

Decision No. 43278

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

MOUNTAIN PROPERTIES, INC.,)
a California corporation,)Application
No. 30547to mortgage its properties and for)
approval of an increase in its)
stated capital.)
-----)O P I N I O N

In this application, Mountain Properties, Inc. has applied to the Public Utilities Commission for an order authorizing it to execute a mortgage and to issue a note for \$150,000 for the purpose of paying indebtedness, financing the cost of additions to its plant and of providing working capital, and authorizing it to increase its stated capital by the sum of \$25,167.

Applicant is a California corporation engaged in the operation of public utility water systems in portions of Orange and Los Angeles Counties. Its annual reports filed with the Commission for the last five years show its investment in water properties and the number of active service connections at the close of each year, and its operating revenues and net income for the year, as follows:

	<u>Fixed Capital</u>	<u>Service Connections</u>	<u>Operating Revenues</u>	<u>Net Income</u>
1944	\$ 85,979	1068	\$21,048	\$ 209
1945	118,902	1090	25,474	1,440
1946	159,880	1385	31,676	86
1947	238,176	2110	43,726	1,268
1948	306,482	2387	64,977	3,575

As of June 30, 1949, applicant's investment in its fixed capital is reported at \$331,671. Its financial reports indicate that such investment has been financed, in general, through the issue of 1,000 shares of no par value common stock⁽¹⁾ which are carried on its balance sheet at \$54,033, the use of borrowed money represented by notes and accounts payable, with donations and advances for construction and with earnings from operations. Among other things, it has issued, pursuant to authority granted by the Commission, \$125,376 principal amount of installment notes to Reconstruction Finance Corporation, and has executed deeds of trust and mortgages of chattels on its properties to secure the payment of said notes. The principal amount of its indebtedness to Reconstruction Finance Corporation, according to the present application, has been reduced to \$59,250.

Applicant now desires to refinance its outstanding indebtedness and to borrow additional sums to meet construction requirements and to provide working capital. It has made, or is engaged in making, arrangements to borrow from Pacific Mutual Life Insurance Company the sum of \$150,000 for the following purposes:

1. Retirement of existing obligations:

Loan by Wintroath Pump Co.	\$ 5,213.45
Present R.F.C. loan	59,250.00
Syndicate Mortgage loan	5,036.58
Loan by J. L. Lyon	7,000.00
Loan by Rosemead First National Bank	5,000.00
Loan by Security-First National Bank	2,500.00
Miscellaneous accounts payable	17,519.50

(Continued)

(1)

The outstanding shares of stock are reported held by J. L. Lyon and G. C. Lyon. Applicant's annual reports to the Commission show that no dividends have been paid on the outstanding stock.

2. Additions to fixed capital:

Tank and pump, Hawaiian Gardens	\$ 4,000.00
Pump and well, Sun Garden	4,000.00
Meters	5,000.00
Truck	3,000.00
Pipe lines, various systems	10,000.00
Miscellaneous tools	1,000.00
Pump and well, Orangewood	5,000.00

3. Working capital for material and labor
for capital improvements in the various
water systems operated by company

16,480.47

\$150,000.00

The sum to be thus borrowed will be represented by a note, payable twenty years after date with interest at the rate of 4-1/4% per annum, subject to prepayment, in whole or in part, at applicant's option in any multiple of \$1,000, at the principal amount plus a premium of 4% if such prepayment is made prior to July 1, 1950, and at a premium successively reduced by 1/5 of 1% on July 1, 1950, and on July 1 of each year thereafter. The payment of the note will be secured by a mortgage covering applicant's properties under the terms of which applicant, among other things, agrees that it will each year, beginning with the year 1949, expend an amount equal to the yearly amount of its depreciation expense,⁽²⁾ for permanent additions or for the purpose of retiring indebtedness; that it will pay into a sinking fund on July 1, 1951, and on July 1 of each year thereafter, the sum of \$3,750; and that until the loan is fully paid it will not pay any dividends on any class of its capital stock, except dividends payable in its stock, nor acquire for value shares of its outstanding capital stock except out of net income accrued subsequent to June 30, 1949, remaining after

(2)

Applicant's annual reports for the last five years show its depreciation charges as follows: 1944, \$2,286; 1945, \$4,086; 1946, \$3,441; 1947, \$8,629 and 1948, \$9,709.

deducting from such net income for the period from June 30, 1949, to the last day of the month preceding the declaration of such dividend or acquisition of such stock the greater of the following items applicable to the same period: (a) thirty-three and one-third percent (33-1/3%) of its net income accrued subsequent to June 30, 1949, during the calendar year preceding the declaration of said dividends; or (b) the sinking fund payments required under the terms of this mortgage.

Applicant is indebted to J. L. Lyon in the amount of \$32,167 evidenced by a short-term note. Mr. Lyon has agreed to cancel \$25,167 of this amount and applicant proposes, and in fact is required by the loan agreement with Pacific Mutual Life Insurance Company, to cause this amount on its books to be transferred to its stated capital, bringing the total amount of such capital up to \$79,200 for the 1,000 shares of common stock presently outstanding. Applicant asks the Commission to approve the proposed increase in stated capital.

However, the Commission is of the opinion that the request of applicant for approval of the increase in stated capital, as set out in this application, is a matter that comes within the provisions of the Corporations Code of this state. For this reason, that portion of the application will be dismissed without prejudice.

The order herein will authorize applicant to execute a mortgage and to issue a note for the purposes indicated herein.

O R D E R

The Public Utilities Commission having considered the above entitled 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 a note for \$150,000 is reasonably required by Mountain Properties, Inc. for the purposes specified herein, and that 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. Mountain Properties, Inc., after the effective date hereof and on or before October 31, 1949, may execute a loan agreement with Pacific Mutual Life Insurance Company in form similar to that on file in this proceeding as Exhibit III; may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit D; and may issue a note in the principal amount of \$150,000 in, or substantially in, the same form as that filed in this proceeding as Exhibit C, for the purpose of retiring existing obligations, financing the cost of additions to its fixed capital and of improving and maintaining its service, all as set forth in the preceding opinion.
2. Applicant shall file with the Commission within thirty (30) days after the execution of said mortgage, a copy of the loan agreement with Pacific Mutual Life Insurance Company and a copy of the mortgage as actually executed; and shall file a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.
3. The request of applicant for approval of an increase in its stated capital is hereby dismissed without prejudice.

4. The authority herein granted to execute a loan agreement and a mortgage and to issue a note will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act. In other respects, the order herein will become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 1st day
of September, 1949.

A. J. Murray
Justice J. C. Gannett
Justice J. Gannett

Commissioners

