

CACD/RHG

Decision 92-05-067 May 20, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ALISAL WATER CORPORATION,))
dba ALCO WATER SERVICE U-206-W, a))
corporation, to issue a note in the))
principal amount of \$600,000; and to))
execute and deliver a deed of trust and))
chattel mortgage.))

ORIGINAL
Application 92-03-042
(Filed March 25, 1992)

O P I N I O N

Summary of Decision

This decision grants Alisal Water Corporation (AWC), doing business as Alco Water Service, the authority requested in the Application.

AWC requests authority, pursuant to Sections 817, 818 and 851 of the California Public Utilities Code (PU Code), for the following:

1. To issue a promissory note or notes (Notes) to The Money Store Investment Corporation (TMSIC) in the principal amount of \$600,000 for the discharge or lawful funding of its obligations.
2. To execute and deliver a deed of trust and chattel mortgage attendant to the issuance of Notes.
3. To be exempted from the Commission's Competitive Bidding Rule.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 30, 1992. No protests have been received.

Background

AWC, is a California corporation and operates as a water utility under the jurisdiction of this Commission. It was incorporated on May 12, 1950. AWC engages in the retail water

business in the eastern portion of Salinas, California and several small residential communities in nearby rural areas. Virtually all services are metered.

AWC incurred substantial damage from the Loma Prieta earthquake of October, 1989. It lost one of its main wells. In addition to replacing the lost well, there was also a need to build 150,000 gallons of water storage. The estimated construction cost was \$600,000. A group of local investors (Phillips Wyman, et al) offered to lend AWC \$500,000. The remainder of the construction was to be financed with internal funds or other borrowings.

About that time, two new developers, Arcadia Development Co. and Award Homes, Inc. (developers) approached AWC with plans to build 500 new homes in the northeasterly section of its service area. This would require drilling a second well to meet additional demand. AWC concluded it would be most efficient and least costly to drill both wells and construct the new storage facilities at the same time. In order to pay for a second well, AWC accepted an offer from the developers to lend it an additional \$250,000 on a short-term basis with the right to extend the term of the loan as construction of the new homes progressed.

Construction of the new wells and storage facilities proceeded smoothly in 1990, but finding long-term debt to replace short-term borrowings was a difficult matter. AWC hired a professional "loan arranger" but, according to the Application, he likewise was unsuccessful in finding any banks, insurance companies, or other conventional sources willing to loan funds to small water companies. AWC was unable to repay the \$500,000 note when it became due. In February 1992, the Wyman Group filed a Notice of Default on their \$500,000 loan. AWC received an informal extension of the \$500,000 loan to March 31, 1992; this was later extended to May 15, 1992. Shortly thereafter, AWC obtained a loan commitment for \$600,000 from TMSIC through the United States Small Business Administration (SBA).

For the calendar year 1991, AWC reported it generated total operating revenues of \$1,271,497 and net income of \$68,087 shown as part of Attachment H to the Application.

Shown as part of Attachment G is AWC's Balance Sheet for the calendar year 1991, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$5,083,482
Investments	9,200
Current and Accumulated Assets	553,853
Deferred Charges	<u>335,759</u>
Total	\$5,982,294
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Capital and Retained Earnings	\$1,054,557
Long Term Debt	274,485
Current and Accrued Liabilities	1,487,609
Deferred Credits	2,114,462
Contr. in Aid of Constr.	<u>1,051,181</u>
Total	\$5,982,294

Promissory Note

AWC proposes to execute Notes and issue a deed of trust and chattel mortgage in the principal amount of \$600,000 to TMSIC, through the SBA. The loan is repayable over fourteen (14) years, at a floating rate of 2.75% over the lowest prime interest rate as published in the Money Rate Section of the Wall Street Journal, adjusted quarterly. TMSIC's approval is subject to receiving an 80% guarantee from SBA and the conditions set forth in Attachment B to the Application. Some of the conditions are:

1. The loan proceeds will be used for the following purposes:
 - a) Refinance note \$500,000
 - b) Equipment 100,000
2. A First Trust Deed on property located at Salinas, California.
3. Personal guarantee of Robert T. and N. Patricia Adcock secured by a First Trust Deed on two properties located at Salinas, California and a Second Trust Deed on two properties located at Salinas, California.
4. A CLTA title insurance policy to insure TMSIC's lien position.

5. First Security Interest taken by Financing Statement and Security Agreement on all of the following: machinery and equipment, contract rights and general intangibles located at AWC's properties.

AWC will pay for the appraisal of the properties. SBA requires payment of a guarantee fee of 2% of the guaranteed portion of the loan.

Exemption from Competitive Bidding

AWC is beset by a time constraint and the limited availability of long-term debt providers. Given its status as a small water company and its current financial position, AWC believes it has made a showing as to how difficult and tenuous its position is in finding long-term debt to replace the \$500,000 demand note.

Commission Resolution F-616 dated October 1, 1986 provides that the competitive bidding rule applies only to utilities with bond ratings of "A" or higher. The March, 1992 and earlier issues of Standard and Poor's Bond Guide do not include AWC in the broad list of bonds. In the absence of a debt rating and considering its inability to secure other sources of funds, AWC requests exemption from the requirements of the Commission's competitive bidding rule as set forth in Decision (D.) 38614, as amended by D.49941, D.75556, D.81908, and by Resolution F-616.

