

ORIGINAL

Decision No. 55796

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application

of

SOUTHWEST WATER COMPANY, a California corporation, for permission to borrow money and in connection therewith to issue and sell the balance of its First Mortgage Series B 5% Bonds; for permission to issue and sell \$150,000 of its Common Shares at par for cash; for permission to sell and issue \$350,000 of its Class A cumulative preferred 5-1/4% stock; and for permission to distribute to the common shareholders a stock dividend.

Application No. 39404
(First Amendment)
(Second Amendment)

O P I N I O N

In this application, as amended, the Commission is asked to make an order authorizing Southwest Water Company, a corporation, (1) to issue and sell \$300,000 of First Mortgage Series B 5% Bonds, (2) to issue and sell \$150,000 par value of common stock, (3) to issue and sell \$350,000 of Class A 5-1/4% cumulative preferred stock, and (4) to issue shares of common stock as a stock dividend on the basis of one share for each six shares now outstanding.

Applicant is a corporation organized under the laws of the State of California on or about December 10, 1954. Its authorized and outstanding shares of stock as of June 30, 1957, are as follows:

	<u>Authorized</u>	<u>Outstanding</u>
Common - \$50 par	20,000	6,817
Preferred, Class A 5¼% cumulative, \$50 par	20,000	5,220
Preferred, Class B 3% cumulative, \$50 par	<u>40,000</u>	<u>-</u>
Total	<u>80,000</u>	<u>12,037</u>

A condensed statement of applicant's assets, liabilities and capital as of June 30, 1957, prepared from Exhibit A filed in this proceeding is as follows:

Assets

Fixed capital less reserves		\$1,759,689
Other tangible capital		43,226
Current assets -		
Cash and deposits	\$259,297	
Accounts receivable	54,456	
Materials and supplies	35,237	
Prepayments	<u>7,269</u>	
Total current assets		356,259
Deferred charges		<u>29,396</u>
Total		<u>\$2,188,570</u>

Liabilities and Capital

First mortgage bonds		\$ 550,000
Current liabilities -		
Notes payable	\$349,000	
Accounts payable	67,233	
Accruals	<u>26,701</u>	
Total current liabilities		442,934
Advances for construction		493,898
Deferred credits		9,833
Preferred stock, 5¼%		261,000
Common stock equity -		
Common stock	340,850	
Capital surplus	57,556	
Earned surplus	<u>32,499</u>	
Total common stock equity		<u>430,905</u>
Total		<u>\$2,188,570</u>

The presently outstanding bonds consist of \$350,000 Series A 5-1/2% bonds due November 1, 1975; and \$200,000 Series B 5% bonds similar to those now to be issued. Under the terms of the trust indenture, the interest rate on the Series A bonds will be reduced to 5% at such time as the company at the end of three consecutive years shall have earned net income, before taxes, equivalent to two times actual interest charges.

The \$300,000 new bond issue of Series B is the remainder of a \$500,000 commitment under a bond purchase agreement with the Lincoln National Life Insurance Company which was executed in 1956. Under the terms of the agreement, the insurance company took \$200,000 of the bonds at that time and agreed to take the remaining \$300,000 on or before December 31, 1957, at the principal amount, plus accrued interest. The Series B bonds carry interest at the rate of 5% per annum and will mature on August 1, 1976. The trustee, as provided in the trust indenture and subject to certain limitations, may certify the additional bonds against property acquisitions and against the deposit of cash for subsequent withdrawal by the company.

As to the proposed stock issues, applicant seeks to sell the \$150,000 of common stock and the \$350,000 of 5-1/4% preferred stock at par, for cash.

The purpose of the presently proposed financing is to provide applicant with moneys to pay indebtedness and to meet construction costs as follows:

To pay outstanding notes	\$349,000
To pay accounts payable	57,000
To pay installments on refund contracts	25,000
To pay for capital additions -	
La Mirada District	117,500
La Sierra District	115,000
Etiwanda District	<u>136,500</u>
Total	<u>\$800,000</u>

The capital ratios as of June 30, 1957, and as adjusted to give effect to the proposed issues are as follows:

	<u>June 30,</u> <u>1957</u>	<u>As</u> <u>Adjusted</u>
Bonds	32%	34%
Advances	28	19
Preferred stock	15	24
Common stock equity	<u>25</u>	<u>23</u>
Total	<u>100%</u>	<u>100%</u>

Applicant has not paid dividends on its outstanding common shares. Before proceeding with the sale of the additional shares, as now proposed, it desires to capitalize a portion of its surplus in order to bring the stated value of the presently outstanding shares up to an amount more nearly reflecting the investment of the present shareholders in the business. Accordingly, it proposes to issue additional shares against its surplus and to distribute such shares to its shareholders as a stock dividend on the basis of one new share for each six shares outstanding. This would call for an issue of 1136-1/6 new shares.

Applicant will not issue fractional shares. In those cases in which the shareholder is entitled to a fractional share, he will be so notified and applicant's secretary will act as agent for each individual shareholder for the purpose of executing his order to sell his fractional interest or to purchase for his account the additional fractional share interest required to entitle him to one full share of common stock. The secretary thereupon will consolidate such fractional share interests and will obtain the issuance of a stock certificate for such full share. The company will pay or assume the expenses of the agent's services with respect to the sale or purchases and consolidation of such fractional share interests.

The issue of the shares as a stock dividend will not, of course, call for the withdrawal of cash from applicant's business. ✓ It will result in the transfer of \$56,800 from the surplus account to the capital stock account and the permanent retention of that amount in the enterprise and the development of a broader base of permanent equity capital in the financial structure.

Upon a full review of this matter, we are of the opinion and so find that applicant's requests should be granted. The authorization herein given is for the issue of securities and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 money, property or labor to be procured or paid for through the issue of the securities herein authorized is reasonably required 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. Southwest Water Company, on and after the effective date hereof and on or before February 28, 1958, may:

a. Issue and sell \$300,000 in principal amount of First Mortgage Series B 5% Bonds due August 1, 1976, at not less than their principal amount, plus accrued interest.

b. Issue and sell not to exceed \$150,000 par value of its common stock at par for cash.

c. Issue and sell not to exceed \$350,000 of its Class A 5-1/4% cumulative preferred stock at par for cash.

d. Issue not to exceed 1136-1/6 shares of its common stock in reimbursement of its treasury for moneys expended for plant and distribute such shares as dividends.

e. Issue and sell additional shares of its common stock in order to consolidate fractional shares into full shares as set forth in this application.

2. Southwest Water Company shall use the proceeds to be received from the sale of the bonds and stock herein authorized for the purposes set forth in this application.

3. Southwest Water Company shall file with the Commission a report, or 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 Southwest Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$300.

Dated at San Francisco, California, this 12th day of November, 1957.

[Signature] President
[Signature]
[Signature]
[Signature]
[Signature] Commissioners

