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T. Stewart Lyon

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Report

Windsor Essex & Lake Shore Ry

25 July 1934.

Mr. T. Stewart Lyon.

July 25, 1934

REPORT RE WINDSOR, ESSEX AND LAKE SHORE RAILWAY

EARLY HISTORY UNDER PRIVATE OWNERSHIP

This Railway was originally incorporated by Ontario Statute in 1879, on the petition of the Councils of the Town of Windsor and other Municipalities interested. There were several later Ontario Acts dealing with it and some proposed extensions, and finally in 1906, the Dominion declared it to be a work for the general advantage of Canada.

Actual operations commenced in 1908, and the Railway appeared to have a fairly successful career for some years, with a gradually increasing passenger and freight business. The passengers carried had increased from 150,000 up to 900,000 in 1921.

As originally constructed, this Railway was a departure from what was then the standard for construction and operation of electric railways, inasmuch as it was a single phase railway operating with a power voltage of 6600 volts on the trolley wire. Experience of later years discounted the opinions of the construction engineers with respect to the value and economies of high voltage operation.

The capital liability of the Company totalled \$1,750,000., of which \$750,000. was first Mortgage bonds; \$250,000. Second Mortgage bonds, and \$750,000. capital stock.

The population served is approximately 87,000, and the Company had franchises with the various Municipalities expiring on various dates between 1926 and the year 2005. A large number of important industries were served.

The Company operated a freight and passenger service, and conducted a considerable interchange business in car load lots with the Canadian Pacific, the Essex Terminal, the Pere Marquette and the Michigan Central.

Difficulties appeared to commence in the year 1922. The high operating costs and the lack of proper maintenance had the result that the class of service provided did not meet the requirement of the public, and so a serious falling-off in revenue ensued.

Local opinion demanded a better service, which the Company was not in a position to give, and when the revenues reached the point where they were less than the operating expenses, the Company decided on closing down the Railway.

PURCHASE BY THE MUNICIPAL CORPORATIONS

All of the industries served and apparently the majority of the population, were anxious that the Railway should be continued, and in March 1924, a meeting was held for the purpose of discussing the Railway question, at which the following representatives were present:

Mayor Mitchell, Messrs. Alec Simmers, C.R. Tuson,
J. Hedrick, C. Redeker, H. W. Wilson, A. Brown,
W. B. Clifford, K. Halford, R. Rogers, U.G. Reaume,
R. J. Moore, P.H. Gardner, R. Wilson, R.W. Code,
N. L. Menard, W. Lorange, C.J. McHugh, Capt. Baillargeon,
F. Harvey, A. E. Hooper, C.D. Fraser, T. Lanspeary,
R. Daniels, D. Bernhardt, A. Mosseau, C.T. Smith,
J. Stewart, R. Marentette, E. P. Holden, W. Morrey,
S. Laffrey and R. H. Holland.

It was then decided to have a complete report prepared covering the physical and financial condition of the Railway. Definite action was not, however, taken at this time and the matter again became a live issue in 1927, a meeting being called in Kingaville on February 1st of that year. This meeting, which was attended by some 300 representatives of the various interested Municipalities, was presided over by Dr. L. C. Hillis. Messrs. Robertson and Fairlie of the Commission's staff were also in attendance, upon request of the interested parties. The decision of this meeting was that the Commission be requested to make a survey of the Railway and present a report to the Municipalities at a later date. The representatives strongly expressed the desire that the service should be continued, but realized that the present Company could not be expected to operate at a loss.

The preparation of the survey was not authorized by the Commission until certified copies of resolutions passed by the Councils of each interested Municipality had been received, and these resolutions having been furnished on the 13th of April, 1927, authority for the preparation of the report was granted, and it was prepared and presented to the Municipalities at a meeting held for the purpose on June 10th, 1927.

