

# Two Million and Half in Bonds Held Inadvisable Now

## WATER PLAN IS FAULTY, CLAIM

### Proposed Source Unsafe is Verdict of Citizen who Knows Santiam Area

(Continued from page 1)

There is no danger of exhaustion of the main river at any time of the year, but the intake would only be a few miles below Mill City. Location of the intake at that point would expose the water to raw sewage, possibly to a greater extent than is the case with the Willamette River, with its much larger volume. During the summer months of the year, the main fork of the Santiam River is heavily charged with milky glacial water which I understand cannot be removed entirely even by filtration. The main branch, moreover, will become more subject to pollution in the future as the population of the adjoining country and tourist travel increase.

The North Santiam Highway follows the stream of a large extent all the way to Independence Prairie, sixteen miles above Detroit. When the road is completed, the tourist and recreational traffic will increase beyond present estimation. No one can logically contend that the main North Santiam watershed can be converted into a closed area. In my opinion, the use of this water, and particularly the main branch, means chemical treatment of the water and filtration, the latter of which will require an additional bond issue of \$200,000 to \$400,000.

### Effect on Financial Status

On July 1, 1931, the city of Salem had a net indebtedness of \$1,756,727, compared with an assessed valuation of \$18,083,300, or a debt ratio of 9.71%. Were we to deduct the assessed valuation of the water plant from the total assessed valuation of the city and then divide the remainder into the net debt plus \$2,500,000 of proposed water bonds, we would obtain a debt ratio of about 24.2%, compared with an average for all cities of 14.7% on the basis of 1930 figures. The sudden increase in the ratio would affect the salability of the bonds on a market already highly unfavorable. If, as recommended by the engineers, the number of hydrants in the city were increased from 240 to 500, the tax item for hydrant service in the budget, at present rates, would increase from about \$7,500 to \$15,000, or about three-eighths of a mill annually.

The engineers' estimates of cost for both the proposed Santiam and Willamette river projects were based upon a bond interest rate of 4 1/2%. When the report was prepared, this was the prevailing rate, but the bond market has been so adversely affected since the writing of the report, that it is doubtful that the bonds could now be sold at par on a 5 1/2% per cent basis or at any other reasonable price. If the city had to pay as high a rate as 5 1/2% or 6% on the indebtedness incurred for a water supply, it would undoubtedly be necessary to increase taxes on the water plant from the present 1 1/2% to 2 1/2%.

City of Salem bonds at the present time enjoy a AAA rating, which is the highest rating accorded to bonds. During the past few years, the city issued \$475,000 of Sewer bonds, \$350,000 of Bridge bonds, \$50,000 of Airport bonds, and \$40,000 of Incinerator bonds. To add \$2,500,000 of water bonds to the present indebtedness of the city, would depreciate the value of all city of Salem bonds now outstanding in the hands of financial institutions and private individuals, as well as the values of the proposed new bonds. Future financing by the city would be affected adversely for years to come.

### Cost of Plant and Operation

The engineers report that the water plant could be operated more economically under municipal management than under private control. They cite the year 1927 as a criterion, showing that instead of an assumed loss of \$5,648 by a private company, the city would have made a profit of \$41,280, after deduction of an amount equivalent to \$21,958 in taxes. I cannot subscribe to this conclusion, for the reason that private companies must operate economically in order to make a profit. Private companies also generally have a freer selection of efficient employees than would be the case with a municipal corporation. While I believe that a municipally owned plant, with good management, could be operated at a cost no greater than that of a private company, I do not believe it would be conservative practice to anticipate a lower operating cost prior to the acquisition of the utility. I also do not believe that it would be safe to speculate upon the future as to growth of population or revenues. Too many municipalities in Oregon have already made that mistake, only now to find that they cannot meet their obligations. A large number of municipally owned water plants in the state of Oregon are not on a paying basis, and it is necessary for the cities to levy taxes to help pay debt service.

As an illustration of possible error in computing operation costs, which is shown as \$40,000 for a gravity system for the first year and is gradually increased in amount for succeeding years, I have only to cite the case of the city of Eugene which has a water utility whose bonded debt less sinking fund on June 30, 1931, was \$441,513.47, and whose fixed capital, including filtration plant, was \$1,117,475.13, compared with \$2,500,000 of the proposed system for Salem, without filtration plant. Eugene has a population of 18,901, as compared with 26,266 for Salem, and obtains its

## OPEN FORUM

Salem, Ore., Dec. 11, 1931. Editor Statesman:

