

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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ORIGINAL
Decision No. 792

In the Matter of the Application of
MOUNT JACKSON WATER AND POWER COMPANY)
for authority to issue bonds.)

Application No. 621.

A. F. Lemberger for applicant.

GORDON, Commissioner.

O P I N I O N

Mount Jackson Water and Power Company is engaged in the business of distributing and selling water at Rionido, Sonoma County. Rionido is a summer resort on the Russian River. The applicant asks the Commission for authority to issue \$11,000 of bonds and to use the proceeds for the payment of its existing indebtedness.

In connection with Application No. 566 this Commission had occasion to inquire into the affairs of the applicant, and thereafter issued its order authorizing the Mount Jackson Water and Power Company to raise its rates.

A separate hearing was held in Rionido on Application No. 621, in which authority is asked to issue bonds.

As a result of these two hearings and the investigation attendant thereon, I find that the applicant herein is heavily burdened with debts and apparently without ability to raise additional sums in any substantial amount without increasing its burden of indebtedness. The property has been operated at a loss up to the present time.

The property of Mount Jackson Water and Power Company consists of wells, a distributing system and certain lands upon which the applicant itself places a value of \$9,148.82. The applicant claims in addition a value of \$2,000.00 for its water rights and

\$1,000 for development expense or "going concern," making a total of \$12,148.82.

Mount Jackson Water and Power Company presents to the Commission a statement of its indebtedness as follows:

Notes payable.....	\$7,613.68
Accrued indebtedness.....	264.44
Taxes, etc., due.....	<u>100.00</u>
Total	\$7,978.12

In addition applicant stated that it proposed to make improvements to cost.....\$1,650.00 which would make its total indebtedness.....\$9,628.12

By selling \$11,000 7% 5-year bonds at 85 the applicant proposes to raise \$9,350.00 and to apply this upon its indebtedness and the proposed improvements. There are certain features of this case which differentiate it from any other which has come before this Commission. This company serves water to a community which has but twelve permanent residents. For the remainder of its business it must depend upon the transient summer visitors to Rionido. During the months of June, July and August, several people visit this resort and remain from a few days to three months. During the rest of the year, as heretofore stated, there is but a scant permanent population and a few occasional visitors. Inherently I do not consider this a property upon which bonds should be issued. I believe the indebtedness of such a corporation should be financed by notes to individuals thoroughly acquainted with the nature of the business and not by securities to be sold to the general public. Aside from this basic condition which militates against the issue of bonds, I find that the applicant herein has been losing money through its operations, that it has been unable to pay its interest, and that it is unable to raise money in any considerable amount from its stock.

This company has issued 200 shares of stock, of which 194 shares are held by Mr. T. C. Mellersh. Mr. Mellersh acquired this property in October, 1911, with a note indebtedness of \$5,000.

Since that time the note indebtedness has been increased by \$2,613.68, a part of which is attributable to new construction and a part representing the loss in operation. The indebtedness represented by notes consists of three notes as follows:

Note to J. P. Overton, of Santa Rosa...	\$7,000.00
Note to Fairbanks-Morse and Company....	300.00
Note to T. C. Mellersh.....	313.68

The note to Mr. Mellersh was given for interest advanced by him and may well be considered an assessment upon his stock.

While I would be unwilling to recognize a value of \$2,000 for water rights and \$1,000 for development expenses or "going concern," as submitted by the applicant, and while there is before the Commission a valuation of its engineering department nearly \$4,000 below that submitted by the company, I do not consider it necessary to go into these matters at the present time.

It is clear that there is little margin between the indebtedness and the tangible assets of this corporation.

While the new rates fixed by the Commission in Application No. 566 are calculated to yield to the applicant a fair return upon its property, nearly all such return will necessarily be used in the payment of interest on outstanding obligations and will not serve, therefore, to reduce the indebtedness. As previously stated, I do not believe that bonds, to be sold to the public or to be made available for public purchase, should be issued against an enterprise of this sort which must depend for its existence upon transitory summer trade.

For these reasons I recommend that the application be denied. At the same time it must be recognized that as these notes are now due and payable, some provision must be made for their extension. Some provision should also be made to finance the proposed improvements to this system. I recommend that the Commission entertain an application from Mount Jackson Water and Power Company to renew its existing notes to J. P. Overton in the sum of \$7,000 and to

Fairbanks-Morse and Company in the sum of \$300.00 and to finance the proposed improvements to its system.

I submit the following order:

O R D E R .

MOUNT JACKSON WATER AND POWER COMPANY having applied to this Commission for authority to issue \$11,000 of 5-year 7% first mortgage bonds, and a hearing having been held, and

IT APPEARING That the public interest requires that this application be denied,

IT IS HEREBY ORDERED That said application be and same is hereby denied.

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 19th day of July, 1913.

John W. Eschleman

Ed. Gordon

Max Keller

Edwin O. Edgerton

Commissioners.

