

LRA

Decision No. 15417

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
HAPPY VALLEY WATER COMPANY,)
a corporation, for an order authori-)
zing the issue of stocks and stock)
certificates.)

Application No. 11646

J. H. Brown, for applicant.

ORIGINAL

BY THE COMMISSION:

O P I N I O N

In this application, as amended at the public hearing held before Examiner Fankhauser, the Railroad Commission is asked to make an order declaring that public convenience and necessity require the operation by Happy Valley Water Company of the water properties formerly owned and operated by Happy Valley Irrigation District, and authorizing the issue by Happy Valley Water Company of \$1,120,000. of its capital stock to finance the cost of such properties.

This application was filed in connection with a program now being followed to reorganize the affairs of Happy Valley Irrigation District. The district, since 1917, has been engaged in operating a water system for the distribution of water,

primarily for irrigation purposes, to residents within the district, which is known as Happy Valley, Shasta County, and to a few users outside the district in the vicinity of Igo and Ono, also in Shasta County. There is contained in the application a description of the properties and an estimate of their value, the estimate being as follows:-

<u>Item</u>	<u>Commission's Eng. Dept. Value, 1915</u>	<u>Additions</u>	<u>Total</u>
Main value	\$118,331.00	\$ 30,348.86	\$ 148,679.86
Reservoir sites	-	7,059.15	7,059.15
Right of way	1,488.00	612.55	2,100.55
Messelbeck reservoir	-	339,473.72	339,473.72
Hoover Tunnel	-	239,061.03	239,061.03
Diversion dam	-	9,104.51	9,104.51
Road	-	13,625.87	13,625.87
District reservoir	11,011.00	-	11,011.00
Ditches and structures	<u>10,519.00</u>	<u>8,641.03</u>	<u>19,160.03</u>
Total	<u>\$141,349.00</u>	<u>\$697,926.72</u>	<u>\$789,275.72</u>
Water rights			<u>250,000.00</u>
Total			<u>\$1,039,275.72</u>

The item of \$141,349. is an estimate of the reproduction cost less depreciation and was made by the Commission's Engineering Department in 1915. The \$697,926.72 represents the cost, undepreciated, of additions and extensions made since the date of the Commission's appraisal. The item of \$250,000. for water rights, according to testimony herein, is an arbitrary figure adopted by applicant as representing the value of such rights.

It appears that the water system, prior to its acquisition by the district, was owned and operated by Happy Valley Land

and Water Company, a public utility corporation which was organized during 1907. The district purchased the properties pursuant to authority granted by the Commission by Decision No. 4771, dated October 20, 1917, and thereafter made numerous extensions^s and additions, issuing, to finance the cost of such acquisition and construction, \$740,000. of bonds. These bonds consist of \$615,000. of first issue six percent bonds dated July 1, 1918 and maturing serially on the first day of July of each of the years 1939 to 1958, inclusive, and \$125,000. of second issue six percent bonds dated July 1, 1921 and maturing serially on the first day of July of each of the years 1927 to 1942, inclusive.

It is reported that the Happy Valley Irrigation District comprises some 18,000 acres of land, of which approximately 2,000 acres are now under cultivation. The lands are divided into first grade lands, comprising all level irrigable lands, second grade lands, comprising all side hill, irrigable lands, and third grade lands, comprising all other lands, the first and second grade lands aggregating about 13,100 acres. It appears that the district has experienced some difficulty in collecting the assessments it has levied on the owners of the land and that as a result it has been unable to pay the interest on outstanding bonds and meet some other financial obligations. The application indicates that at the beginning of 1924 there were in excess of 13,000 acres of land, the assessments on which had not been paid.

The bondholders, in order to protect themselves and to realize on their bonds, if possible, on September 4, 1924

appointed a reorganization committee to devise a plan to refinance the properties of the irrigation district. On November 14, 1924 the committee adopted a plan of reorganization which subsequently, on February 28, 1925, was approved by the district and on June 27, 1925 by the Superior Court in and for the County of Shasta. The Commission is asked to authorize the issue of stock to carry the plan into effect.

The properties of the district included, in addition to the water system, the 13,000 acres, approximately, which had been acquired through foreclosure proceedings on account of nonpayment of assessments. Its indebtedness, as shown in the decrees and order of the court dated June 27, 1925, consisted of the following:-

Bonds:-

First issue, 6's	\$615,000.00	
Second issue, 6's	<u>125,000.00</u>	\$740,000.00

Interestcoupons on bonds:-

Face amount	90,325.50	
Interest thereon at 7%	<u>11,839.69</u>	102,165.19

Warrants:-

Face amount	22,576.67	
Interest thereon at 7%	<u>2,381.40</u>	<u>24,958.07</u>

Total		\$867,123.26
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The reorganization plan, as adopted and approved, contemplates the dissolution of the district, the creation of two new corporations, one a land company and the other a public utility water company, and the creation of a lien, in favor of the water

company, of \$60. an acre on each of the 13,100 acres of first and second grade lands, such lien to be paid in annual installments of \$2.00 an acre with no interest.

Accordingly, on or about May 5, 1925 there were organized the Olinda Irrigated Lands Company and the Happy Valley Water Company.