In addition to furnishing this report, the Commission's representatives, after negotiations, presented two alternatives offered by the Company, under which the Municipalities might acquire the Railway. These were briefly:

1. That the Municipalities lease the Railway for \$1.00 per year, and furnish the necessary funds for rehabilitation the revenue to be applied firstly to pay operating costs, secondly to pay interest, fixed charges, depreciation and amortization of the new capital. After these requirements had been met, any surplus to apply to the old Railway capital up to 6%. The Municipalities under the arrangement to have the right to purchase the Railway at any time during the term of the debentures at a fixed price.
2. That the Municipalities buy the Railway outright and free from all encumbrance for the sum of \$296,000.00.

The Municipalities decided in favour of outright purchase and requested the assistance of Mr. Robertson in placing the facts before the public at the various meetings that were later held.

At these meetings it was pointed out that neither the Government nor the Commission would assume any financial responsibility in connection with the Railway affairs. It was also pointed out that it was not the function of the Commission to try to sell the Railway to the Municipalities, but to furnish the information and assistance requested.

LEGISLATION AND OPERATING AGREEMENT

As a result of these meetings, which were all topics of newspaper comment at the time, and the vote of the people which took place shortly thereafter, the Municipalities employed a firm of solicitors who prepared a bill for submission to the Legislature, to give the necessary authority. This bill became

18 George V, Chapter 99, and under it an Association was constituted consisting of one member appointed by each Municipal Corporation. The Statute empowered the Association so formed to acquire, construct, rehabilitate, equip, maintain and operate the Railway, and the decision of the Municipal Corporations was carried out to the extent that a binding agreement of purchase was entered into.

Armed with the completed agreement and the 1928 Statute, together with a draft of a proposed agreement relating to the operation of the Railway by the Commission, the Association requested the Commission to operate the Railway on its behalf.

It was found that there were so many deficiencies in the Statute of 1928 and in the operating agreement, that a new operating agreement was prepared and a new bill submitted, which became 19 George V, Chapter 56.

In the main, this act remedied the shortcomings of the existing legislation, along the line of providing for working capital, and for the apportionment of any deficits which might be incurred in the operations.

The operating agreement between the Association and the Commission is dated 3rd January 1929, and appears as Schedule to the Act of that year.

REHABILITATION

Under this legislation and operating agreement, the Commission took over the Railway and found, generally speaking, the following conditions:

1. The Railway consisted of a single track, standard gauge, 6600 volt A.C. electric line, 36.12 miles in length, connecting the City of Windsor with the Town of Leamington, and operating through the Townships of Sandwich East, Sandwich South, Maidstone, Town of Essex, Township of Gosfield North, Village of Cottam, Township of Gosfield South, Town of Kingsville and the Village of Ruthven.

2. Of a total of $4\frac{1}{2}$ miles of track which was in paved construction, two miles of this was in Windsor; three-quarters of a mile each in Essex and Leamington; and one mile in Kingsville. The balance was open construction with wood ties.

3. The private right-of-way of the line, which in the main was located along the highways, varied in width from 12 to 30 feet, and constituted approximately 80% of the total length of the line. Certain other important real estate parcels were owned by the Railway distinct from this right-of-way.

4. The general condition of the property was very bad. Little attention had been paid to the maintenance of the road-bed, equipment or power plant, and the entire system was in such a state of repair that it required complete rehabilitation to put in an economical operating condition. Some features of this may perhaps be of interest:

(a) The distribution system was in a deplorable state, and required to be completely replaced.

(b) The rail bonds had been neglected, and as a result, complete re-bonding was necessary. Angle bars at each of the rail joints had been cut in two, and the rails were thus tied together with two bolts instead of four. The rail itself was in very fair condition.

(c) The main power station was a steam generating plant located in Kingsville, and was in a very bad state of repair. Its equipment was obsolete and the cost of power averaged $4\frac{1}{2}$ to 5 cents per kilowatt hour.

(d) The rolling stock was extremely heavy, and the equipment was in a very dilapidated condition, having been in service for approximately 25 years without proper maintenance.

Winter conditions made it impossible to carry out any of the proposed work except the installation of the necessary number of ties to make the road-bed safe for operation.

On April 21, 1930, work was commenced in changing the trolley wire, and on July 25, it was sufficiently completed,

to permit operation on a voltage of 600 instead of the previous 6600 volts. On August 16, new cars were placed in regular service, and the rehabilitation was practically completed before the end of October 1930.

