

Decision No. 26427

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
HOME FARMS WATER COMPANY)
formerly known as Watson Water Com-)
pany, a corporation, for order auth-) Application No. 19045
orizing the issuance of bonds, and)
for a certificate of public conven-)
ience and necessity.)

Ogden, Steelman and Crocker,
by Samuel Steelman, for applicant.

BY THE COMMISSION:

OPINION

In this proceeding the Commission is asked to enter its order declaring that public convenience and necessity require Home Farms Water Company to maintain and operate a public utility water system in the territory indicated on the map filed as "Exhibit A", and authorizing Home Farms Water Company to execute a mortgage or trust indenture to secure the payment of an authorized issue of \$300,000. face value of bonds, and to issue some of said bonds, for the purpose of refunding outstanding indebtedness.

It is alleged that applicant is engaged in the business of producing and delivering water to the Town of Ethanac in the County of Riverside, and certain orchards and vineyards surrounding said town, comprising some 2500 acres. A certificate of public convenience and necessity to operate a water system in this area was granted by Decis-

ion No. 18157 dated April 4, 1927. By Decision No. 20841 dated March 6, 1929 the Commission dismissed an application of Watson Water Company to serve some 6000 acres of land adjacent to the original service area. Since then, because of receivership proceedings and a foreclosure sale, the development and control of the property has passed out of the hands of the original promoters. Following the sale of the properties some of the land owners or purchasers organized a co-operative organization known as the Ethanac Rancho Ltd. This organization, however, has not been able to carry forward the development of the properties. This is now being undertaken by A. Francis Page and his associates who control through stock ownership the Home Farms Corporation which, in turn, controls Home Farms Water Company.

Applicant now asks for a certificate of public convenience and necessity to serve about 5000 acres of land shown on Exhibit "A". In this area are some 1500 small farms growing kadota figs and vineyards, and in some cases deciduous fruits and berries. The Home Farms Corporation owns or controls about 2000 acres in the 5000 acre area. The Home Farms Corporation is promoting the development of small farms in five, ten, twenty and forty acre tracts.

It is alleged that over 75% of the entire area to be served is under intensive cultivation at the present time. However, few of the owners of the land are now living on the same. The Home Farms Corporation proposes to lease from the owners their land and cultivate, plant, replant, prune and harvest, the fruit and crops grown on the land and pay to the owner as rent, 75% of the net profits derived from the operations of the Home Farms Corporation. By net profit is meant the amount remaining after all costs and expenses of every kind, character and description have been deducted.

It is of record that applicant has acquired the wells, transmission and distribution pipe lines in the area it desires to serve.

It has also acquired the pipe lines shown on Exhibit "A" which is outside the proposed service area. These properties were acquired from Ethanac Rancho Ltd. subject to existing encumbrances, reported in Exhibit "B" at \$150,310.38. This sum includes \$18,500.00 of indebtedness payable to J. F. Wilson which is secured by a lien on the equipment of applicant. The balance of the indebtedness is payable to the following parties:-

ENCUMBRANCES AFFECTING THE
WATSON WATER COMPANY

<u>Name</u>	<u>Date of</u> <u>Trust Deed</u>	<u>Date Due</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
A. Lincoln Colton N $\frac{1}{2}$ of NW $\frac{1}{4}$ Sec. 11, Twp. 5 So. R 3 W. SBEM	Jan. 15, 1932	Jan. 15, 1935	6% \$	5,765.00
William E. Otis Pt. Sec. 15, Twp. 5 So. R 3 W. SBEM	June 19, 1931	June 19, 1934	7%	6,239.19
David J. Park Pt. Sec. 2, Twp. 5 So. R 3 W. SBEM	Aug. 11, 1931	Aug. 11, 1934	7%	3,925.53
Mary S. Phillips and Saidee Benson S $\frac{1}{2}$ of NW $\frac{1}{4}$ Sec. 11, Twp. 5 So. R 3 W. SBEM	Jan. 11, 1932	Jan. 11, 1935	7%	7,193.50
W. F. Snodgrass Pt. NE $\frac{1}{4}$ Sec. 10, Twp. 5 So. R 3 W. SBEM	Dec. 28, 1931	May 1, 1934	7%	7,000.00
K. G. Stewart So. $\frac{1}{2}$ Sec. 12, Twp. 5 So. R 3 W. SBEM) SW $\frac{1}{4}$ of Sec. 7, Twp. 5 So. R 3 W. SBEM)	July 22, 1931	July 22, 1934	7%	49,095.87
Alice E. Thomas Pt. SE $\frac{1}{4}$ of Sec. 7, Twp. 5 So. R 3 W. SBEM	Feb. 1, 1932	Feb. 1, 1935	7%	2,125.66

