

Decision No. 23871**ORIGINAL****BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of)
 SONOMA WATER & IRRIGATION COMPANY,)
 a corporation, for permission to) Application No. 17460
 issue bonds.)

Knight, Boland & Christin, by
 F. J. Kilmartin, for applicant.

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing Sonoma Water & Irrigation Company to execute a mortgage or deed of trust and to issue and sell \$25,000.00 of first mortgage six percent fifteen year bonds, at not less than 87-1/2 percent of face value, for the purpose of paying outstanding indebtedness and of financing the cost of improvements and betterments.

Sonoma Water & Irrigation Company is a corporation organized under the laws of the State of California and engaged, as a public utility, in the supplying of water for domestic and other uses in and about the City of Sonoma and the unincorporated communities of El Verano, Sonoma Vista, Boyes Springs and Agua Caliente. As of December 31, 1930 it reports outstanding \$140,070.00 of stock, consisting of \$40,070.00 of common and \$100,000.00 of six percent preferred stock, and a \$10,000.00 one year six percent note. It has no bonded nor other indebtedness except a small amount of current

obligations. Its assets and liabilities as of the close of 1930 were reported as follows:

ASSETS

Fixed capital.....		\$126,301.40	
Current assets:			
Cash and deposits.....	\$ 3,159.33		
Notes receivable.....	1,074.33		
Accounts receivable.....	1,453.12		
Materials and supplies.....	231.61	5,918.39	
Unamortized discount on stock.....		<u>29,718.60</u>	
Total Assets.....			<u>\$161,938.39</u>

LIABILITIES

Capital stock:			
Common.....	\$40,070.00		
Preferred.....	<u>100,000.00</u>	\$140,070.00	
Current liabilities:			
Note payable.....	10,000.00		
Accounts payable.....	697.47		
Accruals.....	<u>416.16</u>	11,113.63	
Reserve for accrued depreciation.....		9,504.65	
Corporate surplus.....		<u>1,250.11</u>	
Total Liabilities.....			<u>\$161,938.39</u>

Originally the preferred stock carried a cumulative dividend rate of eight percent per annum. In 1928, however, the company amended its Articles of Incorporation so as to provide for a preferred stock dividend rate of six percent per annum instead of eight percent, and on February 28, 1928, came to the Commission with its application, No. 14461, for permission to issue \$110,000.00 of six percent stock in exchange for the \$100,000.00 of eight percent stock then outstanding. This request the Commission did not approve wholly, refusing to permit the company to increase the capitalization of the properties by the sum of \$10,000.00, with no increase in property, and accordingly, by Decision No. 19914, dated June 22, 1928, authorized the company to issue only \$100,000.00 of six percent stock to refund a like amount of the eight percent stock. It recited in its opinion in that decision that if more

cash were needed to redeem the eight percent stock than would be realized through the issue of the stock authorized, such cash must be obtained from some source other than the issue of additional stock.

Thereafter applicant issued and sold the six percent stock and paid and redeemed the higher priced security at 105 percent of its par value. The \$5,000.00 thus needed as premium on the redemption of the stock and the sum of \$4,500.00 used for selling commissions on the new stock was obtained by borrowing money, the company issuing its note, which now is outstanding, to one John Faubel for \$10,000.00, representing the \$9,500.00 used for premiums and commissions in the stock transactions, and \$500.00 used for additional meters on its system.

The company now proposes to engage in additional financing consisting of the execution of a mortgage or deed of trust and the issue of \$25,000.00 of first mortgage fifteen year six percent bonds to pay the \$10,000.00 note due John Faubel, and to meet in part the expenses of a program of improvement and reconstruction of its plant and facilities.

The poor operating condition of applicant's properties, and the unsatisfactory nature of the service the company gives, are matters well known to the Commission which in the past has directed that steps be taken to repair the facilities and to improve the service it offers to the public. In Decision No. 12419, dated June 1, 1927, in Application No. 12946, in adjusting rates on the Sonoma, Sonoma Vista and El Verano systems, the Commission directed the company to file detailed plans for improvements of its storage and distribution properties to be installed and in operation on or

before August 1, 1927. Thereafter, in Decision No. 19616, dated April 17, 1928, in Application No. 14226, the Commission fixed rates for the Boyes Springs and Agua Caliente plants, but provided that such rates would not become effective until the company had made certain improvements consisting of increased storage capacity of not less than 50,000 gallons at the Agua Caliente source of supply; increased storage capacity of a minimum of 25,000 gallons at the Sonoma Vista source of supply, to be located at such elevation to afford increased pressure within reasonable limits; and the installation of a distributing main, not smaller than four inches internal diameter, from the end of the present four inch main at State Highway and Park Avenue to the source of supply at Agua Caliente.