COST OF REHABILITATION AND FINANCING

The Commission had estimated to the Municipalities that the rehabilitation would cost approximately \$704,000., which added to the purchase price of \$296,000., involved an expenditure of \$1,000,000. It was therefore necessary that the Association should issue bonds to produce this amount, and accordingly a mortgage deed of trust was executed in favor of the Guaranty Trust Company of Canada, at Windsor, Ontario, under which the assets of the Railway were mortgaged to secure the bonds, and under which were pledged debentures of the Municipal Corporations to the aggregate principal amount of \$1,100,000.

The following shows the amounts of the debentures deposited by the various Municipal Corporations, together with the respective percentages of their liability.:

Windsor	354,488.00	32.226%
Leamington	159,254.30	14.478%
Kingsville	105,390.33	9.581%
Essex	81,296.87	7.93 %
Gosfield North	104,462.71	9.497%
Gosfield South	138,203.45	12.564%
Sandwich East	56,881.84	5.171%
Sandwich West	55,657.38	5.06 %
Sandwich South	44,365.12	4.033%

Total \$1,100,000.00

The bonds so issued did not, of course, bear the guarantee of the Province. They were dated the 1st day of February, 1929, matured 1st February 1959 and bore interest at 6% per annum.

Both principal and interest were payable in gold coin of lawful money of Canada at the principal offices of the Canadian Bank of Commerce in any of the Cities of Toronto or Windsor, Ontario; Montreal, Quebec; Winnipeg, Manitoba; or Vancouver, British Columbia; in the Dominion of Canada, or in

gold coin of the United States of America of the present standard of weight and fineness fixed for gold coins by the laws of the United States of America, at the agency of the said Bank in the City of New York, U.S.A., at holder's option.

The annual requirements for sinking fund purposes commencing with the 1st day of February, 1934, amounted to \$10,523.50. The bonds were subject to a redemption clause under which the Association might redeem on any interest date, a whole, but not a part of the bonds at the price of 110 plus accrued interest.

These bonds were underwritten by the Canadian Bank of Commerce at a price of 98, and produced therefore, the sum of \$980,000.00.

Working capital

Working capital had to be provided by the terms of the Act of 1929, under Section 4 of which the Association was required to issue debentures to the total amount of \$200,000., bearing such date, such rate of interest and payable upon the terms and conditions required by the Commission.

Of this amount, \$100,000. was to be delivered to the Commission, and the Commission had power to borrow upon the security thereof. The balance was retained by the Association, and pledged by the Canadian Bank of Commerce as security for a loan in the first instance, to provide a guarantee for the first year's interest on the bonds.

These debentures were for five years and matured in 1934, bore interest at 6% per annum, and were by the terms of Section 6 of the Act of 1929, a joint and several liability of the Municipal Corporations.

Further capital requirements

As against the estimate of \$704,000., the actual cost of rehabilitation amounted to approximately \$672,000., in addition to which heavy legal costs incurred by the Association amounting to \$53,052.22, interest during rehabilitation amounting to \$55,681. which was capitalized, and other sundry expenses, brought about the necessity for the issue of other securities

provided for by Section 7 of the Act of 1929.

Accordingly the Association was asked to issue and did issue debentures to the principal amount of \$100,000., dated 1st May, 1930, maturing 1st May 1935, and bearing interest at 6% per annum. These debentures were sold to the Canadian Bank of Commerce at a price of 100.03, and were not specifically secured upon the assets of the Railway, but were the joint and several liability of the Municipal Corporations.

At the completion of rehabilitation, therefore, about the end of 1930, there were outstanding bonds as above

described	--	\$1,000,000.
Working capital debentures maturing /34		200,000.
Debentures on capital account maturing /35		<u>100,000.</u>
	Total	\$1,300,000.

Details of the expenditure on rehabilitation and of the materials purchased and work done, are available and can be supplied by the Railway Department.

