

ORIGINAL

Decision No. 1537

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application :  
 of SANTA MONICA WATER COMPANY for : Application No. 1047.  
 authority to issue \$500,000.00 in :  
 bonds. :

Herbert J. Goudge, for Applicant.

LOVELAND, Commissioner.

O P I N I O N

This is an application by the Santa Monica Water Company for authority to issue \$500,000.00 of five per cent bonds to be dated May 1, 1914 and to mature May 1, 1944, and to be secured by a trust deed to Citizens Trust and Savings Bank of Los Angeles.

It is proposed to use these bonds for the following purposes:-

To retire outstanding issue of bonds, dated July 1, 1907, .....	\$250,000.00
For additions and betterments to applicant's plant and system, .....	96,073.04
To retire notes payable, .....	95,271.62
To pay off accounts payable, .....	58,655.34
Total.....	<u>\$500,000.00</u>

Mr. R. C. Gillis, who owns \$533,000.00 of applicant's \$500,000.00 of stock, and who also owns the outstanding issue of \$250,000.00 of applicant's bonds, has made a written proposal to Santa Monica Water Company in which he offers to take the \$500,000.00 of new bonds on the following basis:-

\$250,000.00 in exchange for the present outstanding issue of \$250,000.00 of bonds at par.

Sufficient bonds at 95, on behalf of Santa Monica Land and Water Company, of which Mr. Gillis owns practically the entire capital stock, to liquidate the indebtedness due that company in the sum of .....\$ 85,771.62

Enough bonds at 95 to liquidate the applicant's indebtedness to the Bank of Santa Monica and the Boca Land Company, in the total sum of ..... 9,500.00

Enough bonds at 95 to liquidate the applicant's outstanding accounts payable in the sum of ..... 58,655.34

Enough bonds at 80 to provide for the necessary additions and betterments during the years 1914, 1915 and 1916 in installments in the total sum of ..... 96,073.04

Total.....\$250,000.00

It is stipulated further by Mr. Gillis that he shall receive no further commissions beyond the discounts above noted.

Santa Monica Water Company supplies what is termed the North side of Santa Monica and certain territory lying outside of the city limits, including a foothill section North of San Vicente Boulevard, Santa Monica Canyon and the town of Westgate. It is one of four companies serving the city of Santa Monica. The other companies are the Irwin Heights Water Company, the City Water Company and the Ocean Park Water Company.

It is estimated by applicant that Santa Monica has a population of 15,000 persons. In serving 1,750 consumers, the applicant expresses the belief that it has approximately one-third of the water patrons of the city. It serves 145 patrons outside of the city limits of Santa Monica.

The water supply is obtained from wells. The water is lifted to an elevation and stored in reservoirs upon the hills. New reservoir facilities are in contemplation. Applicant's plant consists of wells, pumping equipment, purification system, distribution system, services, meters, etc.

Applicant asserts that the value of these properties is

\$427,543.00. Among these properties is an eight foot concrete caisson well with horizontal laterals. It has been drilled to a depth of 142 feet with an outside diameter at the bottom of eleven feet and six inches. The applicant states that this well has been tried out during the last eight years.

The applicant asks that the value of the water produced from this well be established upon the basis of \$1,400.00 per miner's inch for 167 inches. In this way, the applicant assumes a value for its water development of \$233,800.00, and, adding this to its appraisal of its other properties, contends that the value of its plant is \$661,343.00.

At the hearing, applicant asked that additional value be recognized for "going concern".

For the year ending December 31, 1913, Santa Monica Water Company's gross earnings amounted to \$52,083.65. After paying operating expenses, interest, rent, etc., a deficit for the year was reported in the sum of \$8,381.89. For the five year period from January 1, 1909 to December 31, 1913, applicant's operations resulted in a deficit of \$7,848.89. Applicant reported on its books, however, as of December 31, 1913, a surplus of \$88,663.61. It was explained that \$70,000.00 of this surplus accrued through the donation of a distributing system in a section contiguous to Santa Monica.

It would appear, therefore, that this company has not been earning a sufficient amount to take care of additional obligations. The company's earnings increased from the sum of \$32,257.69 in 1912 to \$52,984.38 in 1913, chiefly by reason of the installation of meters and the substitution of meter rates for flat rates.

It is estimated on behalf of the applicant that its earnings for 1914 will amount to .....\$ 60,000.00;  
that its operating expenses will not be  
in excess of ..... 20,000.00,  
leaving .....\$ 30,000.00 ap<sup>57</sup>

plicable to interest and depreciation. The company estimates that its interest requirements will not exceed \$20,000.00 for 1914.

While such earning power may develop, I do not believe this Commission would be justified in assuming such an earning power as a certainty at this time.

The proposal to refund the outstanding bonds in the sum of \$250,000.00 is based upon the desire of the applicant to make its new issue a first mortgage upon all of its properties. As all of its bonds are now in the hands of its chief stockholder, Mr. Gillis, such a substitution is practicable. I see no reason why this should not be done.

The applicant has asked for authority, also, to issue bonds to provide the sum of \$96,073.04 for the purpose of making such additions and betterments to its distributing system as will be required during the years 1914, 1915 and 1916. It is not the purpose at this time to issue more than are needed for immediate improvements. Some of these improvements calling for large expenditures will be deferred until 1915 or 1916.

The applicant has filed as Exhibit "C" in connection with the application herein its schedule of projected improvements for this three-year period.

At the hearing, it was stated in testimony that the requirements of 1914 would entail the expenditure of only \$2,800.00.

