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Decision No. 10378

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of)
HARBOR CITY WATER COMPANY, for an)
order authorizing the transfer of)
properties and the issuance of)
capital stock.)

Application Number 7307.

Walter E. Burke, for Applicant.

BY THE COMMISSION:

OPINION

In this application the Railroad Commission is asked to make an order authorizing Harbor City Water Company to purchase the water system at Harbor Industrial City, Los Angeles County, and to issue \$92,620.00 of its capital stock. The present owners of the system have joined in the application.

A public hearing was held before Examiner W. R. Williams in Los Angeles.

It appears that the properties which it is proposed to transfer are at present held by Los Angeles Trust and Savings Bank as owner of record and trustee for B.O. Miller, W. I. Hollingsworth, George W. Walker, Richard Lacy and W. C. Price. Testimony herein shows that the system, which serves about 250 consumers, was started about 1910 as an adjunct to a real estate development at Harbor Industrial City, and that as the community grew and additional land was sold, extensions, additions and betterments were made to the water properties from time to time. It appears that the water

business, since its inception, has been operated in conjunction with the land business of the owners. They have concluded to separate the public utility business from the non-public utility land business, and have caused Harbor City Water Company to be organized for the purpose of acquiring and operating the system as a public utility.

The Articles of Incorporation of Harbor City Water Company show that it was formed on or about July 26, 1920 with an authorized capital stock of \$100,000.00 divided into 10,000 shares of the par value of \$10.00 each, of which it now asks permission to issue 9262 shares. The company proposes to sell 5 shares of its stock at par to B. O. Miller, W. I. Hollingsworth, George W. Walker, Richard Lacy and W. C. Price, to qualify them as directors, and to deliver 9257 shares in full payment of the properties. Of the 9257 shares, it is proposed to deliver 8982 shares to Los Angeles Trust and Savings Bank as trustee for the owners of the properties and 275 shares to W. I. Hollingsworth in payment for properties to be transferred to the corporation which are not included among those held by the trustee.

Testimony herein shows that there are no records of the original cost of the properties to be acquired by Harbor City Water Company. However, applicants have submitted, in Exhibit "C", an appraisal of the system in which the replacement value, as of June 1, 1921, is estimated at \$92,571.86, exclusive of any allowance for intangible properties. In addition, applicants report that subsequent to June 1, 1921, the date of the appraisal, there has been expended for additions and betterments, consisting, in general, of a new concrete reservoir, meters and casing, the sum of \$6,020.75, exclusive of the cost of installation.

Adding the cost of these additions and betterments to the present replacement \$92,571.86 results in an approximate value of \$98,592.61 for the properties for which Harbor City Water Company proposes to issue \$92,570.00 of stock.

Subsequent to the hearing in this proceeding, an investigation of the properties was made by Mr. John Spencer, one of the Commission's hydraulic engineers. His findings, which, by consent of applicant's counsel, may be considered in evidence in this proceeding, show the estimated original cost at \$75,410.00 and the depreciated cost to 1922 at \$60,563.00.

It occurs to us that the amount of stock which Harbor City Water Company issues to acquire the properties should not exceed the estimated original cost of the properties plus five shares necessary to qualify directors.

O R D E R

Application having been made to the Railroad Commission for permission to transfer properties and to issue \$92,620.00 of stock, a public hearing having been held and it appearing to the Railroad Commission that Harbor City Water Company should be authorized to issue \$75,460.00 of stock, and that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified herein, and that this application should be granted subject to the conditions of this order.

IT IS HEREBY ORDERED that Los Angeles Trust and Savings Bank, as trustee, and B. O. Miller, W. I. Hollingsworth, George W. Walker, Richard Lacy and W. C. Price be, and they are hereby, authorized to sell, transfer and assign the water properties located at Harbor Industrial City and referred to in this application, to Harbor City Water Company, and Harbor City Water Company be, and it is hereby, authorized to purchase and acquire such water properties.

IT IS HEREBY FURTHER ORDERED that Harbor City Water Company be, and it is hereby, authorized to issue \$75,460.00 (7546 shares) of its capital stock.

IT IS HEREBY FURTHER ORDERED that this application, in so far as it relates to the issue of \$17,160.00 of stock, be dismissed without prejudice.

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

- 1.....Of the stock herein authorized, five shares shall be sold at par for cash to W. I. Hollingsworth, W. C. Price, Richard Lacy, George W. Walker and B. O. Miller, for the purpose of qualifying them as directors, and the proceeds used for working capital.
- 2..... 7541 shares may be delivered to Los Angeles Trust and Savings Bank as trustee and to W. I. Hollingsworth in full payment for the properties herein authorized to be transferred.
- 3... Harbor City Water Company shall advise the Commission of the exact date on which it acquired ownership of the properties and it shall file with the Commission a certified copy of the deed by which it acquired title to the properties herein authorized to be transferred within 30 days after its execution.
- 4... The price at which the properties are herein authorized to be transferred shall not be binding on the Railroad Commission or any court or other public body as a measure of value of the properties when fixing rates, or for any purpose other than the transfer herein authorized.

5... Harbor City Water Company shall keep such record of the issue, delivery and sale 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 in so far as applicable, is made a part of this order.

6... The authority herein granted will apply only to such transfer of properties or issue of stock as may be made on or before December 31, 1922.

DATED at San Francisco, California, this 22nd day of April, 1922.

H. H. Brundage

Dwight Martin

J. P. Vreeland
Commissioners.