

ORIGINAL

Decision No. 13877

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
G. C. HOLMES, an individual doing
business as Holmes Warehouse Company
to Sell, and HOLMES WAREHOUSE CO., a
corporation, to purchase Three
Registered Public Grain Warehouses
and Equipment situate respectively
at South Dos Palos, Merced County,
California, Mendota and Oxalis,
Fresno County, California.

Application
No. 30884

Keesling & Keesling
by William H. Keesling,
for applicants.

O P I N I O N

This is an application for an order of the Commission authorizing G. C. Holmes to sell certain warehouse properties to Holmes Warehouse Co., a corporation, and authorizing said corporation to assume the payment of existing liabilities and to issue 1,513 shares of its capital stock without par value.

The application shows that G. C. Holmes, doing business as Holmes Warehouse Company, is engaged in the operation of public grain warehouses in South Dos Palos, Merced County, and in Oxalis and Mendota, Fresno County, and in certain sales activities. From exhibits attached to the application it appears that his revenues and expenses for the period from January 1, 1949, to October 31, 1949 have been as follows:

Income	<u>Warehouse</u>	<u>Sales</u>
Operating expenses and taxes	\$26,779.08	\$24,617.22
Depreciation	20,630.36	17,321.73
Balance	<u>4,779.47</u>	<u>4,946.46</u>
Interest	1,369.25	2,349.03
Net income or <u>(loss)</u>	<u>2,951.09</u>	<u>983.70</u>
	<u>(1,581.84)</u>	<u>1,365.33</u>

The record shows that in 1935 the operation of the business, as it then existed, was undertaken by Holmes Warehouse Co., the applicant corporation herein, but that in 1937, in order to effect tax savings, the properties and business were transferred to G. C. Holmes, then the owner of the corporation's outstanding stock, who has continued the operations to the present time. He now proposes to transfer the operations back to the corporation for the reason that an expansion of plant facilities is contemplated and it is felt the necessary financing more readily can be accomplished by a corporation than by an individual. Applicants assert that the fair market value of the assets to be transferred is \$151,300 and they propose that 1,513 shares of applicant corporation's stock, without par value, be issued to applicant Holmes in exchange for such assets, subject to outstanding liabilities, being at the rate of \$100 a share.

The properties to be transferred include real estate in South Dos Palos, Oxalis and Mendota upon which are located warehouse and elevator facilities, and warehouse equipment, automobiles, trucks, furniture and fixtures, and also a parcel of land in South Dos Palos leased to others and not used in applicant Holmes' operations. In Exhibit A attached to the application, the cost to applicant Holmes of the land, buildings and equipment, including construction work in progress, is reported in the aggregate amount of \$182,427.43, with a reserve for depreciation of \$62,539.73.

The record shows that in 1947 applicant Holmes made or caused to be made an inventory and appraisal of his properties which resulted in an increase of \$134,150.69 over the then book figures. Deducting depreciation of \$13,197.47 since accrued on the amount of the appreciation on structures and equipment leaves a net increase over the book figures of \$120,953.22 as of

October 31, 1949, segregated as follows:

<u>Item</u>	<u>Increase due to Appraisal</u>	
Land-		
Operating land	\$15,791.00	
Investment land	6,650.00	\$ 22,441.00
Buildings-		
South Dos Palos	24,580.60	
Oxalis	13,200.00	
Mendota	<u>36,106.01</u>	73,886.61
Equipment		<u>24,625.61</u>
Total		<u>\$120,953.22</u>

The total appraisal of 1947 for buildings, as shown in Schedule A-1 attached to the application, is \$123,799.01. An appraisal prepared in 1950 by Burton F. Dinsmore, filed as Exhibit 1, shows estimated replacement costs of the buildings, under present day prices, at \$153,512.65.

A balance sheet as of October 31, 1949, giving effect to the 1947 appraisal figures is as follows:

<u>Assets</u>		
Current assets		
Cash	\$ 349.31	
Accounts receivable	31,068.82	
Inventory	<u>3,893.17</u>	
Total current assets		\$ 35,311.30
Permanent assets-		
Land (including investment land)	5,059.00	
Buildings	63,670.30	
Equipment	59,470.23	
Autos and trucks	8,130.51	
Furniture and fixtures	743.02	
Construction work in progress	<u>45,354.37</u>	
Permanent assets at cost	182,427.43	
Less- reserve for depreciation	<u>62,539.73</u>	
Balance	119,887.70	
Appraisal increase	<u>120,953.22</u>	
Total permanent assets (net)		240,840.92
Deferred and prepaid assets		<u>4,166.35</u>
Total		<u>\$280,318.57</u>