ENCUMBRANCES AFFECTING THE
ETHANAC RANCHO, LTD. SYSTEM

Lucy M. Corey W $\frac{1}{2}$ of SW $\frac{1}{4}$ Sec. 10, Twp. 5 So. R 3 W. SBEM	Aug. 27, 1931	Aug. 27, 1934	7%	\$11,612.50
E. & Emily Guenther N $\frac{1}{2}$ of SW $\frac{1}{4}$ Sec. 14, Twp. 5 So. R 3 W. SBEM	Mar. 1, 1932	Mar. 1, 1935	7%	6,014.59
L. R. Harford, et al. NE $\frac{1}{4}$ of Sec. 35, Twp. 4 So. R 3 W. SBEM	Nov. 1, 1931	Nov. 1, 1934	7%	16,256.60
Edythe M. Hunter & Charles W. Geiger Pt. of SE $\frac{1}{4}$ Sec. 26, Twp. 4 So. R 3 W. SBEM	Oct. 1, 1931	Oct. 1, 1934	7%	11,998.34
C. E. Loose and J. H. Baird NE $\frac{1}{4}$ & Pt. of NW $\frac{1}{4}$ Sec. 2, Twp. 5 So. R 3 W. SBEM	Mar. 1, 1932	Mar. 1, 1935	7%	4,523.80

TOTAL..... \$131,810.38

The payment of the indebtedness payable to other than J. F. Wilson is secured by trust deeds covering lands affecting the title of the water system of applicant. The testimony shows that the lien of these trust deeds attaches to the wells and pipe lines located on the land. If the indebtedness is not paid and the trust deed is foreclosed, the purchaser would obtain title to the water properties on the land. Such an eventuality would seriously interfere with the operation of the remainder of the water system. To avoid such a situation from becoming a reality applicant asks permission to exchange its 5% first mortgage bonds payable on or before ten years after date for the above indebtedness aggregating \$131,810.32. It appears, however, that the holders of \$51,617.73 of outstanding notes have not yet consented to the exchange of same for applicant's bonds. If any of the indebtedness should be discounted such discount should, we believe, enure to the benefit of applicant, and the amount of bonds it will issue, reduced accordingly.

J. F. Wilson, to whom there is due the sum of \$18,500.00, has agreed to accept in payment of such sum, applicant's note for \$18,500.00, secured by the deposit of applicant's 5% bonds in the amount of \$37,000.

In Exhibit No. 1 the company reports the cost of its equipment and the value of its water rights as follows:-

Cost of well boring, casing, pumps, motors, pumphouses....	\$250,000.00
Cost of 110 miles of underground cement pipe distributing system standpipes, reservoirs, etc.	304,558.00
Value of water rights based on ability to deliver 1,115.8 miner's inches of water suitable for irrigation	581,242.00
Total value as of July, 1928.....	\$ 1,115,800.00
<u>DEPRECIATION:</u>	
Less 5 years depreciation of the physical equipment.....	\$23,183.70
Less difference in replacement cost as of July, 1933.....	221,823.20
Total depreciation	305,006.90
Leaving total value of plant, equipment and water rights as of July, 1933, at	\$ 810,793.10

F. H. Van Hoesen, an assistant engineer for the Commission, in Exhibit No. 4 estimates the original cost of the physical properties as of October 1, 1933 at \$459,259.00. Of this amount there is about \$20,000. of equipment and parts in the storeroom and warehouse.

