

Decision No. 18549

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SANTA BARBARA TELEPHONE COMPANY,)
 a corporation, for authority to)
 issue and sell its stocks and bonds)
 and for authority to construct an)
 exchange building and to purchase)
 telephone equipment.)

Application No. 13740.

Chickering and Gregory,
by W. C. Fox, for applicant.

BY THE COMMISSION:

O P I N I O N

In this application, as amended at the hearing, Santa Barbara Telephone Company asks permission to issue and sell at par \$119,500.00 of common and \$150,000.00 of six percent preferred stock and to issue and sell at not less than 94 percent of their face value and accrued interest \$380,000.00 of 5-1/2 percent bonds to pay for the cost of constructing a new telephone exchange and office building in Santa Barbara and install in place of the present manual equipment automatic equipment in said city and to reimburse its treasury on account of income expended for additions and betterments. It also asks the Commission to approve the contract (Exhibit No. 8) with Automatic Electric Inc. insofar as it involves the creation of an indebtedness payable at more than one year after date.

Santa Barbara Telephone Company has amended its articles of incorporation(Exhibit No. 1) and, as amended, they provide for an authorized stock issue of \$700,000.00 divided into 7,000 shares of the par value of \$100.00 each of which 5,000 shares are preferred and 2,000 are common stock. The preferred stock carries dividends at the rate of six percent per annum. Upon the payment of dividend on the preferred stock at the rate of six percent per annum the company may pay dividends on its common stock at the rate of seven percent per annum. After the payment of seven percent dividend on the common stock, any additional dividends that may be declared must be distributed equally between the common and preferred stock. On January 29, 1925, applicant in Application No. 5039 filed a resolution of its board of directors in which it agrees that it will not, until the deficiency in its depreciation reserve has been made up, either increase the rate of dividend on its capital stock or pay any dividend which will reduce its unappropriated surplus, as shown by its books below the sum of \$150,000.

The company has \$350,000.00 of preferred stock and \$80,500.00 of common stock now outstanding. All of the outstanding stock, except shares necessary to qualify directors, is owned by The Santa Barbara Telephone Company organized under the laws of Oregon. It reports \$418,650.00 of first mortgage five percent and \$275,000.00 of 5-1/2 percent general and refunding bonds outstanding and in the hands of the public. The additional \$380,000.00 of bonds which the company proposes to issue will be issued under its existing general and refunding mortgage. They will bear interest at 5-1/2 percent per annum and mature on January 1, 1946.

Applicant reports that it has expended for additions and betterments to its properties the sum of \$261,812.27, which has not been capitalized. The evidence is by no means conclusive that this sum has been expended from income as that term is used in the Public Utilities Act. There is no doubt that applicant has invested some income in fixed capital, but the exact amount has not been satisfactorily determined. We have analyzed applicants financial statements and believe that they show that it has invested in its properties at least \$150,000.00 of moneys obtained from earnings and that it should be permitted to reimburse its treasury to that extent. The evidence shows that all moneys realized from the issue of stock for the purpose of reimbursing applicant's treasury will be used to pay the cost of additions and betterments which must be installed during 1927 or to pay in part the cost of the new exchange building and automatic equipment to which reference will presently be made.

In its Exhibit "B" applicant reports the cost of its exchange building, cost of reconstructing its wire system and acquiring and installing automatic equipment at \$603,740.04. This amount is segregated by the company as follows:-

| | | |
|---|------------------|---------------------|
| Exchange Building | \$120,000.00 | |
| Furniture & Fixtures | 7,500.00 | |
| Paving Construction. | 1,000.00 | |
| Underground Construction | 4,905.00 | |
| Underground Cables | <u>40,095.00</u> | \$173,500.00 |
| Toll Equipment | 9,191.62 | |
| Central Office Equipment: | | |
| Coin Collector Equipment. | 317,747.00 | |
| Information Desk | 1,397.66 | |
| Repair Clerk's Desk | 814.07 | |
| Test Desk (2 positions) | 3,268.38 | |
| Intercepting Desk (2 positions) | 4,056.82 | |
| Switchboard Trunk Changes | 500.00 | |
| P.B.X. Changes. | 16,818.00 | |
| Coin Collectors | <u>4,437.50</u> | \$358,231.05 |
| Public Educational: | | |
| Number Changes | 2,518.00 | |
| Substation Changes: | | |
| 8074 Dials Installed | 43,195.90 | |
| 1904 Telephones Replaced. | 12,956.20 | |
| 5670 Telephones Converted | <u>13,338.89</u> | \$72,008.99 |
| | | <u>\$603,740.04</u> |

Applicant has entered into a contract with the Automatic Electric Inc. (Exhibit No. 8) under the terms of which contract that corporation will manufacture and install for applicant automatic equipment adequate to furnish telephone service to Santa Barbara at a cost of \$337,475.66. It is believed that the new exchange equipment can be put in service about September 1, 1928. After it is put in service the present manual equipment will be sold or used in other exchanges. It is also applicant's intention to sell, if it can obtain a reasonable price, the real property on which its present exchange and its present general offices are located. In any event, upon the completion of its new building and putting into operation the new exchange, the present real property will become non-operative. The contract (Exhibit No. 8) is dated April 11, 1927. Under the contract the final payment, \$67,495.13, is due thirty (30) days after written notice of completion of installation by the Automatic Electric Inc.

There can be no question but that applicant has need for a new central office and exchange building. Its present exchange building was damaged by earthquake, while its general offices are located in temporary quarters, in a building that was originally constructed for garage purposes.

ORDER

Santa Barbara Telephone Company having applied to the Railroad Commission for permission to issue stock and bonds in the amounts and for the purposes indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required

by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted as herein provided, therefore

IT IS HEREBY ORDERED as follows:-

1. SANTA BARBARA TELEPHONE COMPANY may issue and sell at not less than par on or before September 1, 1928, \$119,500.00 of common and \$150,000.00 of six percent preferred stock and use \$150,000.00 of said proceeds to reimburse its treasury on account of earnings heretofore expended for additions and betterments to its properties and use the remainder of the proceeds to pay in part the cost of constructing the new telephone exchange and office building; install therein automatic telephone equipment and other improvements more particularly described in applicant's Exhibit "B".
2. SANTA BARBARA TELEPHONE COMPANY may issue and sell on or before September 1, 1928, at not less than 94 percent of their face value and accrued interest \$380,000.00 of 5-1/2 percent bonds due January 1, 1946, and shall use the proceeds obtained from the sale of such bonds other than accrued interest to pay in part the cost of constructing the new telephone exchange and office building and install therein automatic telephone equipment, and the other improvements more particularly described in applicant's Exhibit "B".
3. SANTA BARBARA TELEPHONE COMPANY may enter into a contract with the Automatic Electric Inc. substantially in the same form as the contract filed in this proceeding and marked Exhibit "A".

4. The authority herein granted will become effective when Santa Barbara Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Three Hundred and Eighty (\$380.00) Dollars.
5. SANTA BARBARA TELEPHONE COMPANY shall keep such record of the issue, sale and delivery of the stock and bonds 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.

DATED at San Francisco, California, this 27th day of June, 1927.

Emmery
H. B. ...
C. ...
Leon ...
Thos ...

Commissioners.

Fee \$ 380 ⁰⁰/₁₀₀

W. H. ...
 Fee \$ 380.00