<u>Liabilities</u>		
Current liabilities		
Overdrafts	\$ 181.32	
Notes and accounts payable	34,033.91	
Taxes payable	294.32	
Accrued liabilities	<u>1,976.79</u>	
Total current liabilities		\$ 36,486.34
Fixed liability		92,500.00
Capital		(1)
G. C. Holmes	30,379.01	
Increase per appraisal	<u>120,953.22</u>	
Total capital		<u>151,332.23</u>
Total		<u>\$280,318.57</u>

As to the buildings and equipment, it appears that a part thereof had been acquired in 1935 from predecessors but that a substantial part subsequently has been constructed or acquired, under contract, by applicants. The reported increases resulting from appraisal figures reflect the application of 1947 labor and material prices.

The land owned and used by applicant Holmes in his operations includes a parcel containing 90,000 square feet in South Dos Palos, a parcel containing 127,500 square feet in Oxalis, and a parcel containing 72,000 square feet in Mendota. The so-called investment land consists of approximately one acre in South Dos Palos which is occupied by a packing house under a lease arrangement providing for an annual rental of \$1,500. It appears that the land, with the exception of that leased to others, was acquired in 1935, a considerable portion being obtained at foreclosure proceedings. The amounts included in the appraisal, in part at least, appear to represent estimated market values at the time of acquisition. The testimony herein indicates that the appraisal figures now submitted are less than the estimated current market prices of land.

(1)

A financial statement as of December 31, 1949, filed after the close of the hearing in this proceeding indicates that the capital account of G. C. Holmes, excluding certain personal assets not to be transferred to the corporation, had increased to approximately \$33,500.00, aside from the reported appraisal increase.

It is only by giving full weight to changing price levels of labor and material that the proposed stock issue can be justified. This is not a sound basis upon which to predicate an order authorizing the issue of stock. The implications inherent in such a proposal, if adopted in authorizing the capitalization, or recapitalization, of utility properties, are apparent. We will not recognize the appraisal of the structures and equipment for the purpose of the stock issue.

In reviewing the record in this particular matter, it appears proper, under the facts presented at the hearing, to give recognition to the estimated figures submitted for land. Considering the reported investment in buildings and structures and the estimates with respect to real property and eliminating the reported depreciation accrued on appreciated values, it is concluded that 700 shares of stock are the most that can be authorized.

The order accordingly, will authorize the transfer of the properties, the assumption of indebtedness and the issue of 700 shares of stock. The action taken in this matter should not be construed as a finding by the Commission of the value of the properties herein authorized to be transferred nor of the stock herein authorized to be issued.

O R D E R

A public hearing having been held in this proceeding, the Commission having considered the matter and being of the opinion that an order should be entered, as herein provided, that the issue of 700 shares of stock is reasonably required by Holmes Warehouse Co. for the purpose specified herein, that such purpose is not, in whole or in part, reasonably chargeable to

operating expenses or to income, and that the request to issue 813 shares of stock should be denied without prejudice,

IT IS HEREBY ORDERED as follows:

1. After the effective date hereof and on or before June 30, 1950, G. C. Holmes may sell to Holmes Warehouse Co., a corporation, the properties and assets referred to in the foregoing opinion, and Holmes Warehouse Co., in payment for such properties and assets, may assume the payment of the indebtedness of said G. C. Holmes, as shown in this proceeding, and may issue not exceeding 700 shares of its capital stock.

2. If G. C. Holmes transfers his properties to Holmes Warehouse Co. under the authority herein granted, applicants shall, on not less than five (5) days' notice to the Commission and to the public, supplement or reissue tariffs on file with the Commission insofar as they name rates, rules and regulations governing warehouse operations of G. C. Holmes to show that he has withdrawn from these operations and that Holmes Warehouse Co. has adopted or established said rates, rules and regulations as its own, such tariff filings made pursuant to this order in all other respects to comply with the regulations governing the construction and filing of warehouse tariffs set forth in the Commission's General Order No. 61.

3. Holmes Warehouse Co. shall file with the Commission a report as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The application insofar as it involves the issue of 813 shares of stock is denied without prejudice.

5. The effective date of this order is twenty (20) days from the date hereof.

7th Dated at San Francisco, California, this
7 day of March 1950.

R. E. Dunderberg
Justus F. Casner
James H. Kuehl
Herbert Pittman
Commissioners

Commissioner Harold P. Euls, being
necessarily absent, did not participate
in the disposition of this proceeding.