

Decision No. ✓

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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ORIGINAL

IN THE MATTER OF THE APPLICATION OF

TROPICO CITY WATER COMPANY.

a corporation, for an order authorizing the issuance of stocks and bonds by said corporation, and for the conveyance to it of the water system situated in the City of Tropic, State of California, now owned, operated and controlled by the Title Guarantee and Trust Company, a corporation, as Trustee for the Bondholders of the Glendale Consolidated Water Company

Application No.
2660.

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W. G. Cooke, for applicant.

LOVELAND, Commissioner.

O P I N I O N.

In this application Title Guarantee and Trust Company asks authority to sell and transfer the water system situated in the city of Tropico, to the Tropico City Water Company. In payment of said property, the purchasing company proposes to issue \$49,700.00 par value of common capital stock and \$50,000.00 face value of 6% twenty year bonds. The stock is to be issued on the basis of \$90.00 per share and the bonds at 90 per cent of their face value plus accrued interest.

Tropico City Water Company was organized in September 1916, with an authorized capital stock of \$50,000.00 divided into 500 shares, each having a par value of \$100.00 . The Company was organized for the specific purpose of acquiring the property to which reference is made in this application.

The property to be sold and transferred is a part of the property formerly owned by Glendale Consolidated Water Company whose properties, under a foreclosure sale were sold to Title Guarantee and Trust Company, trustee under the mortgage securing the payment of the bonds. Since the acquisition of the properties by the trust company, it has sold a portion thereof to the City of Los Angeles (Vol. 4, Opinions and Orders of the Railroad Commission of California, page 1357) and a portion to City of Glendale. (Vol. 5 Opinions and Orders of Railroad Commission of California, page 381). The Trust Company still owns three parcels of the Glendale Consolidated Water Company properties, one covered by this application and located in Tropico, one in the City of Los Angeles, and one in the City of South Pasadena.

A general description of the property which Title Guarantee and Trust Company proposes to sell to Tropico City Water Company is found in decision Number 3275, dated April 21, 1916, in which decision the Commission fixed the rates to be charged by Title Guarantee and Trust Company in the City of Tropico. For a specific description of the properties reference is hereby made to Exhibit "A" attached to this decision.

Applicants have reported operating revenues and expenses to this Commission as follows:

ITEM	1914	1915	Eleven months, 1916.
Operating Revenues	\$14,276.47	\$14,673.23	\$12,368.42
" Expenses	<u>6,453.62</u>	<u>6,263.72</u>	<u>5,147.00</u>
Net Operating Rev.	7,812.85	8,409.51	7,221.42

The Commission estimates that the rates fixed by it, in said decision Number 3275 will yield operating revenues in the sum of \$12,750, and that the operating expenses/will be \$7,630. together with an allowance for depreciation for leaving \$5,120 available/payment of interest or dividends.

In said Decision Number 3275 the engineers for the Commission estimated the reproduction cost less depreciation of the used and useful tangible properties, covered by this application at \$48,369. Since said appraisal, Title Guarantee and Trust Company, reports the expenditure of \$3,549.73 for extensions and improvements to the system. In addition there is to be transferred to Tropico City Water Company, about fifty six hundredth of an acre of land well adapted for a future reservoir site and the right to 18 miners inches of water in Verdugo Canyon. The reservoir site has been appraised by various parties at from \$1120 to \$1350. A value for the water rights of applicant was also given consideration to the extent we believe to be necessary in this proceeding.

In Decision No. 3275, dated April 21, 1916, the Commission says, in reference to these properties:

"At the time set for hearing the case, the City of Tropico, by its city attorney, requested that the hearing be continued to some future date to permit the question of issuing bonds by the city for such purpose to be again submitted to the voters. It was stated that the property, including water rights and water stock, had been offered to the city at a tentative price of \$50,000.00. The statement was made with the understanding that the offer should not be considered by the Commission as evidence of value."

