

Decision No. 32735

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN DIEGO COUNTY WATER COMPANY,
a corporation, for an order author-
izing the issuance and sale of its
bonds.

Application No. 23235

BY THE COMMISSION:

O P I N I O N

ORIGINAL

In this proceeding San Diego County Water Company asks permission to issue and sell at not less than 99% of their face value and accrued interest, \$1,000,000 of first mortgage 3-3/4% bonds, and execute an indenture to secure the payment of such bonds.

San Diego County Water Company is a corporation organized and existing under and by virtue of the laws of the State of California. Its petition shows that it is the owner of water rights on the San Luis Rey River in San Diego County, California, and a reservoir thereon known as the Henshaw Reservoir in which it impounds waters of said San Luis Rey River under said water rights and, among other things, rights granted by the Escondido Mutual Water Company and the Vista Irrigation District, to use jointly canals and conduits of both of said Mutual Water Company and said District, and both storage and flowage rights in the reservoir of said Mutual Water Company. In addition to its water property, applicant owns and operates the hotel and resort known as Warners Hot Springs, fishing and boating in Henshaw Reservoir, commonly known as the Henshaw Resort and numerous parcels of real property which are devoted to farming and grazing and held primarily for sale.

In Exhibit B, applicant reports its income and expenses for the two years ending December 31, 1939 as follows:-

	Year ending December 31	
	1938	1939
Sales of water	\$212,914.70	\$211,400.42
Operating expenses:		
Rental of conduits and reservoir	\$ 10,000.00	\$ 10,000.00
Labor, supplies and expenses	10,792.67	7,436.57
Depreciation of buildings and equipment	784.36	819.16
Real estate taxes	17,820.64	16,035.66
	<u>\$ 39,397.67</u>	<u>\$ 34,291.39</u>
Balance	<u>\$173,517.03</u>	<u>\$177,109.03</u>
General and administrative expenses:		
Salaries	\$ 14,940.00	\$ 14,940.00
Office supplies and expenses	1,804.35	1,656.14
Automobile expenses	1,756.38	1,684.52
Legal, accounting and trustees' fees	6,993.58	8,425.25
State franchise, capital stock and other taxes	4,104.02	8,939.26
Insurance	782.22	779.85
Gain on disposal of investments and capital assets (deduct)	(772.75)	(1,229.16)
Miscellaneous	5,461.22	7,991.28
	<u>35,069.02</u>	<u>43,187.14</u>
Balance	<u>\$138,448.01</u>	<u>\$133,921.89</u>
Ranch and resort profit before depreciation and taxes	\$ 74,549.67	\$110,504.69
Less:		
Depreciation of buildings, equipment, etc.	12,959.74	17,059.51
Taxes	13,192.16	17,255.35
Net ranch and resort profit	<u>48,397.77</u>	<u>76,189.83</u>
Balance	<u>\$186,845.78</u>	<u>\$210,111.72</u>
Deduct:		
Bond interest	\$ 48,510.00	\$ 48,330.75
Bond discount and expense	2,623.55	3,064.11
Other interest (net)	1,536.62	1,146.67
Dividend income	(459.20)	(344.40)
	<u>\$ 52,210.97</u>	<u>\$ 52,197.13</u>
Balance	<u>\$134,634.81</u>	<u>\$157,914.59</u>
Deduct-Provision for amortization of dam, transmission mains and canals	26,730.45	\$ 26,730.45
Profit before provision for Federal income taxes	\$107,904.36	\$131,184.14
Deduct-Provision for Federal income taxes	13,948.88	22,300.43
Net profit for the year	<u>\$ 93,955.48</u>	<u>\$108,883.71</u>

As of September 1, 1922, applicant issued and sold for a net price of \$1,800,000 its first mortgage 6% bonds, Series A, of the face value of \$2,000,000 and used the proceeds to pay in part the cost of constructing its Henshaw Reservoir Dam. Of these bonds, \$1,195,500 have since been redeemed, leaving \$804,500 now outstanding. The latter figure includes \$2,500 of bonds acquired for sinking fund purposes. It is applicant's intention to redeem said 6% bonds on March 1, 1940, by paying the principal amount thereof, the accrued interest and a premium of 5% of said principal amount. For this purpose and for the further purpose of reimbursing its treasury because of income expended for improvements to its properties, applicant desires permission to issue and sell said \$1,000,000 of first mortgage 3-3/4% bonds.