OPERATING SUMMARY

and diagram
A statement/showing the operating results from the 8th day of September 1929 to the 15th day of September 1932, which was the entire period of the Commission's operation, are attached hereto as Schedules "A" & "B".

The Commission commenced to operate on September 8, 1932, and the Railway was operated during rehabilitation. No extensive re-construction could be carried on until the spring of 1930, and rehabilitation was not complete until the end of October of that year. Therefore it seems desirable to examine the operating results with due regard to the fact that for the first 14 months ending October 31, 1930, the road was being operated under great difficulty, and this was recognized in the decision of the Association, which was approved by the Commission, to capitalize interest during the period.

The deficit for this period, after capitalization of interest, amounted to \$51,837.83, and all of this amount, except the sum of \$5303.45 was paid by the Municipal Corporations.

The arrears remaining unpaid were those assessed against the Townships of Sandwich East and Sandwich West. For the year ending October 31, 1931, which was the first full year subsequent to rehabilitation, the operating deficit was \$38,269.18, which, added to interest requirements, brought the total deficit for the year to \$109,013.58. All this total was paid with the exception of \$29,608.08.

For the period ending September 15, 1932, the total deficit was \$113,256.73. All of this amount remained unpaid when the Commission ceased to act. A summary of the amounts payable in respect of deficits by each of the Municipal Corporation after giving credit for the amounts paid, appears as Schedule "C"

COMPARISON OF OPERATING RESULTS WITH THOSE OBTAINING UNDER PRIVATE OWNERSHIP

Graphs of the revenues and costs of operation for the years 1908 to 1926 inclusive, under operation by the old Company, indicate that the peak revenue was in the year 1921, and shows that the highest number of fare passengers carried in the history of the Company, was in that year. The gross revenue was \$325,000. From that time, the revenues decreased yearly until 1926, when they amounted to \$245,000.

In the peak year of 1921, the revenue per passenger car mile was 58.03 cents, and per bus mile, 31.83 cents. The combined operating cost was 57.26 cents per unit mile.

Under Commission operation, the estimated cost of 35 cents per car mile was experienced except in the rehabilitation period, when the costs reached approximately 39 cents per car mile. After rehabilitation, costs were reduced to 33 cents per car mile.

Interest requirements of the old Company were higher because of the higher capital liability, namely, \$1,750,000. as against \$1,100,000.

Power supplied by the old steam plant cost the Company approximately \$5500. per month. Power was subsequently, under Commission operation, supplied by the Commission, and

installation of transformers costing \$2500. resulted in a decrease in the monthly cost of power, to \$3200.

EXPLANATORY COMMENT

The comparison above points to only one conclusion, namely, that the revenues of the Railway have not been as good as enjoyed by the old Company, owing to the depression

The estimates of the Commission were, of course, based on conditions that prevailed in 1926 and early 1927. During 1926, the old Company operated 237,481 passenger car miles, and 133,569 bus miles, using cars and buses as alternate methods of service. The Commission felt that with rehabilitation, new equipment, and with additional facilities such as extension of the tracks to the Park at Leamington, the revenues could be increased over those secured in 1926. There was, however, considerable delay in taking over the Railway, even after a decision had been arrived at to purchase it. This is evidenced by the fact that the line was not ultimately operated under the Commission's management until September 1929, after the depression had commenced to be severely felt in the Border Cities. In fact the earnings of the Railway were affected by the depression as early as March 1929.

The basis of the Commission's estimate of revenues which might be derived was, as above described, on the basis of the Company's operations in 1926, to which the Commission added an estimate of \$40,000. per year to accrue from local revenue on Howard Avenue in Windsor. This revenue had been previously secured by buses operated by the Sandwich, Windsor & Amherstburg Railway, and it was felt that if this Railway provided the local service, the Sandwich, Windsor & Amherstburg Railway would cancel the bus operation. Therefore, the Commission's estimate of earnings amounted to \$285,000., as against which the estimated operating cost was \$173,200, based upon operating 430,000 passenger car miles and approximately 60,000 freight car miles, and a cessation of the operation of interurban buses at an operating cost of 35.3 cents per car mile. It was not, of

course, estimated that this experience would result until the year after rehabilitation had been completed.

