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Decision No. 88949 JUN 13 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

APPLICATION OF TUSTIN WATER WORKS,)
A California Corporation, FOR PERMIT)
TO ISSUE AND SELL BONDS.)

Application No. 57960
(Filed March 29, 1978)

O P I N I O N

Tustin Water Works (Tustin) seeks authority to issue and sell not exceeding \$500,000 principal amount of its 9-1/2% bonds, maturing in 15 years.

Tustin is a California corporation providing public utility water service to approximately 13,300 metered customers in Tustin and vicinity, Orange County. For the calendar year 1977, the company reported operating revenues of \$1,592,618, depreciation of \$118,528, and net income of \$87,553. Exhibit A attached to the application contains a balance sheet dated December 31, 1977 which is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$4,924,633
Current assets	260,434
Deferred charges	<u>4,299</u>
Total	<u>\$5,189,366</u>
 <u>Liabilities and Capital</u>	
Long-term debt	\$2,100,000
Common stock equity	1,161,152
Advances for construction	1,337,391
Contributions in aid of construction	355,450
Deferred credits	2,000
Current liabilities	<u>233,373</u>
Total	<u>\$5,189,366</u>

Tustin plans to use the proceeds of the proposed bonds to replace or reline some of its older pipelines, add new facilities, and repay a short-term bank loan. The estimated expenditures are set forth as follows:

<u>Item</u>	<u>Amount</u>
Repay short-term bank loan	\$ 25,000
Refunds due on main extension contracts	120,000
Main replacements	155,000
Four new Metropolitan Water District connections	40,000
New roof on reservoir	50,000
Refurbish and equip newly acquired well	30,000
New data processing equipment	50,000
Transportation and power operated equipment	20,000
Other capital expenditures	10,000
Total	<u>\$500,000</u>

As stated in a letter dated April 18, 1978, Tustin states that it anticipates that the bonds would be sold to its customers in the same manner as all previous issues. No fees or commissions would be incurred because the company would collect the proceeds from sale of the bonds, acting as its own agent. The only expenses would consist of the filing fee, printing, and mailing costs.

With respect to the interest rate payable quarterly on the proposed bonds, Tustin alleges that 9-1/2% is the minimum rate required to market the issue successfully. The company points out that the bonds are neither secured nor rated, and that secured bonds of the large utilities have recently been yielding about 9%. The Finance Division observes that recently issued A-rated first mortgage utility bonds are now selling at yields close to 9-1/2%.

Over a ten-year span, the proportion of common stock equity in Tustin's capital structure ranged between 29.6% and 37.8%. After giving effect to the proposed bond issue, the equity ratio as of December 31, 1978 would be about 31.8% compared to 35.6% at the end of 1977.

The general pattern established since 1968 indicates that Tustin, through retention of earnings, has been able to improve its equity position subsequent to the issuance of debt. Prior to 1976, the company had never paid a dividend on its common stock. In 1976 and 1977, however, Tustin elected to be taxed as a Small Business Corporation under subchapter S, chapter 1, of the Internal Revenue Code.

Such election, by unanimous consent of its shareholders, allowed Tustin to avoid paying any corporate tax on its income, choosing instead to have individual shareholders pay the tax in proportion to their holdings. For the purpose of enabling shareholders to pay their tax obligations, dividends of \$140,000 and \$20,000 were paid in 1976 and 1977, respectively.

Based on pro forma estimates set forth in Exhibit D attached to the application, a condensed summary of Tustin's cash flow in 1978 follows:

<u>Sources of Funds</u>	<u>Amount</u>
Retained earnings	\$ 50,000
Depreciation	124,000
Advances for construction	12,600
Sale of bonds	<u>500,000</u>
Total	<u>\$686,600</u>
<u>Uses of Funds</u>	
Repay short-term notes	\$ 25,000
Refunds of construction advances	120,000
Plant expenditures	355,000
Working capital and other items	<u>186,600</u>
Total	<u>\$686,600</u>

Since none of Tustin's long-term debt matures prior to 1981, the company's cash flow would be adequate to service all debt, including the bond issue proposed herein. In 1977, Tustin realized a return of 7.54% on common stock equity and the utility may possibly request rate relief in the near future.

Tustin has sold bonds successfully to its customers in the past and has demonstrated the ability to maintain an equity position within reasonable limits over the past ten years. The Finance Division concludes, therefore, that the proposed financing is reasonable and the Utilities Division concurs with such conclusion.

After consideration the Commission finds that:

1. The proposed bonds would be for a proper purpose.
2. Applicant has need for external funds for the purposes set forth in this proceeding.
3. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and no reason to delay granting the applicant's request. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only and is not to be construed 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. Tustin Water Works, on or after the date hereof, may issue and sell not exceeding \$500,000 aggregate principal amount of its bonds under the terms and for the purposes specified in this proceeding, which bonds shall be in substantially the same form as Exhibit C attached to the application.

2. Tustin Water Works 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. This order shall become effective when Tustin Water Works has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1000.

Dated at San Francisco, California, this 13th day of JUNE, 1978.

Robert Bateman
President
William Squore
Verona L. Stinson
Robert D. Hoelle
Clara S. Smith
Commissioners