I wish to go on record as a Salem taxpayer not in favor of the Water Bond issue. Why? Because the revenue derived from the operation of the water plant is not enough to pay the interest on the \$2,500,000.00 the city will have to borrow to make their start in the water plant business. I do not see how they can get it, unless by putting the case right before the Little North Fork of the Santiam water supply, as indicated in the voters' pamphlet. It is too small in the first place, and regardless of what has been said of its purity, the water will have to be treated to be safe to drink. Young Mr. Sparks who works for the Hollywood Press stated that he went fishing up on the Little North Fork and stated that it was the purest water he ever saw. Well I believe that I started fishing on the Little North Fork before Mr. Sparks was born, and it is apparent that it is a small stream containing periwinkles, crawfish and both trout and salmon, and that the water there is a certainty that worms, bugs and flies are coming into the stream to feed the stream life.

In the Little North Fork basin forests deer, bear and panther live as well as smaller animal life, when one of this family, a rooster, result in the water from the location of the body goes into the main stream which is the outlet of the basin, the Little North Fork.

### Five Mines Noted

There are five mining operations in the Little North Fork, and an mining engineering improves the mining in this territory increases thus adding a further pollution to the North Fork.

Those in favor of this huge bond issue try to hide the water from the voters. This Little North Fork of the Santiam is pure water from the McKenzie river at a point nine miles above the city, compared with 27 miles to the Little North Fork of the Santiam River. The total operating cost of the Eugene water utility for the six months ending June 30, 1931, at a basis of \$1,905.74, or on the basis of the whole year, \$63,811.48. The net cost on that basis after deducting pumping charges, which would not be necessary under the proposed gravity system, would be \$52,000, compared with the \$40,000 for Salem during the first year. The Eugene report shows that for the six months ending June 30, 1931, expense in purifying the McKenzie River water was \$1,598.25, and for the year ending December 31, 1930, \$3,597.55. In computing operating costs of its water plant, the city of Eugene includes as a part of the cost, taxes lost to the city through municipal ownership. The operating cost of the \$1,200,000 Medford gravity plant is reported at \$62,000 per year.

The city of Eugene is now building a 12,000,000 gallon filtration plant and has laid plans for a further unit to bring the filtration capacity to 24,000,000 gallons per day. The proposed Santiam project, which is comparable to the McKenzie River project, does not include a filtration plant, but the proposed Willamette river supply for Salem calls for a filtration plant of 10,000,000 gallons capacity with provisions for a further unit of 5,000,000 gallons.

The city of Eugene computes depreciation on its fixed utility capital at 3 per cent per annum, compared with a composite rate of about 1 1/2 per cent used in computing the depreciation on the proposed Willamette River project, and a rate of about 1 1/4 per cent on the Santiam gravity project. It is obvious that if the Eugene rate were used, and a bond interest rate of 5 1/2 or 6 per cent were substituted for the 4 1/2 per cent rate used by the engineers, the Santiam project, at present water rates, would be a financial failure.

Under the proposed Willamette river project, the engineers would receive fees of 12 per cent of the cost of the pumping and filtration plant. The fee is estimated in the report at \$35,500. Under the proposed gravity project, the engineers are asking 10 per cent of the total cost of the main supply line and 20,000,000 gallon storage reservoir, or \$192,500. Both estimated fees appear to me to be excessive. I am unable to understand the reasons for a recommendation for a 5,000,000 gallon reservoir in the city of Salem in addition to a 20,000,000 gallon reservoir in the Waldo Hills in connection with the proposed Santiam project. In the first report made by the engineers, the cost of the Santiam project, including the Waldo Hills reservoir, was figured at \$2,250,000, and in that estimate no mention was made of the local reservoir.

I should say that on account of lack of adequate supply of the Little North Fork of the Santiam, and business and financial conditions, it would be the height of folly for the electors of the city of Salem to saddle upon themselves a stupendous debt of \$2,500,000 for so-called mountain water. I believe that the city should acquire the present water plant at the best possible price at the first opportunity, and that after the plant is acquired, either by purchase or condemnation, a thorough study of future plans should be made.

I further believe that rather than accept blindly the recommendations of one party of engineers, the council should give consideration to the proposition of either employing other engineers for the purpose of double checking, or of endeavoring to obtain assistance from the Agricultural college, or from superintendents of large municipally owned water plants in Oregon.

water and ready to drink and the supply is ample, but just go up the hill stream some Sunday afternoon the summer and you will see that the flow is small and it is quite a recreational area, where there is a deep hole you will probably find a picnic party there having a swim. Yes, they will be ready to drink too, there will be a fence built around the basin to keep people out and have Batty Cooper up there policing the area to keep it sanitary.