The Commission Advisory and Compliance Division (CACD) has determined that AWC has made an adequate showing that exemption from the Competitive Bidding Rule is warranted and recommends that the \$600,000 Notes be exempted from the rule.

The Commission has considered CACD's recommendation and, finding it reasonable, will adopt it.

Capitalization Ratios

AWC's capitalization ratios at December 31, 1991, recorded, and at December 31, 1991, pro forma after giving effect to the \$600,000 issuance of Notes are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 658,636*	10.4%	\$ \$758,636**	35.7%
Short-Term Debt	312,109	20.5%	312,109	14.7%
Equity Capital	1,054,557	69.1%	1,054,557	49.6%
Totals	\$2,025,302	100.0%	\$2,125,302	100.0%

*Includes \$500,000 short-term note presently outstanding.

**\$500,000 note outstanding replaced by \$600,000 pending loan.

AWC is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Construction Budget

A summary of AWC's construction budget for the northeast project, as appearing in its Attachment F, is summarized as follows:

<u>Item</u>	<u>Amount</u>
Land and Land Rights	\$ 37,200
Structures and Improvements	255,500
Wells	155,200
Storage	104,900
Equipment	297,200
Total	\$850,000

CACD has reviewed the Application and AWC's construction program whereby the \$850,000 was incurred. CACD concludes that the proposed issuance of Notes is necessary for refinancing of AWC's past years' borrowings which were expended in construction; however, AWC is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary

or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecast

AWC's cash flow statement for 1992 and 1993 which appears in Attachment K and supplemental Schedules B.1, B.2 and B.3, is summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Funds Needed for Construction		
Expenditures	\$ 17,000	\$ 65,000
Long-Term Debt - Principal Payments	34,000	54,500
Short-Term Debt- Principal Payments	130,700	48,400
Capital Leases - Principal Payments	59,600	56,400
Advances for Construction - Refunds	<u>25,200</u>	<u>54,000</u>
Total	\$ 266,500	\$ 278,300
Less:		
Estimated Internal Cash Generation	<u>268,100</u>	<u>438,800</u>
Net Cash Available	\$ <u>1,600</u>	\$ <u>160,500</u>

Given the cash requirements forecast above, as presented by AWC, internally generated funds would provide all of AWC's cash requirements for 1992 and 1993.

Use of Proceeds

AWC plans very little plant construction in 1992 or 1993. All funds in 1992 and 1993 will be provided from operations as shown in the supplemental Schedules B.1, B.2 and B.3 attached to the Application. The funds requested herein will be used to refinance a \$500,000 demand note, reduce outstanding accounts payable by \$51,000, and purchase a stand-by generator.

Findings of Fact

1. AWC, a California corporation, operates as a water utility subject to the jurisdiction of this Commission.
2. AWC has an immediate need for external funds for the purposes set forth in the Application.

3. The execution and issuance of Notes and a deed of trust and chattel mortgage to TMSIC would not be adverse to the public interest.

4. The refinancing of the demand note is for proper purposes.

5. The proceeds from the outstanding demand note were used for plant construction.

6. AWC has a valid claim for requesting exemption from the Competitive Bidding Rule for the Notes requested in the Application.

7. The money, property, or labor to be procured or paid for by the proposed transaction is reasonably required for the purposes specified in the Application.

8. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

3. The proposed issuance of Notes is for lawful purposes, and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the Notes may not be charged to operating expenses or income.

4. AWC has made an adequate showing that it should be exempted from the Competitive Bidding Rule.

5. The following order should be effective on the date of signature and payment of a fee of \$1,200 as set forth by §1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Alisal Water Corporation (AWC), doing business as Alco Water Service may execute and issue a promissory note or notes not exceeding \$600,000 principal amount to The Money Store Investment Corporation (TMSIC), in substantially the same form as set forth in the Application.

2. AWC may execute and deliver a deed of trust and chattel mortgage to TMSIC, in substantially the same form as set forth in the Application.

3. The issuance of the promissory note or notes is exempted from the requirements of the Commission's Competitive Bidding Rule.

4. The Application is granted as set forth above.

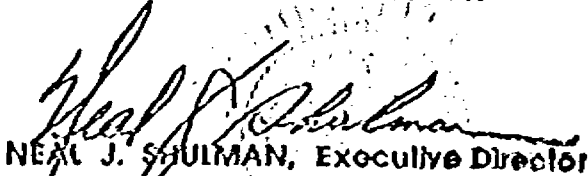
5. The authority granted by this order to issue the promissory note shall become effective when AWC pays \$1,200, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

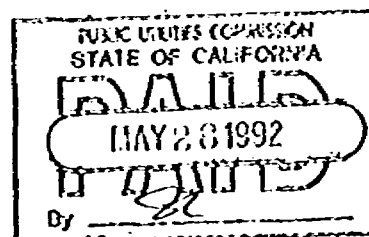
Dated May 20, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert,
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SHULMAN, Executive Director



Rec. # 3543/
\$1,200.00