

Decision No. 23968

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN JOSE WATER WORKS,
a corporation, for an order author-
izing it to issue and sell \$1,000,000
of its Series A Preferred Stock.

ORIGINAL

Application No. 23968

BY THE COMMISSION:

O P I N I O N

San Jose Water Works, in this application as amended, asks permission to issue at a price which will net it not less than 100% of the par value thereof, \$750,000 par value of "Series A" 4-3/4% preferred stock, and use the proceeds for the purposes hereafter stated.

San Jose Water Works is engaged in the business of supplying water to domestic, commercial and industrial consumers in the City of San Jose, Town of Los Gatos, Village of Saratoga, and adjacent territory in Santa Clara County.

Applicant now has outstanding \$2,002,175 par value of common stock, consisting of 80,087 shares having a par value of \$25 per share. It also had outstanding on December 31, 1940, \$3,597,000 face value of first mortgage 3-3/4% bonds, Series A, due December 1, 1961.

As of December 31, 1940, applicant reports assets

and liabilities as follows:

<u>Assets</u>		
Fixed capital	\$6,697,616.06	
Reserve for depreciation	<u>815,020.90</u>	\$5,882,595.16
Special cash deposits		117,858.81
Current assets:		
Cash	51,695.11	
Accounts receivable - net	79,203.02	
Inventories	51,109.96	
Prepaid expenses	<u>34,590.36</u>	216,598.45
Unamortized debt discount and expenses		46,855.85
Other deferred charges		<u>1,243.93</u>
Total Assets		<u>\$6,265,152.20</u>

<u>Liabilities</u>		
Common stock		\$2,002,175.00
Funded debt		3,597,000.00
Current liabilities:		
Due affiliated companies	\$ 40,414.42	
Current items	133,751.08	
Consumers' and other deposits	<u>49,060.04</u>	223,225.54
Contributions for extensions		38,578.75
Surplus:		
Earned	323,696.60	
Capital	80,276.31	
Paid-in	<u>200.00</u>	404,172.91
Total Liabilities		<u>\$6,265,152.20</u>

For the last three calendar years, applicant has reported revenues and disbursements as follows:

	<u>1938</u>	<u>1939</u>	<u>1940</u>
Operating revenues	<u>\$722,671.38</u>	<u>\$797,277.14</u>	<u>\$819,346.48</u>
Deductions:			
Operating expenses	256,029.79	273,649.01	269,776.21
Depreciation	96,953.00	102,470.00	75,023.38
Taxes	87,054.01	102,852.75	133,839.48
Total deductions	<u>440,036.80</u>	<u>478,971.76</u>	<u>478,639.07</u>
Net oper. revenues	282,634.58	318,305.38	340,707.41
Nonoper. revenues	1,024.31	1,643.02	5,305.40
Gross income	283,658.89	319,953.40	346,012.81
Interest and amortization	127,846.52	132,152.82	137,218.41
Net income	155,812.37	187,800.58	208,794.40
Dividends- common	<u>120,130.50</u>	<u>144,156.60</u>	<u>120,130.50</u>
Surplus	<u>\$ 35,681.87</u>	<u>\$ 43,643.98</u>	<u>\$ 88,663.90</u>

San Jose Water Works has a 1941 construction budget (Schedule B-1) calling for an expenditure of \$573,060 which sum may be summarized as follows:

Land	\$ 25,000
Structures	32,500
Reservoirs, dams and waterways	8,500
Pumping plant equipment	62,500
Purification equipment	2,000
Transmission mains	235,000
Distribution mains	119,360
Other distribution capital	73,700
General capital	<u>14,500</u>
Total	<u>\$573,060</u>

In addition, 1940 construction work calling for an expenditure of \$16,194.48 has been carried forward into 1941.

Ralph Elsman, President of San Jose Water Works, testified that the company in 1941 may be called upon to undertake further construction expenditures of more than \$300,000. None of this is included in the company's 1941 construction budget. He further called attention to the company's need for additional working capital.

In Exhibit "B" the company reports "unfinanced capital to January 1, 1941" of \$368,523.33. An analysis of this exhibit convinces us that the company is not entitled to issue securities to reimburse its treasury in that amount. It is of record that since December 31, 1936, the company expended for additions and betterments to its properties the sum of \$987,000, that it retired property costing approximately \$189,000, that it issued \$583,000 of bonds to finance the cost of such properties, leaving an expenditure of \$215,000 against which no securities have been issued. For the purpose of this proceeding, we will recognize the \$215,000 as an uncapitalized

expenditure.