CHARGES OF MISMANAGEMENT

After the Railway ceased operations in September of 1932, there was a general feeling on the part of a number of the citizens of the Municipalities that the unfavourable experience could only be ascribed to mismanagement by the Commission, and rumors got about which resulted in serious charges being made. I need not deal with these in detail, as they already have been made the subject of a report, and a copy of the specific charges, together with the Commission's answers thereto, is hereto attached as Schedule "D".

One point which became the centre of a great deal of controversy, had reference to the basis upon which the Association acquired the Railway on behalf of the Municipality. It will be remembered that earlier in this report, a reference was made to alternative offers by the old Company; one of which involved a lease; the other of which involved outright purchase. The persons who were blaming the Commission for the financial difficulties in which the Railway found itself, and the resultant financial pressure upon the Municipalities, denied that any such option had existed, and that had it existed there could have been no question but that the Municipalities would have decided in favor of the lease rather than the purchase.

The facts which I think it well worthwhile to mention are:

It is recorded that the lease option was first proposed at a meeting at Kingsville on February 2nd, 1927, and that it was subsequently discussed at a meeting in Essex on June 10, 1927.

The Border Cities' Star of February 2, 1927, carried a full account of the Kingsville meeting. Mr. Robertson is quoted on the lease proposition as follows:

" Mr. Wickett, president of the W.E. and L.S. has made a proposition which seems to be very fair.

" He said: 'We will turn the railroad over to the municipalities if they put it in shape. Revenue would apply on the interest, fixed charges, depreciation charges, and the amortization of new capital. After this had been cared for, any surplus would be applied to the old capital. The municipalities would have the right of buying the road at any time for a price to be set during the term of the debentures'....."

The report goes on-

" I want it understood, however, that we are not selling anything. It doesn't make a cent of difference to the Hydro whether you decide to take the road over or not. But we will be very glad to co-operate and assist you in any way possible. That is all".

The report goes on-

" Ex-Mayor Winter exploded a bomb-shell under the lease suggestion, however;.

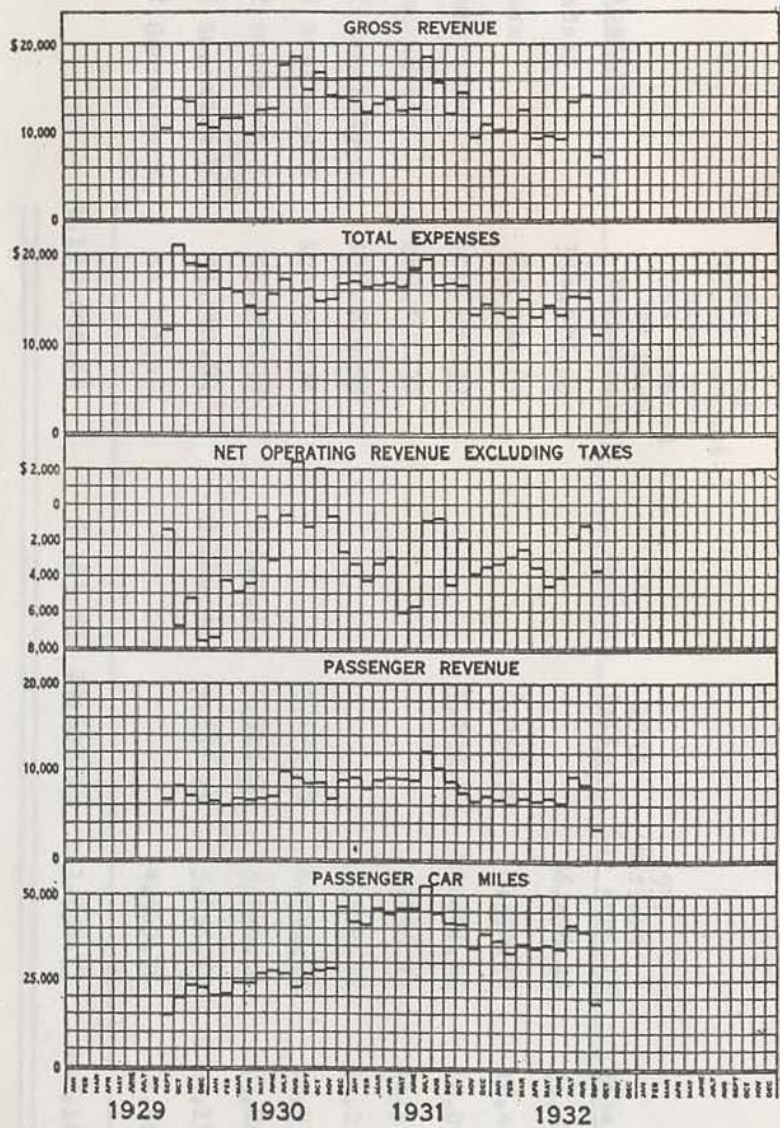
" This idea of leasing the road doesn't appeal to me at all," he said. "Nor do I think that we should buy the road for what has been put into it. We are only interested in its value as a going concern. I think it is far better to buy it outright than lease it, for then we would know exactly what we'd got."

