

ORIGINAL

Decision No. 73202

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
)	
of GARDEN WATER CORPORATION, a)	Application No. 49549
)	Filed July 14, 1967
California corporation, for)	
)	
authority to Issue Common Stock.)	
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O P I N I O N

This is an application for an order of the Commission authorizing Garden Water Corporation to issue 1,125 shares of its \$100 par value common stock in cancellation of promissory notes aggregating \$112,500 in principal amount.

Garden Water Corporation is a California corporation engaged as a public utility in the business of supplying domestic water in unincorporated areas near the City of Bakersfield. For the year 1966 the company reports operating revenues of \$95,478 and net income of \$3,879.

Staff analysis of applicant's records shows that the company has issued demand notes in connection with (a) financing of additions and extensions to its water system and (b) payment of refunds due on main extension contracts. Applicant proposes to retire \$112,500 aggregate principal amount of said notes by issuing a like amount of its common stock.

Applicant asserts that it has an immediate need for additional cash for its operations and that it is unable to borrow additional funds without the personal guarantees of its officers, due to its currently high debt in proportion to its capitalization.

The company's reported assets as of May 31, 1967 amounted to \$538,231. The following tabulation shows the reported offsets to the total assets as of that date and as adjusted to give effect to the proposed financing:

	<u>May 31,</u> <u>1967</u>		<u>Pro</u> <u>Forma</u>	
Demand notes payable	\$225,806	42%	\$113,306	21%
Other current liabilities	42,080	8	42,080	8
Advances for construction	204,300	38	204,300	38
Contributions in aid of construction	13,679	2	13,679	2
Preferred stock	28,000	5	28,000	5
Common stock equity	<u>24,366</u>	<u>5</u>	<u>136,866</u>	<u>26</u>
Total	<u>\$538,231</u>	<u>100%</u>	<u>\$538,231</u>	<u>100%</u>

A letter dated August 3, 1967, hereby made a part of the record in this proceeding, states the following:

"Our client Mr. W. E. Buckner is record owner of 95 shares of the common stock of Garden Water Corporation which is approximately 25% of the presently outstanding 375 common shares. He was not notified of the action of the Board of Directors of May 22, 1967, nor was he given an opportunity to consent to or protest that action. Since his proportionate share holdings in Garden Water Corporation will be seriously and adversely affected by the contemplated stock issue and because he is the holder of substantial demand notes of Garden Water Corporation, he respectfully requests the Commission to schedule a hearing on application No. 49549 to determine whether or not the public interest will be served by the contemplated discriminatory action among stockholders."

A review of applicant's Articles of Incorporation, and amendments thereto, discloses that the company's shareholders possess no preemptive rights to subscribe to any or all issues of shares or securities. Moreover, this Commission is concerned as to the proper expenditure of stock proceeds within the scope of Section 817 of the Public Utilities Code, and not with the proportionate distribution of shares among individual shareholders.

The Commission has considered this matter and finds that: (1) the proposed stock issue is for a proper purpose; (2) the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purpose specified herein; and (3) such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted. A public hearing is not necessary.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant, and that the authorization herein given is not to be construed as a finding of the value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Garden Water Corporation, on or after the date hereof and on or before December 31, 1967, in the manner and for the purpose set forth in this proceeding, may issue and sell not exceeding 1,125 shares of its common stock.

2. Garden Water Corporation shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

3. The effective date of this order is the date hereof.

Dated at San Francisco, California,
this 15th day of OCTOBER, 1967.

W. E. ...
President

Stallman ...

Awgata

William ...

Sheep P. ...
Commissioners