

Decision No. 34307

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN GABRIEL VALLEY WATER SERVICE,
a corporation,
For an Order to Issue and Sell Bonds

Application No. 24237

Gibson, Dunn and Crutcher by
Homer D. Crotty for Applicant

BY THE COMMISSION:

O P I N I O N

In this proceeding, The Railroad Commission is asked to enter its order authorizing San Gabriel Valley Water Service to issue and sell at 103% of their face value and accrued interest, \$300,000 of First Mortgage 4% Sinking Fund Bonds, Series A, due May 1, 1966, for the purpose of paying \$300,000 of First Mortgage 5% Bonds now outstanding, and authorizing San Gabriel Valley Water Service to execute a trust indenture to secure the payment of its bonds.

San Gabriel Valley Water Service, hereinafter some times referred to as applicant, is a corporation organized under the laws of California. It is presently engaged in the operation of a public utility water system at Indio and

vicinity, at El Monte and vicinity, and in territory adjacent to Whittier. As of December 31, 1940, it reported 4,347 active service connections, segregated as follows:

El Monte	3,438
Whittier	318
Indio	591

As of March 31, 1941, applicant's assets and liabilities are reported as follows:

ASSETS

Cash on Hand and in Banks	\$ 13,401.39
Accounts Receivable	4,363.47
Materials and Supplies	2,336.82
Prepaid Expenses	1,975.35
Intangible Capital	9,962.07
Tangible Capital	561,885.39
Unamortized Discount and Expense	<u>7,480.22</u>
Total Assets	<u>\$601,404.71</u>

LIABILITIES

Accounts Payable	\$ 3,743.47
Accrued Expenses	7,264.68
Consumers' Advances for Construction	14,355.63
Funded Debt	300,000.00
Interest Accrued on Funded Debt	6,250.00
Reserve for Depreciation	54,657.60
Net Worth:	
Capital Stock	\$ 72,793.00
Donations in aid of	
Construction	56,445.09
Capital Surplus	44,034.90
Earned Surplus	<u>41,860.34</u> 215,133.33
Total Liabilities, Reserves and Net Worth	<u>\$601,404.71</u>

For the year 1940, applicant's operating revenues and other income, and its operating expenses and other disbursements are reported as follows:

Operating Revenues		\$96,243.57
Operating Expenses		<u>64,573.64</u>
Net Operating Revenues		31,669.93
Nonoperating Income		<u>467.01</u>
Gross Corporate Income		\$32,136.94
Deductions:		
Uncollectible water bills	\$ 218.45	
Interest Expenses	1,450.23	
Interest accrued on funded debt	12,736.11	
Amortization of debt discount and expense	<u>460.88</u>	
Total Deductions		<u>14,865.67</u>
Net Income		<u>\$17,271.27</u>

Under the authority heretofore granted by the Railroad Commission, applicant has issued and sold \$300,000 of First Mortgage 5% Bonds. Said bonds mature May 1, 1957. In the trust indenture securing the payment of the bonds, applicant reserves the right to redeem said bonds prior to maturity. Upon exercising this right now, it must pay the principal amount of the bonds, the accrued interest to the date of redemption, and a premium of 3%. The testimony shows that it is applicant's intention to redeem its outstanding \$300,000 of First Mortgage 5% Bonds. To obtain funds to pay said bonds, applicant seeks permission to issue \$300,000 of First Mortgage 4% Sinking Fund Bonds, Series A, due May 1, 1966. It has agreed to sell \$250,000 of said bonds to the Occidental Life Insurance Company and \$50,000 of bonds to the Title Insurance and Trust Company. A copy of the agree-

ment under which it will sell said bonds is filed in this proceeding as Exhibit "D."

Applicant estimates its expenses incident to the issue and sale of said \$300,000 of 4% bonds at \$9,180.

Applicant has filed in this proceeding as Exhibit 1 a copy of its proposed trust indenture securing the payment of said \$300,000 of 4% bonds, and providing for the authentication, by the Trustee, and issue, if authorized by the Railroad Commission from time to time, of \$300,000 of additional First Mortgage Bonds. The \$300,000 of bonds, which applicant now desires permission to issue, will be known as Series A bonds. Under the terms of the indenture, the company may redeem said \$300,000 of bonds at any time, on at least twenty-eight days' published notice, at their principal amount, accrued interest to the date of redemption, together with a premium of 5% of the principal amount except that when said bonds are redeemed through the operation of the Series A Sinking Fund, a lesser premium need be paid. The indenture sets forth the premiums that must be paid in the event bonds are redeemed through the sinking fund. Applicant is required to pay to the Trustee annually, beginning in 1944, for sinking fund purposes an amount of money sufficient to redeem \$9,000 principal amount of Series A bonds. At its option, applicant may deliver to the Trustee bonds of Series A outstanding, in which event applicant's obligation to deposit cash shall be relieved to the extent of the principal amount of bonds delivered.

The propriety of certain provisions of applicant's

proposed indenture were questioned at the hearing. Since the hearing, applicant's counsel has advised the Commission that the provision in Section 1 of Article I, limiting subsequent bond issues to amounts of not less than \$50,000, will be eliminated from the indenture. He further advises that paragraph (b) of Section 6 of Article III will be amended so that the net income of applicant, as defined in the indenture, need be but twice its annual interest charges on its outstanding bonds and on the bonds which it is asking the Trustee to authenticate. Said paragraph (b) now provides that applicant's annual net income must be two and one-quarter times said annual interest charges.

R. H. Nicholson, President of San Gabriel Valley Water Service, and who controls applicant through stock ownership, testified that in his opinion the provisions of the proposed trust indenture will not handicap applicant in the operation of its water properties, and that he does not intend to have applicant issue any additional bonds unless it be for the purpose of acquiring existing water systems.

O R D E R

A public hearing having been held on the above entitled application before Examiner Fankhauser, 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 or paid for by San Gabriel Valley Water Service through the issue of said \$300,000 First Mortgage 4% Bonds is

reasonably required by said San Gabriel Valley Water Service for the purpose herein stated, that the expenditures for said purpose 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 Gabriel Valley Water Service may, on or before October 1, 1941, execute a trust indenture substantially in the same form as the trust indenture filed in this proceeding as Exhibit 1, provided, that said Exhibit 1 be deemed to have been modified as indicated in the foregoing opinion, and, provided further, that no modification or amendments to said trust indenture shall become effective until their execution has been authorized by the Railroad Commission of the State of California, and, provided further, 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 said trust indenture may be subject.

2. San Gabriel Valley Water Service may, on or before October 1, 1941, issue and sell at not less than 103% of their face value and accrued interest, \$300,000 First Mortgage 4% Sinking Fund Bonds, Series A, due May 1, 1966, and use the proceeds realized from the issue and sale of said bonds for the discharge and lawful refunding of its outstand-

ing \$300,000 First Mortgage 5% Bonds.

3. San Gabriel Valley Water Service shall file with the Railroad Commission a report in compliance with the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

4. Within thirty (30) days after the execution of the trust indenture herein authorized to be executed, San Gabriel Valley Water Service shall file with the Railroad Commission two certified copies of said trust indenture.

5. Within six months after the date hereof, San Gabriel Valley Water Service shall file with the Railroad Commission a detail statement showing its expenses incident to the issue and sale of said \$300,000 of 4% bonds.

6. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 17th day of June, 1941.

Ray L. Riey
Justin J. Coeuer
Francis L. Havener
Richard H. Beck
Commissioners.