1,819,815.
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Cash required to pay the following:

Outstanding Receivers' Certificates, at par, (Interest paid from current income.)	\$ 4,900,000.
Outstanding Collateral Trust Notes, at par, (Interest paid from current income.)	9,494,000. ✓
Expenses of re-organization	<u>3,000,000.</u>
Total cash requirements	\$17,394,000.

After payment of Receivers' Certificates and Collateral Trust Notes, the following assets will remain, which are not a part of the railway, and are not required in its operation:

Chic. & Nor. Pac. Bonds	3,485,000. @ 50	1,742,500.
Chic. & Calumet Bonds	5,000,000. @ 50	2,500,000.
Minn. Transfer Ry. Bonds	103,000. @ 100	103,000.
St Paul & E. Gr. Trunk Bonds	10,000. @ 75	5,000.
Chic. Un. Transfer Stk., Pfd.	40,000. @ 75	30,000.
" " " " Com.	40,000. @ 40	<u>16,000.</u>
Total proceeds, if sold		4,696,500.

Issue \$50,000,000. 6% Preferred Stock, of which holders of Third Mortgage Bonds and Dividend Certificates Extended receive  
Holders of Consolidated Bonds receive  
Sell balance at 40

	2,968,555.	
	33,824,043.	
	<u>11,467,402.</u>	4,586,961.
Sell \$1,819,815. Treasury Bonds at 85		1,546,843.
\$50,000,000. Common Stock at 15		<u>7,500,000.</u>
(Give preferred shareholders of present Company privilege of buying this Common Stock at 15.)		<u>18,030,304.</u>
Surplus over requirements		\$ 636,304.

Inasmuch as the bonds not in default would not exchange for the present at the rate of 125%, the Sinking Fund for these Bonds could be provided by Land Sales and the sale of whatever amount of the new four per cent bonds as might be required, until such time as the rapid retirement of these bonds would induce the holders to exchange their bonds for the new fours. This meets the objection raised by Mr. Morgan after I left London last May. You will observe I have limited the bond issue for re-organization purposes to \$125,000,000., and the annual interest to \$5,000,000. My object in doing this is to increase at once the value of the Preferred Stock, and by bringing



to an early dividend, more firmly establish the credit of the Company and advance the market value of the new Bonds.

Bearing in mind the opposition to consolidation of the interests of the two Companies which has grown out of the public discussions, law suits, &c., during the past summer, I think it well to avoid any discussion for the present of the proposed open unification of interests. My plan would be for a party of the friends and large shareholders of the Great Northern to buy all the consolidated bonds of the Northern Pacific to be had in the market. We should secure one half the issue if possible. If our Berlin friends would like to join us in this to the extent of one quarter, or if they preferred it, a larger proportion, all well. Twenty five millions at 40% would cost \$10,000,000., but as the purchase of a large amount distributed over several months, would probably advance the bonds so that they might average 45%, or \$11,000,000. I think I could make up a party to take the whole transaction in America, but as it would be very profitable I would prefer to distribute it among some of our good friends abroad.

This plan would save at the start \$1,250,000. fixed charges annually, equal to 4% on \$31,250,000., which would in reality cost the shareholders of the new Company whatever they paid for the bonds purchased by them, less the value of the 40% of new bonds received in exchange for Consols purchased.

The issue of new Common Stock would probably be taken by the preferred shareholders of the old Company, but if they did not all subscribe the syndicate should buy the balance, and in any event should buy enough for control.

You will see by the statements sent to Mr. Farrer how far we have reduced the working expenses during last year. The figures for the six months ending December 31st last - 34/100 of a cent per ton per mile - show the lowest cost ever made by any large Company in this country.



The Northern Pacific, for year ending June 30th 1895, show an average cost per train mile of \$1.10, and an average load hauled of 163 tons per train per mile run. This would make their average cost for the year 67/100 of a cent per ton per mile against our 41/100 for the same time and 34/100 for the first half of the present fiscal year. The Pennsylvania between Pittsburg and Philadelphia, with a density of traffic per mile of road of about thirteen times that of the Great Northern, shows a cost of forty one and one half one hundredths of a cent per ton per mile.

From the above I estimate that with such changes as we could make in from twelve to eighteen months on the Northern Pacific, we could rely with reasonable safety on earning a good dividend on the preferred shares at the end of the first year.

I have allowed for improving the Northern Pacific \$3,000,000., which I think is quite enough. If you will refer to our large operating sheets sent to Mr. Farrer, you will see that we carried over the Kalispell and Cascade Divisions, which includes our entire line across all the ranges of the Rocky Mountains, including the switchback temporary line over the Cascade Range, an average load per train of over 310 tons for the six months ending December 31st last, or 130 tons more than the yearly average of the Northern Pacific on all lines. This shows clearly that it is not all due to low grades.

On receipt of this letter, I hope you will, after discussing the matter with Farrer, give me briefly your own and his views. If you think well of the plan and will briefly cable me to that effect I will at once set the work going and commence picking up the bonds. My trip to the Pacific Coast has been delayed on account of some large lumber operators who go with me. On my return I expect to remain here three or four days, then to New York and Washington, and hope to sail for London about the 7th or 10th of March.



While in London I would like to take up with you the Duluth and Winnipeg matter, and think the best interests of all concerned can be taken care of permanently.

Our business continues to show large increases over the same time last year.

With kind regards and best wishes, believe me, as ever,

Yours faithfully,

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