

Decision 83 09 073 SEP 30 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
HORNITOS TELEPHONE COMPANY for an )  
Order authorizing it to issue a )  
note in an aggregate amount not )  
exceeding \$1,817,000 and to )  
execute a Loan Contract and )  
Supplemental Mortgage and Security )  
Agreement )

Application 83-08-19  
(Filed August 5, 1983)

O P I N I O N

Hornitos Telephone Company (Hornitos) requests authority, under Public Utilities (PU) Code Section 817 through 818, for the following:

1. To enter into a Telephone Loan Contract (Loan Contract) with the Rural Electrification Administration (REA);
2. To enter into a Supplemental Mortgage and Security Agreement with REA and Stromberg Carlson Corporation (Stromberg);
3. To issue to REA a Mortgage Note in the aggregate principal amount of up to \$1,817,000; and
4. To execute and deliver one or more supplemental mortgages and other security instruments as may be required in the future by the terms of the Loan Contract.

Summary of Decision

This decision grants Hornitos the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 10, 1983. No protests have been received.

Hornitos, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Hornitos provides telephone service in portions of Mariposa County.

For the calendar year 1982, Hornitos reported it generated total operating revenues of \$265,279 and net operating income of \$41,958 shown as part of Exhibit D attached to the application.

Also shown as part of Exhibit D is Hornitos' Balance Sheet as of December 31, 1982 summarized below:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$448,822
Other Investments and Funds	17,948
Current Assets	102,735
Deferred Debits	<u>5,733</u>
Total	\$575,238
<u>Liabilities and Equity</u>	
Common Equity	\$159,519
Long-Term Debt	200,266
Current and Accrued Liabilities	199,949
Deferred Credits	<u>15,504</u>
Total	\$575,238

Hornitos is experiencing the need to upgrade its telephone plant to meet the increasing demands being placed on its present service. These demands now require the improvement and replacement of portions of Hornitos' existing telephone facilities and the construction of additional facilities. Hornitos will require in excess of \$1,817,000 to pay for improvements, modifications, replacements, and additions to plant. Hornitos proposes to borrow the necessary funds from the United State of America, acting through REA. A summary of the approximate anticipated allocation of these funds (among the authorized uses of such funds) is as follows:

<u>Item</u>	<u>Amount</u>
Central Office	\$ 560,000
Outside Plant	757,000
Land	15,000
Buildings	156,000
Removal Costs	43,000
Engineering	234,000
Contingencies	<u>52,000</u>
Total	\$1,817,000

Hornitos has previously made long-term borrowings from Stromberg under permission granted by the Commission. These borrowings are presently outstanding and are secured by a mortgage on the assets of Hornitos. These previously authorized long-term

loans will remain outstanding and will be secured by the Supplemental Mortgage and Security Agreement which is a co-mortgage made by and among REA, Stromberg, and Hornitos.

Hornitos states it is unable to finance its large construction program from its current earnings or resources and has, therefore, negotiated a Loan Contract with the United States of America, acting through REA, to provide for long-term borrowing in an amount up to \$1,817,000. The form of the Loan Contract is attached to the application as Exhibit A. The loan of \$1,817,000, as well as the existing loans from Stromberg, will be secured by a Supplemental Mortgage and Security Agreement which provides for a lien on substantially all of Hornitos' property in favor of REA and Stromberg. The form of the Supplemental Mortgage and Security Agreement is attached to the application as Exhibit B.

Under the terms of the Loan Contract, money will be advanced to Hornitos from time to time after the execution of the Mortgage Note in substantially the form attached to the application as Exhibit C. The Mortgage Note in the amount of \$1,817,000 to be issued to REA by Hornitos will bear interest at a rate of 2% per annum and is repayable in monthly installments over a period of 35

years. From time to time Hornitos will be required under the terms of the Loan Contract to execute a supplemental mortgage or mortgages and other security instruments in favor of its secured lenders.

Hornitos has provided the Commission with a pro forma cash flow statement, supplemental to the application, which indicates that after the improvements have been made it will generate operating revenues of about \$531,000 and total operating income of about \$120,000 which added to the depreciation of \$233,000 will amount to a cash flow of \$353,000. This amount will exceed its cash requirements of \$296,547 leaving about \$56,000 in funds available for plant additions, working capital, and other items.

The Commission's Revenue Requirements Division and the Communications Division have reviewed the application and the utility's proposed construction program. The Divisions conclude that the proposed financing is necessary to fund Hornitos' proposed construction program.

The Commission is neither finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Revenue Requirements Division reviewed Hornitos' financial statements attached to the application and concludes that Hornitos' cash flow is sufficient to meet its debt service requirements.

Findings of Fact

1. Hornitos, a California corporation, operates as a public telephone utility subject to the jurisdiction of this Commission.
2. Hornitos has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Loan Contract and the Mortgage Note would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Note is for proper purposes.
5. The execution of a supplemental mortgage or mortgages and other security agreements as is required by the Loan Contract would not be adverse to the public interest.
6. The money, property, or labor to be procured or paid for by the proposed Mortgage Note is reasonably required for the purposes specified in the application.
7. 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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable Hornitos to issue its Mortgage note expeditiously.

O R D E R

IT IS ORDERED that:

1. Hornitos Telephone Company (Hornitos) on or after the effective date of this order and on or before June 30, 1984 may, for the purposes set forth in the application, enter into a Telephone Loan Contract with the United States of America, acting through the Rural Electrification Administration (REA), under a document which shall be in substantially the same form as set forth in Exhibit A attached to the application.

2. Hornitos may, in conjunction with entering into the Telephone Loan Contract, enter into a Supplemental Mortgage and Security Agreement as a co-mortgage with REA and Stromberg, under a document which shall be in substantially the same form as set forth in Exhibit B attached to the application.

3. Hornitos may, for the purposes specified in the application, issue a Mortgage Note in the aggregate principal amount of up to \$1,817,000 in substantially the same form as set forth in Exhibit C attached to the application.

4. Hornitos may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Telephone Loan Contract.

5. Hornitos shall use the net proceeds from the loan for the purposes specified in the application.

6. Hornitos shall file the reports required by General Order Series 24.



7. The authority granted by this order to issue a Mortgage Note will become effective when Hornitos pays \$2,817, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

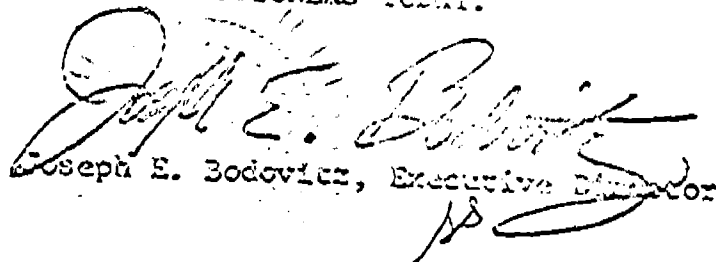
Dated SEP 30 1983, at San Francisco, California.

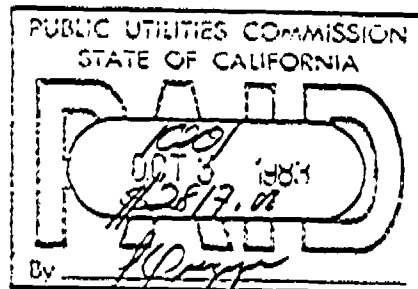
LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
DONALD VIAL  
Commissioners

Commissioner Priscilla C. Gray,  
being necessarily absent, did  
not participate

Commissioner William T. Bagley  
being necessarily absent, did  
not participate.

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

  
Joseph E. Bodovitz, Executive Director



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