

ORIGINAL

ERA

Decision No. 15597

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SKIDMORE BROS. CORPORATION)
for an order authorizing the issu-)
ance of a note and mortgage for)
\$20,000.00)

Application No. 11681.

Joseph W. Skidmore, for applicant.

BY THE COMMISSION:

OPINION

In this application, as amended at the public hearing held before Examiner Williams, the Railroad Commission is asked to make an order authorizing Skidmore Bros. Corporation to execute a mortgage and to issue to Interstate Finance Company a note for \$20,000. payable one year after date with interest at ten percent, interest payable in advance, and to issue to E. I. Crook two eight percent notes in the principal amount of \$428.53 each, one payable fourteen months after date and the other seventeen months after date.

Skidmore Bros. Corporation is engaged, among other things, in operating a public utility water system, known as the Laguna Heights Water System, for the distribution of water for domestic use among the inhabitants of Laguna Beach, Orange County.

It serves about 850 consumers and has reported its public utility revenues and expenses as follows:-

<u>Item</u>	<u>Year ending Dec.31,1923</u>	<u>Year ending Dec.31,1924</u>	<u>Year ending July 31, 1925.</u>
Operating revenues	\$ 5,124.78	\$12,299.34	\$11,797.56
Operating expenses	26,154.61	40,053.09	24,098.52
Balance	<u>21,039.83</u>	<u>27,733.75</u>	<u>12,301.06</u>
Depreciation	3,880.40	12,716.09	12,660.43
Loss for period.....	<u>\$24,919.23</u>	<u>\$40,449.84</u>	<u>\$24,961.49</u>

The assets and liabilities of the water system as of July 31, 1925, are reported in Exhibit "C" attached to the application as follows:-

Assets Accounts:-

Plant account	\$127,935.06
Franchises and water rights	1,200.00
Material and supplies	559.12
Accounts receivable	63.11
Prepayments	<u>1,608.72</u>

Total Asset Accounts.....\$131,366.01

Liability Accounts:-

Notes payable	\$25,991.79
Contract payable.	202.50
Accounts payable.	6,854.36
Accruals.	1,256.31
Prepaid revenues.	7,097.31
Reserve for depreciation.	23,405.81
Investment.	<u>66,557.93</u>

Total Liability Accounts.....\$131,366.01

From Exhibit "D", it appears that a great portion of the note indebtedness is overdue. Applicant reports that it proposes to discharge \$22,972.64 of its outstanding notes and accounts payable, as shown in Exhibit "A", which are said to have been incurred in acquiring additional properties and in making repairs and replacements and in otherwise maintaining and improving

the facilities and service. Subject to the approval of the Commission it plans to obtain \$18,000. of the required amount through the issue of the \$20,000. note covered by this application and to provide the balance out of the general corporate funds. It reports that it has made arrangements with Interstate Finance Company, of Santa Ana, to issue to it its one year note for \$20,000. with interest at ten percent payable in advance, the indebtedness to be secured by a first mortgage on its water properties. A copy of the proposed mortgage is filed as Exhibit "G".

In addition to the water properties and business, applicant is the owner and operator of a machine shop and factory in Santa Ana, known as the Simon & Skidmore Manufacturing Company, and a real estate business in and about Laguna Beach, the bulk of its operation being of a non-public utility nature. It appears, however, that the company has endeavored to keep its different operations separate, so far as possible, and the proposed loan, if authorized, will be used to refund indebtedness incurred by the water business and will be secured by a mortgage lien on the water properties only. Mr. Joseph W. Skidmore, applicant's president, testified, in support of the request to issue a ten percent note, that he had been unable to secure such a loan on a more favorable basis.

The record shows that the proposed mortgage and note will be executed by Skidmore Bros. Corporation and by Joe W. Skidmore and Flora Belle Skidmore, and Catherine Brooks and Guy E. Skidmore, the company's stockholders. While a lien on the water properties only, it thus appears that the \$20,000. note is an obligation of the corporation and therefore payment on account thereof need not necessarily be made out of the revenues of the

water business alone, as the earnings and moneys of the makers of the note, regardless of their source, will be available for such use. In fact the testimony of Mr. Skidmore clearly shows that the principal, when due, would necessarily be paid out of the corporation's general funds, as there seems to be little possibility of the earnings of the water system increasing to a point where they will be sufficient for this purpose.

The testimony herein also indicates that the corporation has been able to borrow money, in connection with its other operations, on a basis more favorable than that proposed for the note covered by this application. We do not believe, therefore, that we are justified in authorizing the issue of a note bearing interest at ten percent when it appears that the corporation, as a whole, is able to obtain its money on a more favorable basis. Accordingly the order herein will authorize the issue of a note bearing interest at not exceeding eight percent per annum.

The application was amended at the hearing to include an additional request to issue two notes to E. I. Crook for \$428.53 each. It appears that on May 21, 1925 the corporation issued several notes to E. I. Crook in payment for a Best "30" tractor unit used by the company in connection with its water business and also with its other operations. The notes mature in three months intervals, one of them becoming due fourteen months after date and one seventeen months after the date. Both notes, inadvertently, were issued without an order from the Commission. In view of the provisions of the Public Utilities Act which requires an order from the Commission authorizing the issue of notes payable more than one year after date, some doubt was raised as to the validity of these

notes. To remove this doubt the request was made covering the issue of the two notes.

O R D E R

Skidmore Bros. Corporation having applied to the Railroad Commission for permission to issue a one year ten percent \$20,000. note and to execute a mortgage, a public hearing having been held and the Commission being of the opinion that applicant should be permitted to issue a one year eight percent \$20,000. note and that the issue of such note is reasonably required by applicant,

IT IS HEREBY ORDERED that Skidmore Bros. Corporation be, and it is hereby, authorized to execute a mortgage substantially in the same form as that filed in this proceeding as Exhibit "G", and to issue its promissory note, secured by such mortgage, in the face amount of \$20,000. payable not more than one year after date with interest at not exceeding eight percent per annum for the purpose of paying in part the indebtedness set forth in Exhibit "A".

IT IS HEREBY FURTHER ORDERED that Skidmore Bros. Corporation be, and it hereby is, authorized to issue to E. I. Crook, two eight percent notes for \$428.53 each, one payable fourteen months after date and one seventeen months after date in part payment for the Best "30" tractor unit.

The authority herein granted is subject to the following conditions:-

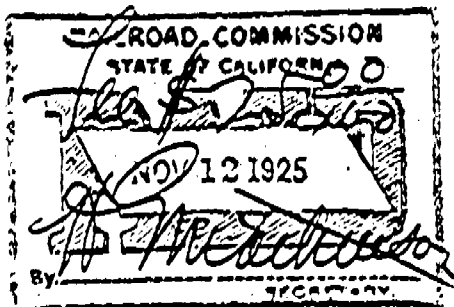
1. The authority herein granted to execute a mortgage is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the Public Utilities

Act and is not intended as an approval of such mortgage as to such other legal requirements to which said mortgage may be subject.

2. Applicant shall keep such record of the issue and delivery of the note herein authorized and of the disposition of the proceeds 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 insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when applicant has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty Five (\$25.00) Dollars. Under such authority no notes may be issued after March 31, 1926.

DATED at San Francisco, California, this 6th day of November, 1925.



H. P. ...
C. ...
George D. ...
...

Commissioners.