Happy Valley Water Company has an authorized capital stock of \$1,120,000., divided into \$795,000. of Class "A" stock and \$325,000. of Class "B" stock. The company has acquired the water properties of the irrigation district, subject to the outstanding \$740,000. of bonds, and now proposes, if permitted by the Commission, to liquidate the bonded debt through the issue of \$740,000. of its Class "A" stock in exchange for such bonds on the basis of par for par.

Applicant asks permission to issue \$55,000. of its Class "A" stock to J. E. Brown and John J. McCrory for services rendered in organizing and promoting applicant's corporation and Olinda Irrigated Lands Company and for services to be hereafter rendered. Stock in the amount of \$25,000. is to be issued to them forthwith and \$30,000. in annual amounts of \$6,000. each to compensate them for services to be rendered to the two corporations. It occurs to us that the services hereafter rendered by J. E. Brown and John J. McCrory to the two corporations, should be compensated, if they desire compensation, through charges to operating expenses and ^{not} through the issue of stock. We will not permit the issue of the \$30,000. of stock. The expenses of the land company should not be charged to the water company. The order herein will permit the issue of \$765,000. of Class "A" stock.

The company also asks permission to issue all of the \$325,000. of Class "B" stock. As stated above a lien of \$60.00 an acre, in favor of the water company, has been created on the 13,100 acres, approximately, of the first and second grade land, the total lien thus aggregating about \$786,000. As payments are made on this account to the water company they will be used to retire the \$765,000. of Class "A" stock, or such portion as might be issued, at 93 percent of par value, a maximum sum of \$711,450. being needed for this purpose. There will be issued to the Class "A" stockholders, Class "B" stock at the rate of one share of Class "B" stock for every five shares of Class "A" stock, an issue of \$153,000. of Class "B" stock being needed for this purpose. Further, when the landowners have completed the payment of the liens there will be issued to them \$157,200. of Class "B" stock, an amount equal to one-fifth of the total sum paid in by them. We believe that the request to issue \$14,800. Class "B" stock should be dismissed without prejudice.

At the conclusion of the program then the water company will have outstanding against the properties only the \$316,200. of Class "B" stock. On account of the wide margin between the total par value of the stock and the estimated value of the properties we do not believe that it is necessary in this proceeding to pass upon the values claimed, although it is to be understood that reference to such amounts in this decision is not to be considered as binding the Commission to recognize them in any future proceeding.

The water company will undertake to liquidate only the outstanding bonds of the irrigation district. The other

indebtedness, represented by the interest coupons and the warrants, will be taken care of by the Olinda Irrigated Lands Company. The Olinda Irrigated Lands Company has an authorized capital stock of \$159,000. divided into a like number of shares of the par value of \$1.00 each, all common. The land company stock will be issued and distributed to the holders of the Class "A" stock of the water company on the basis of one share of land company stock for five shares of water company stock. The company has acquired the delinquent lands, referred to above, subject to the \$60.00 an acre lien, and is undertaking to sell them in order to pay all the indebtedness of the district, excepting, of course, the \$740,000. bonded debt. It is primarily a liquidating company only and upon the sale of the lands it has acquired, will be dissolved.

The record shows that the holders of all but \$16,500. of the bonds of the district have acquiesced in the plan of reorganization proposed and it is said that no objections have been made to the committee by the holders of the \$16,500. of bonds. In some cases the committee has been unable to locate the holders of bonds, while in other instances bonds are held by estates in process of distribution. In the event there are any non-assenting bondholders provision is made to pay their bonds as they come due with money obtained through the collection of the liens on the lands. According to the testimony herein, bondholders who have not yet deposited their bonds may do so any time prior to the completion of the reorganization program. The company has applied for permission to issue stock in amounts sufficient to provide for the exchange of all the bonds.

ORDER

Happy Valley Water Company having applied to the Railroad Commission for a certificate of public convenience and necessity and for an order authorizing the issue of stock, a public hearing having been held and the Railroad Commission being of the opinion that the application should be granted as herein provided, and that the money, property or labor to be procured or paid for by the issue of stock herein authorized is reasonably required by applicant,

The Railroad Commission of the State of California hereby declares that present and future public convenience and necessity require and will require the operation by Happy Valley Water Company of the water system heretofore operated by Happy Valley Irrigation District for the distribution of water for irrigation and domestic purposes in Happy Valley and in and about Igo and Ono, Shasta County, and

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be, and it hereby is, granted to Happy Valley Water Company.

IT IS HEREBY FURTHER ORDERED that Happy Valley Water Company be, and it hereby is, authorized to issue \$765,000. of its Class "A" stock and \$310,200. of its Class "B" stock for the purposes indicated in the foregoing opinion and in accordance with the plan of reorganization outlined in this application.

IT IS HEREBY FURTHER ORDERED that this application in so far as it involves the issue of \$30,000. of Class "A" stock and \$14,800. of Class "B" stock is hereby dismissed without prejudice.

IT IS HEREBY FURTHER ORDERED that Happy Valley Water Company keep such record of the issue and delivery of the stock herein authorized as will enable it to file, on or before the 25th day of each month, a verified report as required by the Railroad Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted become effective upon the date hereof.

DATED at San Francisco, California, this 19th day of September, 1925.

H. K. Brundage

George D. Squires

Leon Whitell

Commissioners.