

Decision No. 51846**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 bonds.)
-----)Application
No. 37186O P I N I O N

San Jose Water Works has filed this application for authorization to execute a supplemental indenture defining the terms of a new series of bonds to be known as Series E bonds, and for authorization to issue and sell \$1,250,000 in principal amount of said bonds at not less than their face value plus accrued interest. The new bonds will be dated May 1, 1955, will mature May 1, 1985, and will bear interest at the rate of 3-1/2% per annum.

Applicant is a California corporation organized in 1931 and presently engaged in the business of supplying water to domestic, commercial and industrial consumers in and about San Jose, Campbell, Los Gatos and Saratoga. In financial statements filed with the Commission it has reported its revenues and expenses for 12-month

periods ending as follows:

	<u>Dec. 31,</u> <u>1953</u>	<u>Dec. 31,</u> <u>1954</u>	<u>June 30,</u> <u>1955</u>
Operating revenues	\$2,371,869	\$3,029,711	\$3,280,192
Operating expenses	<u>1,700,749</u>	<u>2,139,169</u>	<u>2,286,980</u>
Net earnings from operations	671,120	890,542	993,212
Nonoperating income	<u>19,100</u>	<u>12,278</u>	<u>7,481</u>
Gross income	<u>690,220</u>	<u>902,820</u>	<u>1,000,693</u>
Less -			
Interest on bonds	210,785	233,256	258,006
Other deductions	<u>13,601</u>	<u>8,330</u>	<u>8,884</u>
Total income deductions	<u>224,386</u>	<u>241,586</u>	<u>266,890</u>
Net income	<u>\$ 465,834</u>	<u>\$ 661,234</u>	<u>\$ 733,803</u>

A summary statement of applicant's assets and liabilities reflecting its financial position as of June 30, 1955, is as follows:

<u>Assets</u>		
Utility plant, less reserves		\$18,847,928
Other physical property		2,779
Sinking funds		2,322
Current assets -		
Cash and deposits	\$ 318,114	
Accounts receivable	365,978	
Due from water district	130,000	
Unbilled revenue	104,199	
Materials and supplies	374,695	
Prepaid expenses	46,621	
Total current assets		1,339,607
Deferred charges		<u>203,847</u>
Total		<u>\$20,396,483</u>

<u>Liabilities and Capital</u>		
First mortgage bonds		\$ 8,232,000
Current liabilities -		
Short-term bank loans	\$ 800,000	
Accounts payable	148,288	
Federal income tax	250,811	
Other items	72,096	
Total current liabilities		1,271,195
Contributions in aid of construction		652,866
Advances for construction		860,059
Deferred credits		107,448
Preferred stock		1,382,750
Common stock equity -		
Common stock	5,097,050	
Premiums on stock	1,068,023	
Surplus	1,725,092	
Total common stock equity		<u>7,890,165</u>
Total		<u>\$20,396,483</u>

Applicant now reports that it has need for additional funds from external sources and that, if authorized by the Commission, it proposes to issue and sell the bonds covered by this application and to use the proceeds, after defraying expenses of issue and sale, to liquidate the short-term bank loans of \$800,000 and to reimburse its treasury for moneys actually expended prior to

June 30, 1955, from income or from other moneys in its treasury which were not secured by or obtained from the issue of securities and were used for the acquisition of property or the construction, completion, extension or improvement of its facilities. In this connection it reports, as shown in some detail in Exhibit A, capital expenditures at June 30, 1955, which had not been provided by permanent securities or by extension deposits or donations, at \$1,608,074.84 and it estimates the amounts necessary to complete construction work now in progress at \$755,193.98. The application shows that the expenditures heretofore made have been temporarily financed in part with the bank borrowings.

Applicant has not yet entered into any contract for the disposition of the bonds to which this application relates but it expects to enter into such a contract for the private sale thereof to two investors, for investment purposes and not for resale to the public, at a price equal to the principal amount of the bonds plus accrued interest. Its capital ratios as of June 30, 1955, exclusive of bank loans, and as adjusted to give effect to the proposed issue of bonds, are as follows:

	<u>Present</u>	<u>Pro Forma</u>
Bonds	47%	51%
Preferred stock	8	7
Equity capital	<u>45</u>	<u>42</u>
Totals	<u>100%</u>	<u>100%</u>

From a review of this proceeding it is clear that applicant will have need for additional funds from external sources to liquidate its short-term debt, to improve its financial position, and to enable it to proceed with its construction activities. The issue and sale of bonds, in our opinion, is warranted and we will enter our order approving the transaction.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, 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, on or after the effective date hereof and on or before October 31, 1955, may execute a supplemental indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit D and may issue and sell \$1,250,000 in principal amount of its First Mortgage 3-1/2% Bonds, Series E, at a price of not less than the principal amount thereof and accrued interest from May 1, 1955, to the date of issuance.

2. San Jose Water Works shall use the proceeds to be received from the issue and sale of said bonds, after defraying the expenses of issuance and sale, for the purpose of liquidating its outstanding bank loans and of reimbursing its treasury. The accrued interest to be received upon the issue and sale may be used for such purposes or for general corporate purposes.

3. San Jose Water Works shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,125.

Dated at San Francisco, California, this 23rd day of August, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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BY [Signature]