

LEB

ORIGINAL

Decision No. 19914

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
SONOMA WATER & IRRIGATION COMPANY,	)	
to retire its preferred stock and to	)	
issue 4400 shares of six percent	)	Application No. 14461
cumulative preferred stock.	)	

F. J. Kilmartin, for applicant.

BY THE COMMISSION:

O P I N I O N

In the above entitled proceeding the Railroad Commission is asked to make its order authorizing Sonoma Water & Irrigation Company to issue \$110,000.00 of six percent cumulative preferred stock and \$40,070.00 of common stock, divided into shares of the par value of \$25.00 each, in exchange for, or to refund, \$100,000.00 of eight percent preferred stock and \$40,070.00 of common stock, divided into shares of the par value of \$100.00 each, which now is outstanding.

Sonoma Water & Irrigation Company is engaged in the business of supplying water for domestic and other uses in and about the towns of Sonoma, Sonoma Vista, Boyes Springs and Agua Caliente, Sonoma County. It appears that the corporation was organized on or about September 10, 1921, with an authorized capital stock of \$500,000.00, divided into \$300,000.00 of eight percent cumulative preferred stock, redeemable at 105, and \$200,000.00 of common stock.

Heretofore there has been issued for properties, both operative and non-operative, \$100,000.00 of the preferred stock and \$40,070.00 of the common. The par value of the shares of stock outstanding is \$100. The company has no bonds or notes outstanding or other indebtedness, aside from current accounts.

The company now reports that it is taking steps to amend its Articles of Incorporation so as to provide for six percent cumulative preferred stock, instead of eight percent preferred, and for shares of the par value of \$25. instead of \$100. It proposes to retire the present outstanding eight percent preferred stock and to issue at this time \$110,000.00 of the six percent stock, such stock to be exchanged for the present preferred stock or sold for cash and the proceeds used to retire the present stock. The common stock will be exchanged on the basis of four shares of the new stock of the par value of \$25. for each share now outstanding of the par value of \$100., the total par value, \$40,070.00, remaining unchanged.

The proposal of applicant will result in an increase in the capitalization of \$10,000.00 caused by the calling of the present eight percent preferred stock at the premium of five percent and the commissions and selling expenses in connection with the sale of the new stock, the testimony herein showing that the new stock will be sold at an estimated expense and commission of about one and one eighth dollars a share. On the other hand, if the six percent stock is issued and the eight percent. stock redeemed, there will be a decrease in the annual cumulative dividend charges of \$1,400.00. It is this apparent saving that is urged in support of the application. In this connection reference to the company's financial statements on file with the Commission shows revenues and expenses for the year's ending

December 31st, reported as follows:-

<u>ITEM</u>	<u>1926</u>	<u>1927</u>
Operating revenue . . . . .	\$9,658.75	\$13,298.46
Operating expenses, excluding depreciation . . . . .	<u>6,310.32</u>	<u>8,234.59</u>
Net operating revenue.....	3,348.43	5,063.87
Nonoperating revenues . . . . .	<u>194.33</u>	<u>745.32</u>
Balance.....	<u>\$3,542.76</u>	<u>\$5,809.19</u>

The annual dividends on the preferred stock now outstanding, amount to \$8,000.00. The annual dividends on the proposed issue of preferred stock will aggregate \$6,600.00. While this amount was not earned during either 1926 or 1927, applicants' present rates were not in effect during all of 1927.

This utility has been before the Commission on a number of occasions in matters affecting its rates and service and has been directed to take steps to improve its service. Obviously the company can more readily earn the \$6,600.00 dividend charge on the proposed issue of \$110,000.00 of six percent preferred stock than it can the \$8,000.00 dividend on the \$100,000.00 of eight percent preferred stock now outstanding, so that the proposed transaction, it is thought, by relieving it of the heavier charges, should place it in a better financial position, which in turn should enable it to meet the demands for service upon it in a better manner. While this may be true, we do not believe that upon the showing made herein we should authorize the company to increase its outstanding capital stock with no corresponding increase in its property. Accordingly, we will, in the order herein, authorize the issue of not exceeding \$100,000.00 of six percent stock to refund the \$100,000.00 of eight percent stock now outstanding.

For every four (4) shares of the par value of twenty-five (\$25.) dollars per share of six percent preferred stock issued and sold, applicant must redeem at least one (1) share of the par value of One Hundred (\$100.) Dollars of its eight percent. preferred stock. If more cash is needed to redeem the eight percent. stock, than is realized from the sale of the six percent stock, such cash must be obtained from some source other than the issue of additional stock.

O R D E R

Sonoma Water and Irrigation Company, having applied to the Railroad Commission for authority to issue \$150,070.00 of stock, a public hearing having been held before Examiner Vaughan, and the Railroad Commission being of the opinion that the issue of only \$140,070. of stock is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expense or to income;

IT IS HEREBY ORDERED that Sonoma Water & Irrigation Company be, and it hereby is, authorized to issue \$40,070.00 of its common capital stock consisting of 1602.8 shares of the par value of \$25. each, in exchange for the \$40,070.00 of common capital stock now outstanding, consisting of 400.7 shares of the par value of \$100. each.

IT IS HEREBY FURTHER ORDERED that Sonoma Water & Irrigation Company be, and it hereby is, authorized to issue \$100,000.00 of its six percent cumulative preferred stock and to sell such stock at not less than par and to use approximately one and one eighth dollars per share of stock sold to pay commissions and selling expenses and to use the remaining proceeds to redeem its outstanding 1000 shares (\$100,000. par value) of the eight percent. preferred stock and/or to deliver such stock, or any portion thereof, at par in exchange for the outstanding \$100,000.00 of eight percent. preferred stock upon the basis of par for par, provided that, as a condition precedent thereto or con-

currently with the issue and sale, and/or delivery of every four shares of the par value of twenty-five dollars per share of the six percent. preferred stock issued and sold and/or delivered, applicant must redeem at least one share of the par value of one hundred dollars of its eight percent. preferred stock.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall become effective only when and if there is filed by applicant with the Railroad Commission the following;-

1. A certified copy of its Articles of Incorporation amended, as indicated in the foregoing opinion.

2. A stipulation, in form satisfactory to the Commission, in which it declares that neither it, its successors nor assigns will ever urge the Commission or other public body having jurisdiction, to consider the par value of the stock herein authorized to be issued as a measure of value of applicant's properties for the purpose of fixing rates, or any other purpose.

IT IS HEREBY FURTHER ORDERED that the authority herein granted, upon becoming effective, is subject to the following conditions;-

a. Applicant shall keep such record of the issue, sale and delivery of the stock 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.

b. Applicant shall file with the Commission a copy of every prospectus or other advertising literature in which the stock herein authorized is offered for sale.

c. The authority herein granted shall apply only to such stock as might be issued and sold on or before December 31, 1928.

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of \$10,000.00 of six percent preferred stock be, and it hereby is, denied without prejudice.

DATED at San Francisco, California, this 22<sup>nd</sup> day of June, 1928.

Leon Whitely

P. L. Leary

Thos. D. Kouta

M. J. Linn

Commissioners.