Applicant has filed in this proceeding a copy of the indenture which it intends to execute to secure the payment of the bonds. This indenture indicates that the bonds will be dated February 1, 1940, and as said, bear interest at the rate of 3-3/4% per annum. The amount of bonds which may be issued under the indenture is limited to \$1,000,000. The company reserves the right at its option to redeem the bonds at any time upon payment of the principal amount of the bonds, the accrued interest to the date of redemption and a premium, if any, as follows:-

- 3% of the principal amount of the bonds if redemption is effected on or before February 1, 1945.
- 2% of the principal amount of the bonds if redemption is effected after February 1, 1945 and on or before February 1, 1950.
- 1% of the principal amount of the bonds if redemption is effected after February 1, 1950 and on or before February 1, 1955.

No premium need be paid if the redemption is effected after 1955.

In the indenture, the company covenants and agrees that until the redemption or payment of said bonds, it will pay to the trustee on the first day of September, 1941, and on the first day of each suc-

ceeding September as a sinking fund, an amount equal to 5% of the maximum principal amount of bonds which shall have been at any time outstanding, pursuant to the provisions of the indenture. Such sinking fund payments and any other moneys that are required under the provisions of the indenture to be paid to the trustee, must be used to redeem bonds.

No premium need be paid on any bonds redeemed through the use of sinking fund moneys.

We have reviewed the proposed indenture and find the same to be in satisfactory form except, we believe, that there should be eliminated from Section 3 of Article III the provision reading-

"Provided, however, that with the consent of the company and upon the payment by the company to the trustee of such additional amount as may be necessary, the trustee may pay in excess of the principal amount for bonds so purchased".

Applicant has been furnishing water at wholesale to the Vista Irrigation District, the Escondido Mutual Water Company and the Bennett Mutual Water Company, the contract with each denying any intent to devote the water supply to public use. However, in order to guard against possible challenge to the validity of its bonds should future circumstances compel it to become a public utility, applicant now seeks the approval of this Commission for the issuance of its proposed securities. We believe the situation is one which justifies the entertainment of the application by the Commission.

ORDER

The Commission having considered the request of San Diego County Water Company for permission to issue \$1,000,000 of its first mortgage 3-3/4% bonds, and it being of the opinion that this is not a matter on which a hearing is necessary, that the money, property or labor to be

procured or paid for by the issue of said bonds, is reasonably required for the purposes herein indicated, that the expenditures for said purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. San Diego County Water Company may, after the effective date hereof and prior to April 1, 1940, issue and sell at not less than 99% of their face value and accrued interest, \$1,000,000 of its first mortgage 3-3/4% bonds, and use the proceeds to pay its outstanding first mortgage 6% bonds, and reimburse its treasury because of income expended for additions and betterments to its properties.

2. San Diego County Water Company may, after the effective date hereof and prior to April 1, 1940, execute an indenture in substantially the same form as the indenture filed in this proceeding on January 11, 1940, modified as indicated in the foregoing opinion, provided that the authority herein granted to execute an 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 indenture as to such other legal requirements to which it may be subject.

3. The authority herein granted will become effective when San Diego County Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Thousand (\$1,000.00) Dollars.

4. San Diego County Water Company shall file with the Commission monthly reports in compliance with the Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

5. Within thirty (30) days after the execution of the indenture herein authorized, San Diego County Water Company shall file with the Railroad Commission two certified copies of said indenture.

DATED at San Francisco, California, this 16th day of January, 1940.

Ray L. Riley
Frank A. Brown
Rodolfo Valdez

Justus J. Queen
COMMISSIONERS

RAILROAD COMMISSION
STATE OF CALIFORNIA
Fee 1000.00
JAN 18 1940
BY A. Mathison

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