It appears that the company has not complied fully with the terms of Decision No. 18419, and that it has not installed the improvements referred to in Decision No. 19616, so that the rates fixed by that latter decision have never become effective. Some improvements have been made, but the service accorded by applicant remains characterized by low pressures, intermittent delivery and an inadequate supply, due largely to the poor state of repair of the properties.

In an attempt to bring the service up to a higher level and to meet the Commission's requirements, the company in this application has submitted a program of reconstruction calling for the installation of improvements and betterments as follows:

Connection between Agua Caliente and Sonoma Vista systems-3200 feet of 4-inch welded steel pipe.....	\$ 1,472.00
Main from the reservoir to Spain Street-2400 feet of 8-inch welded steel pipe.....	1,900.00
Main from pumping plant at Sonoma to reservoir-400 feet of 6-inch welded steel pipe.....	220.00
6-inch welded steel pipe from the 8-inch transmission line now on Spain Street to the northeast corner of East First and Spain Streets-2000 feet.	1,200.00
6-inch cast iron pipe around Plaza on East First, West First and Napa Streets-2064 feet.....	2,043.00
4-inch cast iron pipe on Napa Street east from the Plaza-665 feet.....	504.00
6-inch welded steel pipe on Broadway from Napa to High School-2560 feet.....	1,536.00
Paving over mains-3000 feet.....	1,620.00
Connecting services, no paving.....	384.00
Connecting services, under paving.....	116.00
Valves, fittings, etc.....	500.00
Two centrifugal pumps, 10 h.p. each, at Sonoma plant	1,150.00
Conditioning reservoir.....	400.00
Moving 25,000 gallon tank to Agua Caliente.....	350.00
Moving pump from Sonoma Vista to Agua Caliente.....	250.00
Miscellaneous replacements.....	<u>1,500.00</u>
Total.....	<u>\$15,145.00</u>

It is alleged that the proposed improvements, as outlined in this proceeding, will increase pressures to about fifty or sixty pounds, will insure continuous delivery of an adequate supply of water and will eliminate dead ends now existing.

From our knowledge of applicant's systems, we believe that the suggested improvements are imperative and should be made at once. There remains, however, to be considered, the financial aspects of this proceeding and the effect of the proposed bond issue and its relation to applicant's properties and earnings.

The company's financial statements are contained in its annual reports heretofore filed with the Commission and in its Exhibit No. 2. From them it appears that applicant's gross revenues were \$13,668.51 during 1929, \$13,601.07 during 1930 and \$5,133.61 during the first five months of 1931. Its net operating revenues

before depreciation amounted to \$6,946.18 in 1929, \$5,767.69 in 1930 and, with adjustments as indicated in Exhibit No. 2, to \$2,175.86 during the first five months of 1931. In 1929 and 1930 depreciation was charged in the amount of \$1,500.00 a year.

Interest charges on \$25,000.00 of bonds would amount to \$1,500.00 a year. Dividends on the company's preferred stock aggregate \$6,000.00 annually. In connection with these charges, there should be considered that the improvements may result in placing into effect the higher rates of Boyes Springs and Agua Caliente, heretofore approved by Decision No. 19616, and in decreasing operating expenses by reason of lower pumping costs and lower repair bills that will follow the use of better facilities. On this point applicant estimates with the improvements in place, operating revenues will increase to \$14,734.00 and net operating revenue, before depreciation, to \$6,804.00.

The property values of the various systems have been reviewed by the Commission on numerous occasions and the Commission is familiar with the investment in operative fixed capital. In this connection reference might be made to Decision No. 21110, dated May 16, 1929, in Application No. 12946 and Case No. 2619, (Vol. 33, Opinions and Orders of the Railroad Commission of California, page 72) wherein the original cost of the operative properties as of December 31, 1928 of the combined systems is reported at \$82,037.00. The proposed installations will not add materially to the property figures, being largely replacements. They will, of course, increase the condition percent of the properties.

The foregoing statements indicate that applicant will be able to meet the fixed charges to accrue under the proposed bond

issue. Some doubt might exist as to the ability of the company, for the present at least, to maintain its preferred stock dividend, while it is clear that no return can be expected for some years for the common stockholder from the earnings of the systems. Further, at the conclusion of the present financing, property values will be substantially less than the capital issues outstanding.

