

ORIGINALDecision No. 42243

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

SAN JOSE WATER WORKS,
a corporation,)Application
No. 29733For an order authorizing it to issue an
additional amount of its bonds and an
additional amount of its common stock.
-----)**O P I N I O N**

San Jose Water Works has applied to the Public-Utilities Commission for authority to issue and sell \$500,000 of its First Mortgage 3% Bonds, Series B, due November 1, 1975, and 15,913 shares of its common stock of the aggregate par value of \$397,825, and to use the proceeds to reimburse its treasury, to pay expenses in connection with the proposed issues and to finance construction expenditures.

The company is engaged in the business of supplying water to domestic, commercial and industrial consumers in and about San Jose, Los Gatos and Saratoga. Its revenues and expenses for the twelve-month periods ending August 31, in summary form, are reported as follows:

	1947	1948
Operating revenues	\$1,342,124.68	\$1,404,992.20
Operating expenses	903,720.78	967,834.65
Net operating revenues	438,403.90	437,157.55
Non-operating income	11,573.61	4,260.93
Gross income	449,977.51	441,418.48
Interest and other deductions	102,345.71	100,122.94
Balance	347,631.80	341,295.54
Dividends on preferred stock	35,626.22	35,626.53
Dividends on common stock	190,174.00	220,174.00
Balance to surplus	\$ 121,831.58	\$ 85,495.01

The company's assets and liabilities as of August 31, 1948, are shown below:

Assets

Fixed capital		\$10,120,485.95
Sinking fund		120.80
Current assets -		
Cash	\$155,621.33	
Accounts receivable	122,625.60	
Unbilled revenue	44,159.36	
Materials and supplies	<u>180,686.31</u>	
Total current assets		503,092.60
Deferred debits		<u>30,881.92</u>
Total assets		<u>\$10,654,581.27</u>

Liabilities

Common stock		\$ 2,752,175.00
Preferred stock		750,000.00
Funded debt		3,426,000.00
Current liabilities -		
Accounts payable	\$188,271.94	
Interest and taxes payable	229,054.85	
Dividends declared	55,043.50	
Miscellaneous	<u>18,822.00</u>	
Total current liabilities		491,192.29
Meter and extension deposits		458,760.63
Contributions for extensions		64,649.58
Reserve for depreciation		1,304,226.54
Unamortized bond premium		87,135.93
Surplus		<u>1,320,441.30</u>
Total liabilities		<u>\$10,654,581.27</u>

The common stock consists of 110,087 shares of the par value of \$25 each, and the preferred of 30,000 shares of 4-3/4% Cumulative Preferred Stock of the par value of \$25 each. The outstanding funded debt consists of \$3,426,000 of First Mortgage 3% Bonds, Series B, due November 1, 1975. Exhibit "E" attached to the application shows that during the last five years dividends have been paid on the common stock at the rate of 8% per annum. Since the date of the balance sheet the company has issued to Crocker First National Bank of San Francisco a short-term 2% note for \$200,000 to assist it in meeting its construction

program.

The company now reports the necessity for the issue of additional bonds and stock. It has made arrangements to sell to John Hancock Mutual Life Insurance Company \$500,000 of Series B bonds at 98.18% of their face value plus accrued interest, and to a group of underwriters represented by Dean Witter & Co. 15,913 shares of common stock at \$28.75 a share. At these prices it will receive \$948,398.75, exclusive of accrued interest, from the sale of its securities. Subject to receiving permission from the Commission, it proposes to use \$850,000 of the proceeds to reimburse its treasury for moneys expended prior to August 31, 1948, for the construction, completion, extension or improvement of its facilities, to use approximately \$20,000 to pay expenses in connection with the issue and sale of the bonds and stock, and to use the remainder of the proceeds to pay for additions to its properties after August 31, 1948.

In Exhibit "A" the company reports its net increase in fixed capital, after depreciation, between July 31, 1947, and August 31, 1948, at \$997,545.83, of which \$33,112.16 was provided from common stock sold under an earlier order of the Commission and \$103,573.20 from line extension deposits, leaving an unfinanced balance on August 31, 1948, of \$860,860.47. In Exhibit "B" it reports, in some detail, its estimated net expenditures after August 31, 1948, to complete projects heretofore authorized and now in progress, at \$490,449.94.

A review of the company's financial statements indicates that the reported unfinanced expenditures on August 31, 1948, were paid or provided through the use of funds in its

treasury not secured by or obtained from the issue of bonds or stock, and that the company is in need of additional funds to replenish its treasury, to meet construction requirements and to improve its cash position. The company reports that after reimbursement of its treasury it will use a portion of said \$850,000 to repay the \$200,000 short-term obligation in favor of Crocker First National Bank of San Francisco and other amounts which may be borrowed for construction purposes, prior to the sale of the bonds and stock covered by this application.

The issue of such bonds and stock is warranted and an order authorizing the same will be entered.

O R D E R

The Public Utilities Commission having considered this application and being of the opinion that a public hearing thereon is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of \$500,000 of bonds and 15,913 shares of common stock is reasonably required by San Jose Water Works for the purposes stated herein, and that, except as otherwise permitted in the case of said bonds, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. San Jose Water Works, after the effective date hereof and on or before April 30, 1949, may issue and sell \$500,000 of First Mortgage 3% Bonds, Series B, due November 1,

1975, at not less than 98.18% of face value plus accrued interest, and 15,913 shares of common stock at not less than \$28.75 a share.

2. San Jose Water Works shall use \$850,000 of the proceeds from the sale of said bonds and stock to reimburse its treasury for moneys actually expended from income, or from other moneys in its treasury not secured by or obtained from the issue of bonds or stocks, for the construction, completion, extension or improvement of its facilities; approximately \$20,000 of the proceeds to pay expenses incurred in connection with the issue and sale of said bonds and stock; and the remainder of said proceeds, exclusive of accrued interest, to pay a portion of the costs incurred or to be incurred after August 31, 1948, for the construction, completion, extension or improvement of its facilities (including refunds of extension deposits) or, to the extent that such costs shall have been paid prior to the realization of said proceeds, to reimburse its treasury. The accrued interest received in connection with the sale of said bonds may be used for general corporate purposes.

3. The authority herein granted will become effective when San Jose Water Works has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is five hundred (\$500.00) dollars.

4. San Jose Water Works shall file with the Commission a report, or reports, of the issue and sale of said bonds and stock as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order, and shall also file, within six (6) months after such issue and

sale, statements showing in some detail the expenses incurred in connection with such issues and the accounts to which such expenses were charged.

Dated at San Francisco, California, this 23rd day of November, 1948.

R. J. Induray
August Lawrence
Harold P. Kula
Kenneth Potter

Commissioners