As stated, applicant asks permission to issue \$750,000 par value of Series A, 4-3/4% Cumulative Preferred Stock. The shares of stock will have a par value of \$25. They will be offered to the public through Dean Witter & Co., Bankamerica Company, and Bateman, Eichler & Co. at \$26 per share. The company will pay Dean Witter & Co. as compensation for services, \$1.00 per share for all stock sold. Dean Witter & Co., in turn, will, out of said \$1.00 per share, compensate the other distributors. Dean Witter & Co. will pay the cost of the prospectus and certain other expenses incident to the sale of the stock. The company estimates its expenses, other than the \$1.00 per share, at \$8,100.

At the hearing the company filed as its Exhibit I, a copy of the proposed amendment to its Articles of Incorporation. Under the proposed amendment, the company will have an authorized stock issue of 240,000 shares, of which 120,000 shares will represent common stock and 120,000 shares preferred stock. The shares of each class of stock will have a par value of \$25 per share. Of the preferred shares, 40,000 shall be designated as Series A. Such shares are entitled to a preferred, cumulative dividend of 4-3/4% of the par value thereof. The Series A preferred shares are redeemable at the option of the company at any dividend payment date on thirty days' notice, at the par value thereof, a premium of 5% of such par value and the amount of the accrued and unpaid dividends accumulated thereon to and including the date fixed for such redemption. For other terms and conditions under

which the company's preferred stock is being issued, reference is made to its amended Articles of Incorporation.

O R D E R

San Jose Water Works having asked permission to issue \$750,000 par value of its Series A, 4-3/4% Cumulative Preferred Stock, a public hearing having been held before Examiner Fankhauser, and the Commission having considered the company's request and it being of the opinion that the money, property or labor to be procured or paid for by the issue of said stock is reasonably required for the purposes herein stated, 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 Jose Water Works may, after the effective date hereof and on or before December 31, 1941, issue and sell at not less than \$26 per share, 30,000 shares (\$750,000 par value) of Series A, 4-3/4% Cumulative Preferred Stock.

2. San Jose Water Works shall use the proceeds realized from the issue and sale of said 30,000 shares of preferred stock to pay expenses incident to the issue of said shares of stock, to finance its 1941 construction expenditures set forth in Schedule B-1 and Schedule B-3, on file in this proceeding, to pay \$40,414.42 of indebtedness due affiliated companies and to reimburse its treasury because of income ex-

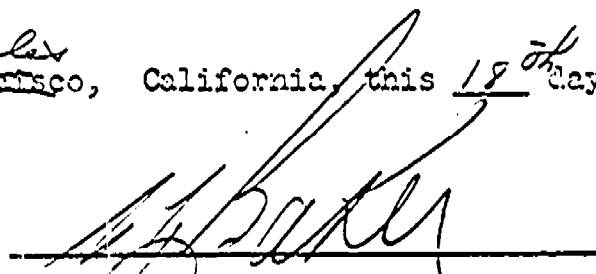
pending for additions and betterments.

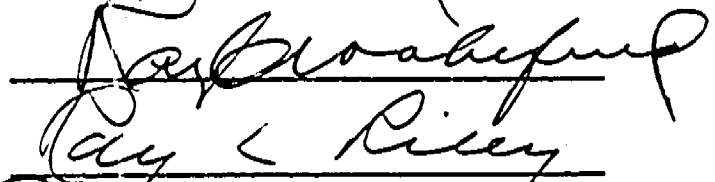
3. San Jose Water Works shall keep such record of the issue and sale of the stock herein authorized as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

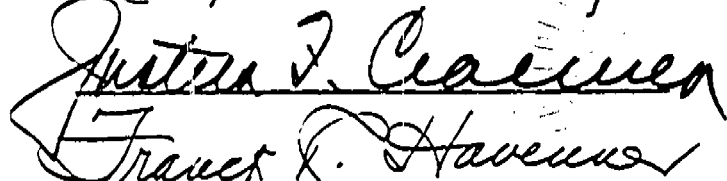
4. The authority herein granted will become effective when San Jose Water Works has filed with the Railroad Commission a certified copy of its amended Articles of Incorporation.


5. San Jose Water Works shall within ten (10) days after the effective date of the registration statement filed with the Securities and Exchange Commission, file with the Railroad Commission a copy of such registration and all exhibits referred to therein.

Dated at ^{Los Angeles} ~~San Francisco~~, California, this 18th day of February, 1941.





Ray & Riley




Commissioners.