No protest to the granting of the application was made at the hearing. Those most likely to be affected adversely by the bond issue are the holders of applicant's outstanding preferred and common stock, and in this connection we are told by counsel for applicant that no objection was made by the stockholders at the meeting called to vote upon the creation of the indebtedness. Nor has any complaint been made to the Commission by holders of the outstanding securities of the company.

Ordinarily we would not be inclined to approve a bond issue with the terms as here proposed and with similar relationships existing between the capital structure and the property values and earnings of the company. However, service to the public is of paramount importance and due to the serious service condition prevailing in Sonoma, we believe the company should be authorized to issue bonds to effect the reconstruction. We do not believe that we should authorize the issue of bonds to pay the \$10,000.00 note, as planned by applicant. The matter of permanently capitalizing the expenditures represented by this note was considered and rejected by the Commission in Decision No. 19914, referred to above, and nothing new has been presented here which would warrant us in changing our opinion and now permitting the issue of bonds against the amount. This portion of the company's request will not be allowed.

The order herein will permit the company to issue \$15,000.00 face value of bonds for the payment of the improvements referred to herein. In view of the seriousness of the water conditions at Sonoma and the urgency of improving the system, we believe our Engineering Department at all times during the period of reconstruction should be in touch constantly with the work being performed.

To place the Commission and its representatives in a position where they may be familiar with the conditions surrounding applicant's operations, the order herein will direct that all proceeds to be received from the sale of the bonds must be deposited in a special bank account and may be withdrawn and expended only upon supplemental permission being granted by the Commission. Testimony herein shows that applicant has on hand in cash about \$3,500.00 derived from earnings. We believe that all, or substantially all, of the \$3,500.00 represents credits to applicant's depreciation reserve. It should be used for replacements or the purchase of new properties. As one unit, or a portion, of applicant's program is completed, the company may file a supplemental petition for the withdrawal of bond proceeds. This petition should show the nature of the work performed, the description of the materials used, the cost and other pertinent details. If the installation is in accordance with the program here submitted, or meets with the Commission's approval, a supplemental order then will be entered permitting the company to use bond money, equivalent to the amount expended, if reasonable, to replenish its treasury and thus release funds to proceed with the improvements.

The proposed mortgage or deed of trust to secure the payment of the bonds has not been filed. The authority herein granted to issue bonds will not become effective until a copy of

the instrument, in satisfactory form, has been presented to the Commission and its execution authorized by a supplemental order.

ORDER

Sonoma Water and Irrigation Company having applied to the Railroad Commission for permission to execute a mortgage or deed of trust and to issue \$25,000.00 in bonds, a public hearing having been held before Examiner Williams and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of \$15,000.00 of bonds is reasonably required by applicant, that the request to issue \$10,000.00 of bonds should be denied without prejudice and that the application should be granted to the extent indicated in this order, therefore,

IT IS HEREBY ORDERED that Sonoma Water and Irrigation Company be, and it hereby is, authorized to issue and sell, after the effective date hereof and on or before October 31, 1931, at not less than 87-1/2 percent of face value plus accrued interest, \$15,000.00 of its first mortgage fifteen year six percent bonds, and, when permitted by supplemental orders, but not otherwise, to use the proceeds to finance the cost of making the improvements to its plants and properties referred to in the foregoing opinion and described in Exhibit No. 2 filed in this proceeding.

IT IS HEREBY FURTHER ORDERED that Sonoma Water & Irrigation Company be, and it hereby is, directed to deposit all the proceeds to be received through the issue and sale of the bonds herein authorized in a special bank account, and may withdraw and expend such proceeds only for the purposes set forth in a supplemental order or orders of the Railroad Commission.

FURTHER

IT IS HEREBY/ORDERED that the authority herein granted is subject to the following conditions:

1. Applicant shall file with the Commission as its construction work progresses and it makes supplemental petitions to the Commission, a statement showing the replacements of properties made and the journal entries placed on its books of account to record such replacements.

2. Applicant shall keep such record of the issue and sale of the 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.

3. The authority herein granted to issue bonds will become effective when the Commission by supplemental order has approved the form of mortgage or deed of trust securing the payment of said bonds and when the company has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.00) Dollars.

IT IS HEREBY FURTHER ORDERED that the application insofar as it relates to the issue of the remaining \$10,000.00 of bonds be, and it hereby is, denied without prejudice.

DATED at San Francisco, California, this 3rd day of July, 1931.

*Fee not required
this decision vacated
by Dec 23rd 1931.
23944
J. C. Munson
DCC.*

C. C. Harvey

H. A. Carr

Fred G. Stewart

Commissioners.