

Decision No. 32525

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Investment Corporation, Ltd.,
a corporation, for an order to
issue and sell bonds.

Application No. 23044

Flint and MacKay by William R. Flint
for Applicant.

CRAEMER, COMMISSIONER:

O P I N I O N

In this proceeding, Investment Water Corporation, Ltd. asks permission to issue and sell at 97% of their face value and accrued interest \$200,000 of its First Mortgage 4½% Serial Bonds, Series "A" for the purpose of paying indebtedness and acquiring and constructing new properties to which reference will be made hereafter. It also seeks authority to execute a trust indenture to secure the payment of said \$200,000 of bonds and of \$100,000 of additional bonds.

Investment Water Corporation, Ltd. is engaged in the business of supplying water, as a public utility, for domestic, industrial and municipal purposes to consumers located in the territory known as the Los Angeles Mesa Addition to the City of Los Angeles, and to consumers located in unincorporated territory situate adjacent thereto and/or nearby, in Los Angeles County. As of June 30, 1939, the company had 2,639 meters installed. It has no unmetered regular services. The record shows that for the

calendar years 1937, 1938 and for the 12 months ending June 30, 1939, applicant had operating revenues and operating expenses as follows:

<u>Item</u>	<u>Year Ended June 30, 1939</u>	<u>Year 1938</u>	<u>Year 1937</u>
Operating revenues	\$71,839.33	\$65,752.92	\$56,629.33
Operating expenses, except depreciation & income taxes	<u>28,311.27</u>	<u>27,194.09</u>	<u>25,049.57</u>
Balance	43,528.06	38,558.83	31,579.76
Depreciation annuity 5% sinking fund	<u>4,936.08</u>	<u>4,588.35</u>	<u>3,423.30</u>
Balance	38,591.98	33,970.48	28,156.46
Income taxes	<u>1,542.92</u>	<u>1,739.74</u>	<u>2,069.75</u>
Balance	37,049.06	32,230.74	26,066.71
Nonoperating rent	<u>195.00</u>	<u>105.00</u>	<u>199.00</u>
Balance	37,544.06	32,335.74	26,265.71
Uncollectible accounts & rent deductions	<u>360.38</u>	<u>360.38</u>	<u>370.63</u>
Net available for interest, amortization of debt discount and expense and surplus	\$37,183.68	\$31,975.36	\$25,895.08

By Decision No. 23428, dated February 24, 1931, the Commission authorized Investment Water Corporation, Ltd. to issue and sell \$150,000 of its first mortgage 6% 20-year bonds. Through the use of sinking fund moneys, the company redeemed \$46,000 of said bonds, leaving \$104,000 outstanding on October 1, 1939. On that date applicant redeemed said \$104,000 of bonds. Exhibit "B" shows that Los Angeles Investment Company, which owns all of applicant's outstanding stock, advanced to applicant \$100,000 for the purpose of redeeming said bonds. The balance of the funds necessary to effect the redemption was obtained from applicant's treasury and

from the sinking fund established under the indenture securing the payment of the bonds. Los Angeles Investment Company, so the record shows, has also advanced to applicant \$115,000 for the purpose of enabling it to enlarge and extend its water system. On the moneys received from the Los Angeles Investment Company applicant is paying interest at the rate of 6% per annum.

There has been filed in this proceeding as Exhibit "C" a report prepared by X. Martin Smith, consulting engineer, in which he discusses, among other things, the cost of the properties, the revenues and the expenses of the Investment Water Corporation, Ltd. He estimates the original cost of the company's properties as of June 30, 1939 at \$531,139. This includes \$24,615 for construction work in progress. The reserve for accrued depreciation calculated on a 5% sinking fund basis he finds to be \$56,448.80. Our calling attention to his report and to the figures contained therein is not tantamount to an approval of the same. It is not necessary for the purpose of this proceeding to make a detailed analysis of the report. Counsel for applicant stipulated that if the report of X. Martin Smith becomes an issue in a subsequent proceeding before the Commission, the Commission may consider such report de novo. The Commission reserves the right to direct applicant to reverse or adjust any journal entries made because of the review of its records by X. Martin Smith.

