

LEM

Decision No. 24012.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SACRAMENTO RIVER FARMS, LTD.,
a corporation, for an order con-
firming a tentative arrangement of
April 1, 1930, between the company and
J. D. McGrath, authorizing the is-
suanee of stock to J. D. McGrath of
not exceeding 1600 shares of the com-
mon capital stock of applicant cor-
poration.

ORIGINAL

Application No. 17423

Farrand and Slosson, by George E. Farrand,
for applicant.

BY THE COMMISSION:

O P I N I O N

The Commission in this proceeding is asked to authorize Sacramento River Farms, Ltd., formerly known as Sacramento Valley Sugar Company, to issue 1600 shares (\$160,000. par value) of its common capital stock to J. D. McGrath at the time, in the amounts, and as provided, in the agreement of April 1, 1930, filed in this proceeding as Exhibit No. 1, and to confirm the said agreement.

Applicant is a California corporation whose primary purpose at present is general farming and farm development. It owns and operates, however, a small public utility water and an electric plant at Hamilton in Glenn County. Its 1930 public utility revenues are, in Exhibit No. 2, reported at \$6,946.17. It alleges that it is only technically a public utility in that a very small part of its business is public utility business.

Applicant's property is located in Glenn County along the westerly bank of the Sacramento River about half way between Chico and Orland and consists of about 4,500 acres of river bottom lands. Of this total area, 3,500 acres are protected by levies and under cultivation at this time. Of the balance, about 250 acres are farmed and 750 acres ^{used as} are/ pasture. It is of record that at a comparatively small expense the 750 acres can be cleared and planted.

The property was originally acquired by Sacramento Valley Sugar Company (this applicant under its former name) in 1906, with the chief purpose in view of developing a beet sugar industry and factory. The factory situated at Hamilton was operated from 1906 to 1914. Then it was shut down for several years but operated again in 1917 and 1918. After that it was shut down and not operated again until 1925, which proved a very unprofitable year. Since then the factory has not been operated.

Following the disastrous year of 1925, the company incurred a debt of \$300,000.00. In March, 1930, applicant's creditors served notice on it that they were unable to carry the company's loans any longer. This notice made it necessary for the management to re-finance the company or sell it. The stockholders were unwilling to assess themselves. One of the stockholders, the Berylwood Investment Company, offered to purchase the company's stock at \$22.00 per share, provided that at least 80 percent could be acquired. The Berylwood Investment Company now owns 4,996 shares out of a total of 6,448-1/2 shares of stock outstanding. The new management, it appears, has abandoned all idea of operating the property as a sugar proposition. Instead, it is planning to develop the property as purely an agricultural enterprise.

Applicant has employed J. D. McGrath of Oxnard, who has been successful in his farm operation and management in Ventura County, to manage its farm operations. In view of the fact that it did not have the cash to pay him, it has agreed to pay him in common capital stock, according to the terms and conditions of the agreement filed in this proceeding as Exhibit No. 1. Under the agreement he is to manage the properties for a period of ten years. It is agreed that he shall not receive any salary or other money compensation for his services, but, in lieu thereof, shall receive annually at the expiration of each year's service, 160 shares of applicant's common stock of the par value of \$100. per share, provided that the issue of said stock is authorized by the Railroad Commission and/or the Commissioner of Corporations. In the event of J. D. McGrath being unable, because of physical or mental incapacity, to continue with said employment during any year prior to the expiration of the term of employment, applicant shall issue, or cause to be issued, to J. D. McGrath, or in case of his death, to his personal representatives, the proportionate amount of stock earned by said J. D. McGrath for the fraction of said year that he acted as manager, and thereupon the agreement shall terminate.

Applicant intends to abandon its public utility functions as soon as arrangements can be made, either by incorporating the small part of its business, which is a utility business, or to sell the same to a utility company; all, of course, subject to the approval of the Commission. However, because of existing business conditions, it does not desire to incur at this time the expense to make such segregation.

It is of record that none of the proposed stock issue will be allocated to applicant's public utility properties or business. The Commission has heretofore by other applicants been asked to authorize them to issue stock, the proceeds of which would be used for non-utility purposes. In Decision No. 430, dated January 30, 1913, (Vol. 2, Opinions and Orders of the Railroad Commission, page 124) the Commission held that a reasonable construction of Section 52 of the Public Utilities Act will permit a public utility to issue stock for non-public utility purposes. Quoting from said Decision No. 430-

"The primary purpose of the Public Utilities Act is to insure adequate service at reasonable rates by the utility. In order to bring about these results it is necessary to prevent over-capitalization or over-bonding, and likewise to prevent a diversion of funds of the utility to purposes foreign to the utility. If we grant that a corporation organized for utility and other purposes may devote the proceeds of stock to that part of its business which is not devoted to the public utility--and I do not see how we can escape this conclusion--it immediately appears that great care must be taken to prevent the burdening of the utility business in favor of the private business of the corporation. If, however, the property devoted to utility business can be segregated, as is the case here, when rates are to be considered and a determination had of the value of such property for rate fixing purposes, it would seem that the matter of financing of the entire enterprise becomes immaterial so long as such financial operation does not endanger the solvency or unduly burden the entire business. The utility portion of the business should not, of course, be burdened with an unreasonable part of the expense of the entire business, and it should likewise be accorded all of the revenue which is properly the result of the public utility business. If this be done, so far as stock issues are concerned at least, it would seem that the spirit of the Public Utilities Act would not be departed from by sanctioning an issue of stock such as the one here considered without requiring the proceeds of such stock to be devoted to public utility purposes."

Applicant does not propose to issue its stock for public utility purposes. J. D. McGrath, who will receive ^{the} stock, is being employed to manage applicant's farm operations. If it were here proposed to issue any stock for public utility purposes, the Commission would, as stated in said Decision No. 430, be required under the law, to restrict such proceeds to the purposes set out in the Public Utilities Act.

O R D E R

Sacramento River Farms, Ltd. having asked permission to issue 1600 shares of its common capital stock, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of such stock, is reasonably required by applicant for the purposes herein stated, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to public utility investment, operating expenses or to income, therefore,

IT IS HEREBY ORDERED, that Sacramento River Farms, Ltd. be, and it is hereby, authorized to issue to J. D. McGrath, 1600 shares of its common capital stock, said stock to be issued to J. D. McGrath at the time, in the amount and as provided for in the agreement of April 1, 1930, filed in this proceeding as Exhibit No. 1, which agreement applicant is hereby authorized to execute.

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

1. Sacramento River Farms, Ltd. shall keep such record of the stock herein authorized to be issued and 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.

2. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 8th day of September, 1931.

P. L. Seaman

W. A. Con

W. B. Lewis

Frederic G. Westcott

Commissioners.