SCHEDULE "A"

WINDSOR, ESSEX & LAKE SHORE RAILWAY

Earnings	Sept. 8, 1929 - Oct. 31, 1930	\$ 185,724.01	
	Fiscal Year 1931	166,713.01	
	Fiscal Year 1932 10½ mos.	116,271.70	
			468,708.72
Expenses	Sept. 8, 1929 - Oct. 31, 1930	227,106.63	
	Fiscal Year 1931	202,546.51	
	Fiscal Year 1932 10½ mos.	151,581.48	
			<u>581,234.62</u>
	Operating deficit		112,525.90
Taxes	Sept. 8, 1929 - Oct. 31, 1930	3,232.20	
	Fiscal Year 1931	1,885.64	
	Fiscal Year 1932 10½ months	1,673.47	
			6,791.31
Deprec. of Buses	Sept. 8, 1929 - Oct. 31, 1930	3,520.51	
	Fiscal Year 1931	550.04	
	Fiscal Year 1932 10½ mos.	400.43	
			4,470.98
Interest	Sept. 8, 1929 - Oct. 31, 1930	Capitalized	
	Fiscal Year 1931	70,744.40	
	Fiscal Year 1932 10½ mos.	75,873.05	
			146,617.45
Expenses of Assoc. in Year 1930			3,702.50
			<u>274,108.14</u>
	Total deficit		\$ 274,108.14

WINDSOR, ESSEX AND LAKE SHORE RAILWAY OPERATING STATISTICS



Schedule "C"

WINDSOR, ESSEX & LAKE SHORE RAPID RAILWAYDEFICITS RECEIVABLEAS AT SEPTEMBER 15, 1932

200808

Municipality	Basis of Apportionment- Debentures Contributed By Each Municipality	1930 Deficit	1931 Deficit	1932 Deficit (to Sept. 15)	Total	6% Interest On 1930 & 1931 Deficits to Sept. 15, 1932	Total
City of Windsor	354,488.00			36,498.32	36,498.32	749.08	37,247.40
Town of Essex	81,296.87		8,056.79	8,370.38	16,427.17	246.05	16,673.22
Town of Kingsville	105,390.33		5,222.27	10,851.06	16,073.33	234.73	16,308.06
Town of Leamington	159,254.30			16,396.93	16,396.93	275.00	16,671.93
Township of Gosfield S.	138,203.45			14,229.52	14,229.52	182.36	14,411.88
Township of Gosfield N.	104,462.71		5,176.00	10,755.55	15,931.55	224.70	16,156.25
Township of Sandwich W.	55,657.38	2,622.87	5,515.83	5,730.52	13,869.22	308.52	14,177.74
Township of Sandwich E.	56,881.84	2,680.58	5,637.19	5,856.59	14,174.36	315.33	14,489.69
Township of Sandwich S.	44,365.12			4,567.86	4,567.86	48.74	4,616.60
	1,100,000.00	5,303.45	29,608.08	113,256.73	148,168.26	2,584.51	150,752.77