The offer of \$50,000.00 was never submitted to the voters of the city of Tropic, who a few years ago rejected a proposition relating to the purchase of this water system.

L. C. Brand, President of Title Guarantee and Trust Company and Tropic City Water Company in reply to a question relating to the issue of the stock and bonds of Tropic City Water Company said:

-----"We thought if we would form this company that we could sell it to much better advantage by selling the stock to some individuals or parties than we could to sell the plant outright; if necessary we could take part of the bonds ourselves in payment of what was owing us, and turn the balance over to the creditors of the Consolidated Water Company" (Transcript, page 8)

This is not a condemnation nor rate fixing proceeding, but is an application involving the issue of stock and bonds to acquire properties now held by Title Guarantee and Trust Company, as trustee, for the bondholders of Glendale Consolidated Water Company and predecessors in interest. We are concerned here with the reorganization of a defunct corporation, though only a portion of the property once owned by said defunct corporation is covered by this application. I believe that the amount of stock and bonds which Tropic City Water Company proposes to issue in exchange for the properties in question, is in excess of the amount justified by existing conditions. I am of the opinion that when a corporation is being reorganized for reasons such as confront the Commission in this instance, the new corporation should issue stock and bonds in an amount ^{closely approximating} ~~not exceeding~~ the fair and reasonable value of the properties. In this instance the Tropic City Water Company asks authority to issue bonds in an amount equal to practically the depreciated cost new of its physical property.

I believe that the stock and bonds issued by Tropico City Water Company in exchange for the properties which it proposes to acquire, should be in such amounts that the stock, as well as the bonds, may be reasonably expected to have a value upon which earnings may reasonably be anticipated. I, therefore, recommend that Tropico City Water Company be permitted to issue to Title Guarantee and Trust Company in payment of the properties set forth in Exhibit "A" attached to this Decision, common capital stock in the amount of \$34,000.00 and 6% twenty year bonds in the amount of \$30,000.00

In as much as applicant has not submitted for approval its proposed deed of trust, it is, of course, obvious that the authority to issue bonds will be subject to the filing and approval of the deed of trust.

I herewith submit the following form of Order:-

O R D E R

TITLE GUARANTEE AND TRUST COMPANY, having applied to this Commission to sell to Tropico City Water Company, a certain water system situated in the City of Tropico, in exchange for \$49,700.00 par value of stock and \$50,000.00 face value of 6% twenty year bonds;

And a public hearing having been held;

And it further appearing to this Commission that the purposes for which it is proposed to issue the stock and bonds are not reasonably chargeable in whole or in part to operating expenses or to income;

IT IS HEREBY ORDERED that TITLE GUARANTEE AND TRUST COMPANY be, and it is hereby authorized to sell to the Tropico City Water Company a certain water system situated in the city

of Tropico, more specifically described in Exhibit "A" attached hereto.

IT IS HEREBY FURTHER ORDERED that Tropico City Water Company be, and it is hereby authorized to issue \$34,000.00 par value of its common stock as part payment of the purchase price for the aforesaid water system.

IT IS HEREBY FURTHER ORDERED, that Tropico City Water Company be, and it is hereby authorized to issue \$30,000.00 face value for 6% twenty year bonds as part payment of the purchase price of the aforesaid water system.

The authority herein granted, is granted upon the following conditions and not otherwise:

1. The stock and bonds herein authorized to be issued shall be issued concurrently and be received by Title Guarantee and Trust Company as full payment for the water system authorized to be sold and transferred to Tropico City Water Company.

2. Tropico City Water Company shall not issue the bonds herein authorized, until it has obtained from this Commission a Supplemental Order approving the deed of Trust securing the payment of the bonds herein authorized to be issued.

3. The price herein authorized to be paid for the property, which is to be transferred, shall not be binding upon the Railroad Commission of the State of California, or any other regulatory body in fixing prices for the service of said water company, or the value of said properties in condemnation or other proceedings.

