

Decision No. 49219

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SAN JOSE WATER WORKS, )  
a corporation, )  
for an order authorizing it to issue an )  
additional amount of its convertible )  
preferred stock and common stock upon )  
conversion. )  
----- )

Application  
No. 34716

McCutchen, Thomas, Matthew, Griffiths & Greene,  
by Robert M. Brown, for applicant.

O P I N I O N

This is an application for an order of the Commission authorizing San Jose Water Works to issue and sell not to exceed 40,000 shares of its Cumulative Preferred Stock, Series D, of the par value of \$25 each and of the aggregate par value of \$1,000,000, by means of a negotiated underwriting, and to issue shares of common stock.

The application was filed with the Commission on September 15, 1953. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on October 7, 1953, at which time the matter was taken under submission.

The purpose of the proposed financing is to provide applicant with funds to pay indebtedness and to reimburse its treasury for moneys expended for properties and facilities. Applicant reports that its expenses incident to the issue and sale of the shares of stock will amount to \$18,000 to \$20,000, that presently it has outstanding short-term bank loans in the amount of \$900,000 and that it is faced with a continuing program of expansion in the future. Based

on the actual expenditures for the first eight months of this year, applicant estimates it will be called upon to expend in the aggregate approximately \$1,422,000 during 1953 for additions to its plant, for refunds of line extension deposits and for sinking fund payments. It reports that during this year 3,317 new consumers will have been added to its lines and that during 1954 it is thought that 3,200 more customers will be attached, and that additional capital expenditures of approximately \$1,000,000 will be required.

In presenting this matter to the Commission applicant has filed its financial statement as of July 31, 1953, showing its assets, liabilities and capital as follows:

Assets

Fixed capital, less depreciation reserve		\$16,080,202.25
Current assets -		
Cash	\$ 226,193.98	
Accounts receivable	304,088.11	
Other current assets	<u>680,665.94</u>	
Total current assets		1,210,948.03
Other debits		<u>54,852.28</u>
	Total	<u>\$17,346,002.56</u>

Liabilities and Capital

Bonds		\$ 6,780,000.00
Current liabilities -		
Bank loans	\$ 900,000.00	
Accounts payable	370,478.21	
Accrued taxes	526,115.83	
Other current liabilities	<u>81,367.18</u>	
Total current liabilities		1,877,961.22
Line extension deposits		723,553.62
Contributions for extensions		143,980.99
Unamortized bond premium		55,016.71
Preferred stock		1,744,925.00
Equity capital -		
Common stock	3,990,975.00	
Surplus	<u>2,029,590.02</u>	
Total equity capital		<u>6,020,565.02</u>
	Total	<u>\$17,346,002.56</u>

Reference to the preceding balance sheet shows that applicant has financed itself in part through the issue of bonds and shares of preferred and common stock and the retention of earnings, and that it has incurred current liabilities, exclusive of line extension deposits, as of the date of the balance sheet in an amount which exceeds its current assets by more than \$600,000.

The issue of shares of stock, as now proposed, will enable applicant to curtail its current obligations, to improve its cash position, and to provide a broader base of permanent junior capital in its structure. Its capital ratios as of August 31, 1953, and as adjusted to give effect to the proposed financing, are as follows:

	<u>Aug. 31, 1953</u>	<u>Pro Forma</u>
Bonds	46.64%	43.64%
Preferred stock	11.82	17.49
Common stock equity	<u>41.54</u>	<u>38.87</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

The shares of preferred stock applicant now proposes to issue will constitute a new series. They will be convertible into shares of common stock, will be entitled to cumulative dividends and will be redeemable at such rates as hereafter will be determined by applicant's board of directors. In issuing shares of the proposed new series at this time, applicant not only will be improving its bond position, as indicated in the preceding tabulation, but also will be providing for additional common stock equity ultimately through conversion of the shares of the new series of preferred stock into common shares.

Although the Commission's competitive bidding rule exempts the issue of any security where the total consideration received is \$1,000,000 or less, it appears that the proposed issue

may be sold at a premium so that the total consideration may or may not be in excess of \$1,000,000, although it is thought that the expenses of issue probably will bring the net receipts down to below the \$1,000,000 figure. However, in view of the uncertainty of the amount to be received, applicant has requested the Commission to enter an order exempting the proposed issue from competitive bidding. It also presented testimony clearly indicating that the proposed issue, because of the nature of the series of preferred stock and the size of the offering, would not be suitable for competitive bidding arrangements.

Upon the record made in this particular proceeding, we are of the opinion that applicant has need for the proceeds from the sale of its shares of preferred stock for the purposes indicated, that the issue of additional preferred stock at this time is desirable, and that we are warranted in entering a preliminary order at this time authorizing the issue of the shares of stock and exempting the proposed issue from competitive bidding. It appears that at a later date applicant will file for the Commission's further consideration in this matter a supplemental application setting forth the terms of the shares of stock and the price at which it has arranged to sell them.

#### O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is

reasonably required by applicant 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. The issue and sale of 40,000 shares of Cumulative Preferred Stock, Series D, by San Jose Water Works hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.
2. San Jose Water Works, on and after the effective date hereof and on or before February 28, 1954, may issue and sell said 40,000 shares of Cumulative Preferred Stock, Series D, at a price hereafter to be fixed by the Commission.
3. San Jose Water Works shall use the proceeds to be received from the sale of said 40,000 shares of preferred stock for the purposes set forth in this application.
4. San Jose Water Works from time to time may issue shares of its common stock of the par value of \$25 each to persons who shall surrender in exchange therefor shares of its Cumulative Preferred Stock, Series D, pursuant to the conversion right to be granted to such preferred stock.
5. Within 60 days after the issue and sale of said shares of preferred stock, applicant shall file with the Commission three copies of its prospectus, and a report showing the amount of stock sold, the price at which sold and the names of those to whom sold.
6. Within six months after the issue and sale of said shares of preferred stock, applicant shall file with the Commission

a statement showing in some detail the expenses incurred by it in connection with such issue and sale and the account, or accounts, to which such expenses were charged, and, in general, the purposes for which the proceeds were used.

7. The authority herein granted to issue and sell said shares of Cumulative Preferred Stock, Series D, will become effective when the Commission by a supplemental order has fixed the price at which applicant may sell the same. In other respects, the authority herein granted is effective upon the date hereof.

Dated at San Francisco California, this 20<sup>th</sup> day of October, 1953.

R. B. [Signature]  
President

Justice F. [Signature]  
Herbert [Signature]  
John E. [Signature]  
James [Signature]  
Commissioners