I recommend, therefore, that the applicant be given authority to issue bonds for the required additions and betterments during 1914 in the sum of \$2,800.00.

Among the notes payable listed in the sum of \$95,271.62, appear notes due Santa Monica Land and Water Company, controlled by the identical interests which control the Santa Monica Water Company, amounting to \$85,771.62. There appears also a note of \$6,000.00 due the Boca Land Company for water. This is evi-

dently an operating expense.

I believe for the present the sum due the Santa Monica Land and Water Company may be allowed to remain in its present condition. The relationship between these two corporations makes it inadvisable to authorize an issue of bonds for this purpose at this time.

I shall recommend, therefore, that the applicant be allowed to issue bonds for the purpose of refunding the remaining note payable which is the note due the Bank of Santa Monica dated December 1, 1912, interest at 7%, for the sum of \$3,500.00.

I find that all applicant's accounts payable, \$22,724.36, are due the Santa Monica Land and Water Company, and I make the same recommendation as to this item as to the notes due the Santa Monica Land and Water Company. Of the remaining accounts payable, in the sum of \$35,930.98, I recommend that such portion thereof as may be properly chargeable to capital account be included within the purposes for which bonds may be issued.

At the hearing, the applicant was requested to segregate its accounts payable so that the Commission might determine what portion thereof constituted proper capital charges. The desired information has not been supplied and the Order herein will, therefore, not authorize bonds to discharge applicant's accounts payable. When the applicant files a proper segregation, showing what portion of its accounts payable are properly chargeable to capital account, a Supplemental Order will be issued authorizing an issue of bonds to liquidate the indebtedness.

An important consideration which enters into the determination of this matter lies in the established earning power of this corporation.

The petition for an increase in the applicant's bonded debt is made in the face of the fact that the applicant has been

operating at a loss over the past five year period and in the face of the further fact that its deficit for the past year amounted to \$8,381.89.

A restriction upon the issue of bonds, as herein recommended, would require that the Santa Monica Land and Water Company carry for a further time the indebtedness due it amounting to \$108,495.98. As the chief stockholder in the Santa Monica Water Company controls the Santa Monica Land and Water Company, this arrangement is largely an inter-company affair.

Applicant's attention was directed to certain features in its trust deed which it intends to alter, including the sinking fund and the callable features of its bonds. For that reason, the approval of the trust deed will be withheld until the amended document is filed.

I recommend, therefore, that the application be granted in those particulars noted and denied as to the other features as indicated.

I submit herewith the following form of Order:-

#### O R D E R

Santa Monica Water Company having applied to this Commission for authority to issue \$500,000.00 of 5% thirty year bonds for the purposes as appear in the above Opinion;

And a hearing having been held; and it appearing that certain items for which the applicant herein proposes to issue bonds are not, in whole or in part, properly chargeable to operating expenses or to income;

IT IS HEREBY ORDERED: That Santa Monica Water Company be given authority, and it is hereby given authority, to issue its five per cent thirty year bonds for those certain purposes in the sum of \$257,000.00.

Said authority is given upon the following conditions and not otherwise:-

(1) The bonds herein authorized to be issued shall be issued only after this Commission shall have approved an amended trust deed which shall be filed by Santa Monica Water Company.

(2) Said bonds shall be issued for the following purposes and not otherwise:-

- |     |   |                     |
|-----|---|---------------------|
| (a) | In exchange for \$250,000.00 of applicant's outstanding bonds dated July 1, 1907.....       | \$250,000.00        |
| (b) | To provide for additions and betterments to applicant's plant.....                          | 2,800.00            |
| (c) | To retire a note due Bank of Santa Monica, dated December 1, 1912, with interest at 7%..... | 3,500.00            |
|     |   | <u>\$256,300.00</u> |

(3) The bonds in the sum of \$250,000.00 to be issued in exchange for other bonds shall be issued at par, bond for bond.

(4) All other bonds shall be sold by applicant so as to net not less than 90% of the par value thereof, plus accrued interest.

(5) The bonds in the sum of \$2,800.00 to be used by applicant for additions and betterments shall be applied to such additions and betterments as shall be hereafter approved by this Commission upon the filing of such list of additions and betterments, with the estimated cost thereof, by the applicant herein.

(6) Applicant shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued; and on or before the 25th day of each month the company shall make verified reports to the Commission stating the sale or sales of said bonds during the preceding month, the terms and conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's

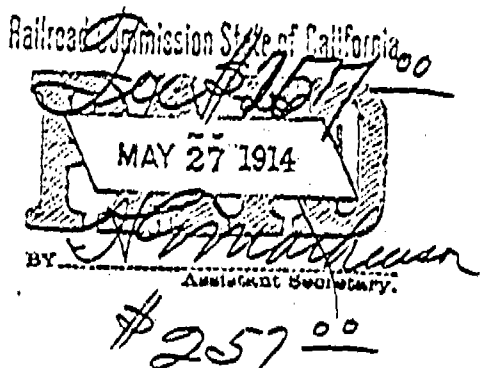
General Order No. 24, which Order, in so far as applicable, is made a part of this Order.

(7) The authority hereby given to issue such bonds shall apply only to bonds issued by Santa Monica Water Company on or before January 1, 1915.

(8) The authority herein given is conditioned upon the payment of the fee prescribed in the Public Utilities Act.

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 23rd day of May, 1914.



*H. D. Loveland*

*Max Thelen*

*Edwin E. Edgerton*

Commissioners.