The financial statements of applicant warrant the issue of the \$200,000 of bonds. The bonds will be dated July 1, 1939. They bear interest at the rate of 4½% per annum, payable semi-annually. They mature serially at the rate of \$5,000 semi-annually, to-wit: January 1 and July 1 of each year from 1940 to 1959, both inclusive. The company reserves the right to redeem the bonds prior to maturity by paying the principal thereof, accrued interest to the date of redemption, together with a premium of 5% of such principal if they

are called for redemption on or before July 1, 1940, or if called for redemption thereafter, a premium of 5% less 1/4th of 1% of such principal amount for each full year elapsed after June 30, 1940, to the date fixed for redemption.

The trust indenture which applicant intends to execute will secure the payment of an authorized bond issue of \$300,000 which includes said \$200,000 of bonds issued. It will be a lien on all of applicant's properties now owned or hereafter acquired. Subsequent to the issue of the \$200,000 of bonds, \$100,000 of bonds may be authenticated by the Trustee in an amount equal to 50% of the cost of additions and betterments to applicant's properties, provided applicant's net income for a period of 12 consecutive calendar months out of 15 calendar months next preceding the date of application for the authentication and delivery of bonds, shall have been not less than two times the amount of the annual interest on the outstanding bonds and on the bonds proposed to be issued. The term, "net income" is defined in the trust indenture as being the gross earnings received by the corporation from all sources less operating expenses, including depreciation at rates not less than those approved by the Railroad Commission of the State of California, taxes, and interest on all indebtedness, other than interest on the bonds secured by the indenture. In Section 2 of Article III of the trust indenture, the company covenants that it will use the proceeds obtained from the sale of the \$200,000 of bonds to pay \$169,000 of its indebtedness to Los Angeles Investment Company; to pay the cost of constructing an additional reservoir for the storage of water and pipe lines, connections and pumping equipment now in the process of construction, which cost is estimated at \$25,000, and use any balance remaining after applying the proceeds of the bonds to said purposes for any

lawful corporate purposes. The company has arranged to sell the \$200,000 of bonds at 97% of their face value and accrued interest.

I herewith submit the following form of order:

ORDER

Investment Water Corporation, Ltd. having asked permission to issue \$200,000 of bonds for the purpose of paying indebtedness and financing the cost of additions and betterments to its properties and to execute a trust indenture to secure the payment of such bonds, a public hearing having been held and the Commission having considered the evidence submitted at such hearing, and it being of the opinion that the money, property or labor to be procured and paid for by the issue of said bonds is reasonably required for the purposes herein stated; that expenditures for such purposes are not in whole or in part reasonably charged to operating expenses or income, and that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED AS FOLLOWS:

1. Investment Water Corporation, Ltd. may, after the effective date hereof and prior to December 31, 1939, execute a trust indenture in substantially the same form as the trust indenture filed in this proceeding on October 18, 1939, provided, that the authority herein granted to execute said trust indenture is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said trust indenture as to such other legal requirements to which it may be subject.

2. Investment Water Corporation, Ltd. may, after the effective date hereof and prior to December 31, 1939, issue and

sell at not less than 97% of their face value and accrued interest, \$200,000 of its First Mortgage 4½% Serial Bonds, Series "A" and use the proceeds to pay indebtedness due Los Angeles Investment Company, and to finance the cost of additions and betterments referred to in the foregoing opinion.

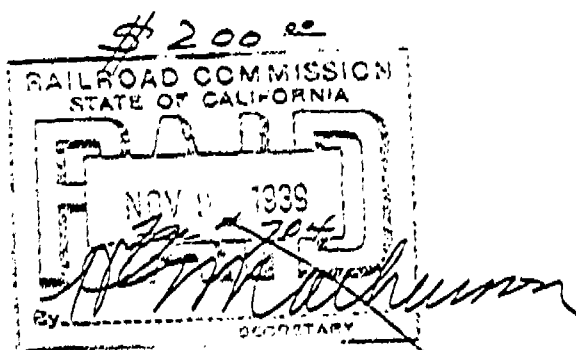
3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$200.

4. Within 30 days after the execution of the trust indenture herein authorized, Investment Water Corporation, Ltd. shall file with the Railroad Commission two certified copies of said trust indenture.

5. Investment Water Corporation, Ltd. shall file with the Commission a report in compliance with the Commission's General Order 24-A, which order insofar as applicable is made a part of this order.

The foregoing opinion and order is 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 2nd day of November, 1939.



[Signature]
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Justus J. Casner
Commissioners.