

ORIGINAL

Decision No. 61206

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 its First Mortgage Series "D" 5-3/4% Bonds, under a Third Supplemental Trust Indenture, to be dated September 1, 1960.

Application No. 42907

O P I N I O N

On November 28, 1960, Southwest Water Company filed this application for authorization to issue and sell \$750,000 of its First Mortgage Series "D" 5-3/4% Bonds and to execute a purchase agreement and a supplemental trust indenture.

The purpose of the financing is to provide applicant with funds to pay expenses in connection with the sale of the bonds, to retire outstanding bank loans, to finance the costs of additions to its facilities, to reimburse its treasury for such costs, and to provide additional working capital. The company reports that it has need for the bond proceeds and other moneys for these purposes and in Exhibit F it shows its estimated cash requirements for the period November 1, 1960 to December 31, 1961, and its estimated sources of funds as follows:

Use of cash

Sinking fund		\$ 13,000
Refunds on contracts		85,000
Purchase mutual water companies' stock		10,000
Bank loans		700,000
Accounts payable		40,000
Construction budget		962,000
Construct tracts		<u>450,000</u>
Total		<u>\$2,260,000</u>

Source of funds

Bank loans		\$ 500,000
Common stock		236,000
Preferred stock		348,000
Advances		260,000
Bonds, less \$10,000 of expense		740,000
Net income	\$150,000	
Less - taxes	70,000	
- dividends	<u>77,000</u>	3,000
Depreciation		111,000
Cash - November 1, 1960	145,000	
- December 31, 1961	<u>83,000</u>	<u>62,000</u>
Total		<u>\$2,260,000</u>

The foregoing statement shows that applicant is undertaking to sell equity securities, as well as bonds, to enable it to meet its requirements. Its capital ratios as of October 31, 1960, and as adjusted to give effect to the proposed issues of stocks and bonds, are indicated in the following tabulation:

	<u>October 31, 1960</u>	<u>Pro Forma</u>
Indebtedness -		
Bonds	34%	40%
Notes	5	-
Advances	20	19
Total indebtedness	<u>59</u>	<u>59</u>
Preferred stock	21	21
Common stock and surplus	<u>20</u>	<u>20</u>
Total	<u>100%</u>	<u>100%</u>

If authorized to issue the bonds covered by this application, the company proposes to sell them to The Lincoln National Life Insurance Company, Pacific Mutual Life Insurance Company, Bankers Life Insurance Company of Nebraska and The Nebraska National Life Insurance Company at their face value, plus accrued interest, in installments as follows - \$250,000 immediately, \$250,000 on or before June 30, 1961 and \$250,000 on or before December 31, 1961. These bonds, as stated, will bear interest at the rate of $5\frac{3}{4}\%$ per annum, will mature September 1, 1980 and will be redeemable at a premium of 5% if redeemed on or prior to September 1, 1970, and thereafter at annually reducing premiums provided, however, that the company may not redeem said bonds prior to September 1, 1968, if the funds for that purpose shall have been obtained directly or indirectly from the issuance and sale by the company of one or more promissory notes, debentures, bonds or other debt securities or obligations bearing an interest rate or having an interest cost of less than $5\frac{3}{4}\%$ per annum, or if the company contemplates replacing the funds used for that purpose by other borrowed funds bearing an interest rate or having an interest cost of less than $5\frac{3}{4}\%$ per annum.

Upon reviewing this application it clearly appears that applicant will have need for additional funds from external sources for the payment of its obligations and for the financing of additions to its facilities. The application shows that there

are sufficient capital expenditures, even excluding those for tract extensions, to support the proposed bond issue and we find and conclude that the issue of additional bonds is for a proper purpose, is not incompatible with the public interest and will not impair the utility's ability to render service and that applicant will be required to pay a lower interest rate than if the restricted redemption provision were to be eliminated and that the ensuing lower financial requirements should inure to the benefit of the consumer. Accordingly, we will enter an order granting the company's request.

While the order herein will grant the sought authority, nevertheless, we desire to point out that the gradual extension of the restricted redemption period is not looked upon with favor. This particular application is granted because the company is in need of capital funds and time does not permit renegotiation of the bond selling agreements. The action taken in this particular proceeding is not necessarily to be construed as a precedent for future proceedings as it may be that future developments and studies may warrant a rejection of the eight-year period.

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 bonds 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 February 28, 1961, may execute a purchase agreement and a third supplemental trust indenture in, or substantially in, the same forms as those filed in this proceeding as Exhibit A and Exhibit B, respectively.

2. Southwest Water Company, on or after the effective date hereof and on or before December 31, 1961, may issue and sell not to exceed \$750,000 of its First Mortgage Series "D" 5-3/4% Bonds at not less than their face value, plus accrued interest, for the purposes set forth in this application, provided, however, that -

- a. Applicant shall not use proceeds from the sale of said bonds to provide the cost of main extensions which must be met by advances in accordance with the company's filed tariffs or to pay for mutual water companies' 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 may use the accrued interest received on the sale of the bonds for general corporate purposes.

3. Applicant shall deposit the proceeds from the sale of the bonds 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 bonds 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.

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 \$750.

Dated at San Francisco, California,
this 20 day of DECEMBER, 1960.

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