We feel that there is no need for this Commission in this proceeding to pass on the value of applicant's reported water rights. We are expressing no opinion either as to the extent of such rights or as to the value of such rights.

In Exhibit No. 1 applicant estimates its operating revenue at \$81,217.00 segregated as follows:-

Sale of water to domestic consumers	\$1,137.00
Sale of water to 5,000 acres under company system for irrigation, owners of 4000 acres having applied to company for water	80,080.00
Total	<u>\$81,217.00</u>

The \$80,080.00 is based on the assumption that on the average a supply of 2-acre feet of water per season will be required. To this is applied a rate of \$10.01 per acre per foot. The expenses are reported at \$40,200.00, leaving \$41,017.00 for depreciation and a return on the investment.

It occurs to us that this estimate of earnings, bearing in mind existing conditions and the history of this project, is rather optimistic. There is some doubt in our minds whether the net earnings will be sufficient to pay the interest on the proposed bond issue. Inasmuch as Home Farms Corporation, which owns all of the stock of applicant, and which directly benefits through the issue of applicant's bonds in exchange for outstanding indebtedness, we believe that it should guarantee the payment of both the principal and interest on the bonds issued in exchange for the above indebtedness or deposited as collateral to secure the payment of any of such debt. This guarantee should be

incorporated in the mortgage or trust indenture securing the payment of the bonds and also endorsed on the bonds so issued. If applicant should realize the earnings reported in its exhibit No. 1, the execution of the guarantee by the Home Farms Corporation will not impose any actual liability upon it.

Applicant has submitted a copy of its proposed mortgage or trust indenture. At the hearing it was announced that Riverside Title Company, therein named as trustee, was not authorized by law to act as trustee under the indenture. Some revisions have been made in the indenture originally submitted. We, however, still find the instrument incomplete, particularly in regard to defining the terms and conditions under which the reserved bonds may be executed by the company and certified by the trustee. Moreover, the trust indenture contains no seisin clause. It is our understanding that some of the properties of applicant were acquired subject to encumbrances. There is no recital of such encumbrances in the indenture. The instrument as now filed does not indicate either the face value of the individual bonds or how they will be numbered. Moreover, as indicated above, there should be incorporated in the indenture the guarantee of Home Farms Corporation under which it, its successors and assigns, agree to pay both the principal and interest of the aforesaid bonds in the event said principal and/or interest is not paid by applicant, as provided in the trust indenture.

We believe that applicant should at this time be given permission to maintain and operate a water system in the area outlined on the map filed as Exhibit "A". Permission to issue bonds, we think, should be held in abeyance until applicant has filed a trust indenture which is in satisfactory form. At the time it files such indenture it should also inform the Commission of the names of those who have

agreed to accept its bonds in payment of indebtedness now due them, the amount of the indebtedness and the amount of bonds to be issued in payment of the same. The issue of the bonds and the execution of the trust indenture will be the subject matter of a supplemental order.

ORDER

Home Farms Water Company having asked permission to construct, maintain and operate a public utility water system in the area marked on the map filed in this proceeding as Exhibit "A", and to issue bonds and execute a mortgage or trust indenture, a public hearing having been held before Examiner Fankhauser, the Commission having considered the testimony submitted and being of the opinion that applicant should be granted a certificate of public convenience and necessity, as herein provided; and that permission to issue bonds and execute a mortgage or trust indenture should be the subject matter of a supplemental order, therefore,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require and will require Home Farms Water Company to maintain and operate, and to extend the water system described in the foregoing opinion and in the exhibits referred to therein, for the purpose of supplying water for domestic, commercial and/or irrigation purposes to the residents or owners of land in the area within the red line marked on the map filed as Exhibit "A" in this proceeding.

DATED at San Francisco, California, this 16th day of October, 1933.

C. J. Leary
Leon A. White
W. B. Leary
W. B. Leary
W. B. Leary
Commissioners