

Decision No. 60308

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
of SOUTHWEST WATER COMPANY, a  
California corporation, for  
authority to issue and sell  
\$290,000 of its common stock.

Application No. 41523  
(and Amendment)

Arthur D. Guy, Jr., and C. H. Deitz,  
for applicant; J. Calvin Simpson,  
for the staff of the Commission.

O P I N I O N

Southwest Water Company, applicant herein, seeks authorization to issue and sell \$290,000 of its common stock, for cash, at par.

The application was filed on September 28, 1959 and an amendment thereto was filed on February 8, 1960. A public hearing was held before Examiner Coleman in Los Angeles on May 19, 1960, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

In presenting this matter to the Commission the company asserts that it has need for the proceeds from the sale of its common stock to enable it to finance additions to its plants and facilities and to pay outstanding indebtedness. It reports that its 1960 construction budget will aggregate \$769,220, exclusive of expenditures for main extensions, which amount is segregated as follows:

To complete work started prior to 1960	\$170,000
La Sierra District	176,320
La Mirada District	244,200
Etiwanda District	14,000
General - all districts	<u>164,700</u>
Total	<u>\$769,220</u>

According to the testimony, the budgeted expenditures for the La Sierra District include some of the improvements which the Commission, by Decision No. 58138, dated March 17, 1959, ordered the company to make and the budgeted expenditures for La Mirada District include amounts to meet the estimated cost of plant to serve the Central Manufacturing District.

A summary statement of applicant's estimated cash requirements and sources of funds is as follows:

<u>Cash balance, January 1, 1960</u>		\$ 142,618
<u>Sources of cash -</u>		
Est. income before income taxes	\$150,000	
Depreciation	88,000	
	<u>238,000</u>	
Less - income tax	\$90,000	
- dividends	67,000	
- debt expense	<u>10,000</u>	
Net from operations		71,000
Bank loans		500,000
Bonds		500,000
Preferred stock		487,800
Consumers' advances		125,000
Common stock		<u>290,000</u>
Total		<u>2,116,418</u>
<u>Use of funds -</u>		
Sinking fund payments	12,750	
Refunds on contracts	40,000	
Purchase mutual water company stocks	10,000	
Pay bank loans	500,000	
Reduce accounts payable	50,000	
1960 budget	769,220	
Construct tracts	<u>600,000</u>	
Total		<u>1,981,970</u>
<u>Cash balance, December 31, 1960</u>		<u>\$ 134,448</u>

The testimony further shows that applicant has insufficient bondable capital at present to permit the issue of additional bonds; that the indenture securing applicant's bonds excludes from bondable capital properties which are represented by subdividers' advances and that it is necessary and desirable for applicant to improve its capital ratios and to increase its bonding capacity by the issue of junior securities. Applicant's capital ratios, as of the end of 1959, are indicated in the following tabulation:

Long-term debt	\$1,082,000	34%
Advances	740,659	23
Preferred stock	667,885	21
Common stock and surplus	<u>688,832</u>	<u>22</u>
Total	<u>\$3,179,376</u>	<u>100%</u>

From a review of the application and amendment and of the testimony, it is apparent that applicant cannot proceed with its construction activities, and with the payment of its obligations, unless it obtains capital from external sources and it is equally apparent that applicant, if possible, should undertake to obtain additional common stock money at this time, if it can do so, in order to build up its equity ratios in advance of its proposed senior financing. We find and conclude that there are sufficient capital expenditures, even excluding those estimated for tract extensions, to support the proposed stock issue and that such issue is for a proper purpose, is not incompatible with the public interest and will not impair the utility's ability to render service. Accordingly, we will enter an order granting the company's request.

The authorization herein given does not constitute a recommendation or an endorsement of the stock herein permitted to be issued but is permissive only. Such authorization, moreover, shall not be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates nor as an approval of all the items contained in the company's construction budget.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required 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. Southwest Water Company, on or after the effective date hereof and on or before June 30, 1961, may issue and sell not to exceed \$290,000 of its common capital stock to the general public, for cash, at not less than par, and may use the proceeds for the purpose of paying indebtedness and of financing the cost of additions and improvements to its water works facilities, provided, however, that -

- a. Applicant shall not use proceeds from the sale of said common stock (1) to provide the cost of main extensions which must be met by advances in accordance with the company's filed tariffs, or (2) to pay for mutual water company stock.

- b. Applicant shall finance only such expenditures as properly are chargeable to utility plant and other investment accounts as defined in the uniform system of accounts which has been prescribed for water utilities.
- c. Applicant shall not issue any of the stock herein authorized to subdividers in lieu of entering into a main extension contract pursuant to its filed main extension rule.

2. Applicant shall deposit the proceeds from the sale of the stock herein authorized in a separate bank account and on or before the 25th day of each month, in accordance with the terms of General Order No. 24-A, shall file with the Commission a report of the issue of the stock herein authorized and a statement of said separate bank account showing the balance at the beginning of the preceding month, the deposits made during the month and, in detail, the purpose for which disbursements from said bank account were made.

3. The authorization herein granted shall become effective 20 days after the date hereof.

Dated at San Francisco, California,  
 this 29th day of June, 1960.

\_\_\_\_\_  
 President  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Commissioners

Commissioner Everett C. McKee, being necessarily absent, did not participate in the disposition of this proceeding.