

Decision No. 38654

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of

SUBURBAN WATER COMPANY

for an order authorizing it (a) to execute a bank loan agreement with American Trust Company, for an aggregate loan of \$225,000 and (b) pursuant to said agreement, to issue and sell a \$175,000 unsecured 2-3/4% note for the purpose of (1) redeeming \$172,000 principal amount of First Mortgage 6% Gold Bonds, Series A, due December 1, 1952 and (2) reimbursing its treasury for moneys expended from income for capital additions and betterments.

ORIGINAL

Application  
No. 27221.

OPINION

In this application, Suburban Water Company, a corporation, asks permission to execute a loan agreement with American Trust Company, San Francisco, California, and issue its 2-3/4% promissory note in the principal amount of \$175,000, payable in installments over a period of twelve years. A copy of the loan agreement and the note are on file in this application as Exhibit "B".

Applicant is engaged as a public utility in the distribution of water in unincorporated territory in Santa Clara County adjacent to Sunnyvale and Mountain View, and in and in the vicinity of Loyola. For 1944 and 1945 applicant reports operating revenues, operating expenses and fixed charges as follows;

Year ended December 31,

<u>I t e m s</u>	<u>1 9 4 4</u>	<u>1 9 4 5</u>
<b>OPERATING REVENUES:</b>		
Water revenues	\$65,317.06	\$72,033.17
Other	<u>31.36</u>	<u>50.24</u>
Total revenues	\$65,348.42	\$72,083.41
<b>OPERATING EXPENSES AND TAXES:</b>		
Operation	\$26,251.56	\$24,678.23
Maintenance	3,475.20	3,040.49
Provision for depreciation as determined by the company (1-1/2% of depreciable property)	5,533.47	5,697.86
General taxes	2,641.59	2,599.32
Provision for Federal income taxes	<u>3,900.00</u>	<u>6,400.00</u>
Total operating expenses and taxes	\$41,801.82	\$42,415.90
Net earnings	\$23,546.60	\$29,667.51
<b>DEDUCTIONS:</b>		
Interest on funded debt	\$10,320.00	\$10,320.00
Miscellaneous interest	964.74	23.68
Amortization of bond discount and expenses	1,329.00	1,329.00
Taxes on bond interest	<u>81.58</u>	<u>322.86</u>
Total deductions	\$12,695.32	\$11,995.54
Net income carried to earned surplus	<u>\$10,851.28</u>	<u>\$17,671.97</u>

As of December 31, 1945, applicant reports assets and liabilities as follows:

Assets

Plant, property rights, franchises, etc.	\$415,058.62
Special deposits	4,119.05
Cash in banks and on hand	49,072.18
Customers' accounts receivable net	4,935.02
Materials and supplies	7,218.00
Prepayments	1,918.58
Bond discount and expenses	<u>9,191.22</u>
Total assets	<u>\$491,512.67</u>

Liabilities

Capital stock-common 4,000 shares no par value	\$107,687.23
First mortgage 6% bonds, due December 1, 1952	172,000.00
Accounts payable	6,289.01
Customers' credit balances	245.87
Accrued interest	1,006.66
Accrued taxes	7,470.10
Customers' meter deposits	745.00
Refundable extension deposits	6,953.95
Contributions in aid of construction, etc.	69,185.52
Reserve for depreciation	59,921.33
Earned surplus	<u>60,008.00</u>
Total liabilities	<u>\$491,512.67</u>

As shown by applicant's balance sheet, it has outstanding \$172,000 of first mortgage 6% bonds, due December 1, 1952. The bonds are now subject to redemption on sixty days' notice upon the payment of the principal thereof and interest accrued to the date of redemption and a premium of one per cent. It is applicant's intention to redeem the bonds.

Applicant asks permission to execute a loan agreement with American Trust Company covering the issue of notes in the aggregate sum of \$225,000. In this application, as said, it asks permission to issue a note for \$175,000. The note will bear interest at the rate of 2-3/4% per annum, payable monthly. The loan agreement provides that the company may borrow the \$175,000 at any time on or before May 1, 1946. Said sum of \$175,000 is payable in successive annual installments as follows:

\$10,000	one year from said date of borrowing.
\$10,000	two years from said date of borrowing.
\$10,000	three years from said date of borrowing.
\$11,000	four years from said date of borrowing.
\$11,000	five years from said date of borrowing.
\$11,000	six years from said date of borrowing.
\$12,000	seven years from said date of borrowing.
\$12,000	eight years from said date of borrowing.
\$12,000	nine years from said date of borrowing.
\$13,000	ten years from said date of borrowing.
\$13,000	eleven years from said date of borrowing.
\$50,000	twelve years from said date of borrowing.

