

ORIGINAL

Decision No. 25572

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SONOMA WATER AND IRRIGATION COMPANY,)
for authorization for the issuance)
of six percent first mortgage gold)
bonds.)

Application No. 18604

BY THE COMMISSION:

O P I N I O N

Sonoma Water & Irrigation Co. asks permission to issue and sell at 87-1/2 per cent of their face value and accrued interest \$9,000.00 of first mortgage six per cent bonds to reimburse its treasury in the sum of \$7,965.65 for corporate purposes and to transact its business.

Applicant has outstanding \$40,070.00 of common and \$100,000.00 of preferred stock. By Decision No. 23944, dated August 10, 1931, as amended by Decision No. 25253, dated October 10, 1932, in Application No. 17460, the Commission authorized applicant to issue \$25,000.00 of its first mortgage six per cent bonds. Its assets and liabilities as of November 30, 1932, were as follows:

ASSETS

Fixed capital.....			\$134,234.62
Current assets:			
Cash.....	\$	229.40	
Accounts receivable.....		1,074.33	
Consumers' accounts receivable.....		2,488.52	
Materials and supplies.....		280.65	4,072.90
Unamortized stock discount.....			29,718.60
Total Assets.....			<u>\$168,026.12</u>

LIABILITIES

Capital stock:			
Common.....	\$	40,070.00	
Preferred-6 per cent.....		100,000.00	\$140,070.00
Bonded debt.....			10,000.00
Accounts payable:			
Audited vouchers.....		763.79	
Accounts payable.....		42.57	
Consumers' deposits.....		52.50	
Taxes.....		452.60	
Service billed in advance.....		546.00	1,857.46
Reserve for accrued depreciation.....			11,004.65
Corporate surplus.....			5,094.01
Total Liabilities.....			<u>\$168,026.12</u>

The company's operating revenues and operating expenses for 1930, for 1931 and for eleven months ending November 30, 1932 have been as follows:

	1930	1931	11 mos. 1932
Operating revenues:			
R-I-B Commercial earnings.....	\$13,601.07	\$13,214.70	\$13,265.27
Operating expenses:			
Source of supply expense.....	-	-	2.22
Pumping labor, expenses, etc.....	2,349.58	2,540.66	1,118.32
Transmission & distribution exp.:	630.67	679.74	45.92
Repairs to trans. & distr.....	424.87	703.03	483.51
Collection and promotion.....	1,313.85	1,092.52	843.70
General.....	2,405.67	2,912.22	5,112.31
Taxes.....	708.74	541.48	660.00
Depreciation.....	1,500.00	1,500.00	-
Clearing accounts.....	-	-	3,068.79*
Total operating expenses....	9,333.38	9,969.65	11,334.77
Net operating revenue.....	4,267.69	3,245.05	1,930.50
Non-operating revenue.....	55.00	-	-
Gross corporate income.....	4,322.69	3,245.05	1,930.50
Less-uncollectible bills.....	45.79	156.65	-
Balance available for int.:	\$ 4,276.90	\$ 3,088.40	\$ 1,930.50

* Includes W.H. Davis' salary for 11 mos at \$225-\$2,475.00
Automobile expense - 593.79

In its petition applicant reports that it expended for capital purposes during 1931 the sum of \$5,840.18 and from January 1, 1932 to October 1, 1932, \$3,125.47, or a total of \$8,965.65.

We have made an analysis of the company's construction and operating expenses. Its construction expenses include \$740.50 which should be charged to unamortized discount and expense on debt (\$721.00) and to operating expenses (\$19.50). Applicant in its first mortgage covenants that it will during the year 1932 redeem a \$1,000.00 bond or invest \$1,000.00 in its properties, against which it will not issue any bonds. It has not redeemed any bonds, but has invested \$1,000.00 in properties. The \$1,000.00 should therefore be deducted from the amounts of construction expenditures against which bonds may be issued. The company's construction expenditures for 1931 include \$1,181.85 for general overhead purposes. This amount was transferred during the year from operating expenses to fixed capital accounts. The amount so transferred is, in our opinion, excessive. Not more than one-half of this amount, or \$590.92, should be charged to fixed capital accounts. The remainder should have been included in operating expenses and should now be charged to surplus.

The company in its balance sheet as of November 30, 1932, shows a surplus of \$5,094.01, which, however, is over-stated because the company has set up no depreciation for 1932. On the other hand, it has included in operating expenses \$1,425.00 which it now proposes to charge in part to capital account. As stated, it transferred from operating expenses to capital account during 1931 the amount of \$1,181.85. Making the adjustments to which reference has been made, results in a corporate surplus of \$4,533.59.

The company's operating expenses for 1932 show an extraordinary increase. During this period it paid its president \$250.00 per month; its engineer and manager \$225.00 per month; its secretary \$100.00 per month; and its bookkeeper \$75.00 per month. This company is paying too much for executive management. The matter was discussed with the president of the company, who by letter advises us that it is the intention of applicant to effect a saving of about \$3,000.00 in the company's 1933 operations. If the bonds which applicant has been authorized to issue, together with the bonds which it now seeks permission to issue, had been outstanding during 1932, it would not have earned its bond interest. This situation results from the relatively large office payroll during 1932. The order herein will authorize applicant to issue \$4,000.00 of additional bonds, but only upon condition that the company will file a duly and legally executed resolution of its Board of Directors in which the company agrees that it will reduce its operating expenses for 1933 by at least \$3,000.00, and that in general the said reduction in operating expenses will be accomplished by reducing the general office expenses, rather than by a reduction in actual operating and maintenance expenses.

ORDER

Sonoma Water & Irrigation Co. having applied to the Commission for permission to issue \$9,000.00 face value of its first mortgage bonds, the Commission having considered applicant's request and being of the opinion that this is a matter in which a public hearing is not necessary, that applicant should be permitted to issue not exceeding \$4,000.00 of said bonds, that the money, property

or labor to be procured or paid for by said bonds is reasonably required for the purposes herein stated, that such purposes are not, in whole or in part, reasonably chargeable to operating expense or to income and that this application, insofar as it involves the issue of \$5,000.00 of bonds, should be dismissed without prejudice, therefore,

IT IS HEREBY ORDERED, as follows:

1. Sonoma Water & Irrigation Co. may, on or before June 30, 1933, issue and sell, at not less than 87-1/2 per cent of their face value and accrued interest, \$4,000.00 of its first mortgage six per cent bonds and shall use the proceeds realized from the sale of such bonds to pay the indebtedness set forth in the foregoing balance sheet and to reimburse its treasury on account of income expended for additions and betterments to its properties.

2. The authority herein granted to issue said bonds will not become effective until fifteen (15) days after the date hereof, nor until Sonoma Water & Irrigation Co. has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.00) Dollars, nor until Sonoma Water & Irrigation Co. has filed with the Commission, in satisfactory form, a duly and legally executed resolution of its Board of Directors, in which said Sonoma Water & Irrigation Co. agrees that it will reduce its operating expenses for 1933 by at least \$3,000.00 and that in general the said reduction in operating expenses will be accomplished by reducing the general office expenses, rather than by a reduction in actual operating and maintenance expenses or a reduction in depreciation charges.

3. This application, insofar as it involves the issue of \$5,000.00 of bonds, is hereby dismissed without prejudice.

4. Applicant shall keep such record of the issue 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.

DATED at San Francisco, California, this 23^d day of January, 1933.

C. J. ...
Leon ...
M. J. ...
M. B. ...
W. H. ...

Commissioners.