4. Within thirty days after the transfer of the properties herein authorized to be sold applicant shall file with this Commission, a copy of the deed of conveyance.

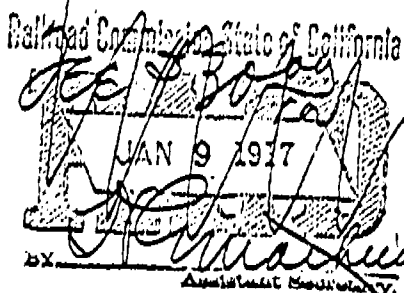
5. Within thirty days after the issue of the stock and bonds hereby authorized to be issued, applicant shall file with this Commission a statement showing the purpose for which said stock and bonds have been issued.

6. This order shall not become effective until Tropico City Water Company has paid the fee specified in Section 57 of Public Utilities Act.

7. The authority herein granted shall apply only to such stock and bonds as may be issued on or before April 15, 1917.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 6th day of January, 1917.



*In returned
mitchison*

Max Thelen
[Signature]
[Signature]
Edwin C. Edgerton
Frank R. Dwyer
Commissioners.

E X H I B I T

"A".

The property which Title Guarantee and Trust Company proposes to sell to Tropico City Water Company, is described by applicants as follows:

That certain water system, situated in the City of Tropico, County of Los Angeles, State of California, now owned, operated and controlled by the said party of the first part, and known as the Tropico City Water System, together with all water and water rights, rights of way, pipes, pipe lines, flumes and ditches, wells, pumping plants, machinery, reservoirs and reservoir sites, and all other appurtenances connected therewith, including the following parcels of real estate, to-wit:

Part of Lot Three (3) of the Childs Tract, in the Rancho San Rafael, in the County of Los Angeles, State of California, as per map recorded in Book 5, page 157, Miscellaneous Records of said County, described as follows:

Beginning at the Northeast corner of said lot; thence South along the East line of said lot four and five hundred forty-five thousandths (4.545) chains; thence North eighty-nine (89°) degrees forty-five minutes (45') West, three and seventy-four hundredths (3.74) chains; thence North four and five hundred forty-five thousandths (4.545) chains to the North line of said lot; thence East along said North line three and seventy-four hundredths (3.74) chains to the place of beginning; containing two (2) acres, more or less;

Also, that part of Lot Fifteen (15) in Block "B" of the Heide-Boynton Tract, in the Rancho San Rafael, County of Los Angeles, State of California, as per map recorded in Book 12, page 80 of Maps, in the office of the County Recorder of said County, described as follows:

Beginning at the Southeast corner of said lot; thence Northerly along the East line thereof two hundred (200) feet; thence North 88° 34' West, two hundred eighteen and sixty-three hundredths (218.63) feet; thence Northwesterly parallel with the Southwesterly line of said lot one hundred twenty-nine and sixteen hundredths (129.16) feet, more or less, to a point in the Easterly line of the land conveyed

by Henry Heide and Ethel Frances Heide to D. Griswold, by Deed dated April 8, 1908, filed for record April 30, 1908, at or near an angle in said line: thence Southwesterly along said Easterly line of said land so conveyed to said Griswold twenty (20) feet, more or less, to the Southwesterly line of said lot; thence Southeasterly along said Southwesterly line four hundred fourteen and six hundredths (414.06) feet to the most Southerly corner of said lot; thence Easterly along the South line of said lot eighteen and forty-eight hundredths (18.48) feet, to the place of beginning.

ALSO, Lots One (1) and Two (2) of Block Two (2) of Breedlove's Subdivision of a part of Lots Eight (8), Nine (9) and Ten (10), Watts' Subdivision of a part of Rancho San Rafael, in the County of Los Angeles, State of California, as per map recorded in Book 10, page 94 of maps, in the office of the County Recorder of said County;