The payment of the \$175,000 will not be secured by a lien on applicant's properties.

Applicant reserves the right, at its option, on the date of payment of any of the installments, to prepay without penalty, in an amount not less than \$1,000 or any multiple thereof, all or any part of the principal amount of the \$175,000 note remaining unpaid, with interest on the amount so prepaid accrued

to such date of prepayment. The principal amount of each prepayment shall be applied on the latest maturing installment of the \$175,000 note remaining unpaid at the time.

The company will use \$172,000 of the note proceeds to redeem its outstanding 6% bonds, and \$3,000 to reimburse its treasury because of income expended for additions and betterments.

The loan agreement provides that subject to the terms and conditions set forth in the agreement, applicant may borrow \$50,000 additional at any time prior to the maturity of the last installment of the \$175,000 note, in one advance of \$50,000 or in one or more advances of \$10,000 or any multiple thereof. The additional loan shall be evidenced by a promissory note or notes with appropriate insertions as to the date of maturity, principal amount, rate of interest, and amounts and dates of installment payments, if any, and shall be dated as of the respective day or days on which such loan, or any part thereof, is made. The issue of the \$50,000 additional note or notes is subject to subsequent authorization by the Commission.

Applicant covenants in the loan agreement that so long as any part of the \$175,000 note or \$50,000 notes remains unpaid, it will not, without prior written consent of American Trust Company:

"(a) Pledge, mortgage or otherwise encumber all or any part of its assets now owned or hereafter acquired, except by way of purchase money mortgages, deeds of trust, or conditional sales contracts, issued or executed in connection with the acquisition of capital additions or betterments.

(b) Declare or pay any dividends on any stock of the company now or hereafter authorized, issued or outstanding, except out of net earnings accrued subsequent to December 31, 1945, and except dividends payable on common stock, or make

any distribution on any of such stock or to stockholders of the company, directly or indirectly, by loan or otherwise, or purchase or redeem any shares of such stock for cash or property, or exchange bonds, notes or other evidences of indebtedness for any such shares.

(c) Liquidate, dissolve or consolidate with or merge into or with any other corporation or corporations.

(d) Sell, convey, lease or otherwise dispose of any substantial part of its assets or business.

(e) Change the present character of its business.

(f) Incur any indebtedness or liability, except current liabilities in the ordinary course of business and short term loans from you in the ordinary course of business.

(g) Guarantee, assume or become liable upon any indebtedness, obligation, undertaking or liability of any other person, corporation or organization or extend its credit or make any loan or advance to any other person, corporation or organization.

(h) Employ any of its funds for the purchase of or investment in any capital assets of any other person, corporation or organization, either by stock purchases or otherwise; except, however, capital additions and betterments to the company's present properties and business purchased for cash or as permitted by subparagraph (a) of this paragraph 5.

(i) Make any substantial change in its management, personnel or policies."

Applicant states in its application that the payment of the \$1,720 of premium on its bonds, the payment of a finder's fee of \$1,720, and the payment of all expenses incident to the redemption of the bonds and the issue of the note will be paid from funds in its treasury. It further reports that the \$9,191.22 of unamortized bond discount and expense attributable to the issue of the bonds will be charged to earned surplus. Through the refunding of its bonds as herein indicated, applicant will effect a minimum annual saving in interest charges of \$5,507.50.

## O R D E R

The Commission has considered Suburban Water Company's requests and is of the opinion this is not a matter on which a hearing is necessary; that the money, property or labor to be procured or paid for through the issue of the note herein authorized is reasonably required by Suburban Water Company for the purposes herein stated; that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Suburban Water Company may, after the effective date hereof and on or before June 1, 1946, execute a loan agreement in, or substantially in, the same form as the loan agreement on file in this application as Exhibit "B".
2. Suburban Water Company may, after the effective date hereof and on or before June 1, 1946, issue to American Trust Company its 2-3/4% promissory note for the principal amount of \$175,000, subject to the provisions of said loan agreement, and use \$172,000 of the proceeds, together with funds in its treasury, to redeem its outstanding first mortgage 6% bonds, and use \$3,000 to reimburse its treasury because of income expended for additions and betterments.
3. Within thirty (30) days after the issue of the note herein authorized, Suburban Water Company shall file with the Railroad Commission two certified copies of the loan agreement executed under the authority herein granted, a copy of the note

issued under the authority herein granted, and a statement showing the purposes for which it expended the proceeds of said note.

4. The authority herein granted will become effective when Suburban Water Company has paid the fee required by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.00) Dollars.

Dated at San Francisco, California, this 5<sup>th</sup> day of February, 1946.

Richard Anderson  
Justice F. Garrison  
Francis E. Brown  
Walter J. Powell  
Harold P. Hubbs  
 Commissioners