### Poor Time to Start

There is one of them bond issues that don't pay its way and that will certainly be the way of the \$2,500,000.00 water bonds, except that in this case we will be paying \$5,000,000.00 in interest if the five per cent 40 year bonds are sold.

Another feature of this \$2,500,000.00 bond issue at this time: I got a lot of information from some men that have done a lot of stock and bond buying and wished they hadn't, they doubt if the issue will sell at all and if it does they will probably bring only 85% of the par, with which means a loss in discount of \$375,000.00.

### The Federal Water Systems, Inc.

The Federal Water Systems, Inc. got about as many potatoes as the whole state of Oregon put together, so they might outwind us in a long race before we get to any sense greenhorns, but they don't know the water works business. And as Joe Albert says, "one must learn a business at the expense of the business," and that would be the case here, except that the taxpayers would help very much by being united together. I have had considerable corporation experience myself and know what standards the large corporation require in their plants.

### Fund Won't Reach

The Salem water works reported an earning of \$90,000.00 to its parent office and out of that amount the federal government income were paid so after all was said and done the net earned did not miss \$75,000.00 very far. But now let's do some guessing about what would happen if the city owned the plant, they might not have any income to pay and they could pass an ordinance prohibiting depreciation, then they could show the full \$90,000.00 as earnings. Now, section (5C) of the proposed charter amendment says that income from the operation shall (get that shall, that's mandatory) be just go to the disposal of in the following manner: First, pay the operating expenses (we will say they have done that and have \$90,000.00 left. Here comes the sticker "second shall" pay the interest on the bonds, in short they are committed to pay \$125,000.00 with the \$90,000.00 earnings we have granted.

They will have to get "Andy" to debit here and credit there, to make that item come out. Third shall, this \$90,000.00 they spent for interest is also to be used for making extensions and additions to the plant. Fourth shall, this \$90,000.00 that has at this stage been spent almost two times already is also to be used in the creation of a sinking fund for the purpose of retiring the bonds at maturity, now a sinking fund proportioned over the 40 years which will be most likely the period of the issue, then there will be a fortieth of the bond issue or \$62,500.00 to be paid out of this \$90,000.00 which has already been spent a couple of times. Well if you have been patient enough to read this far with me you have come to the conclusion that it just is not in the cards.

### AN ANSWER TO ED ROSTEIN'S "HOOEY"

To the Editor: Ed Rostein, having solved the world's economic problems, at least to his own satisfaction, in a series of articles which appeared in the Statesman, has, the country should by now be making the sunshine of great prosperity, instead of witnessing the lengthening of the bread line and unemployment. His reputation as a financial wizard has gained momentum, and his advice is eagerly sought by banks and bankers as to the right time to buy and sell stocks and bonds. How unerring his judgment has been, we leave to Ed. How he escaped the eagle eye of President Hoover and Secretary Mellon is a national loss. For veritably, he has "like unto the mighty ocean, whose waves have touched every shore of thought" discussed every known issue of the day. He is now discussing the issue of \$2,500,000.00 water bonds, with the Santiam river as the base of supply. I am afraid that Ed would "rather be right than mayor of Salem," with little or no chance of being either. Let me draw his attention to a few simple figures. The cost of operating the water plant and state and local taxes lost at \$90,005 and what have you? \$215,005. So far so good. The last statement issued by the water company showed a net profit of \$91,868, from which depreciation and federal income tax must be deducted. The loss between the two systems would add an additional burden on the city to the tune of \$33,132 without depreciation. How is this loss to be balanced? Only in one way and that is by a very heavy increase in rates, a rate which will affect every householder in the

entire city. It is fair to assume that the increase could very easily amount to 66%. I don't believe the people will stand for such nonsense.

This is no time to indulge in half baked fandangos. Let's brush the cobwebs out of our brains and for once keep our feet on the ground and not be carried away with a lot of silly propaganda that we are going to get "pure mountain water" at a very low cost. The fact of the matter is there is no such thing as "pure mountain water" because it all has to be treated and the famous Bull Run water, which supplies Portland, is no exception.

In my judgment the most sensible thing to do is to vote "no" on this question and later on, when we get over this depression and the sun begins to shine, we can and will renegotiate negotiations for the purchase of the present water plant, and which won't cost to exceed one half of the contemplated issue of \$2,500,000, then we will probably bring only 85% of the par, with which means a loss in discount of \$375,000.00.

### Editor Statesman:

The barber shop is generally considered to be a dissembler of news and sometimes of information of misinformation. My little barber shop is no exception to the rule. Everything is discussed. Right now it is the employment or unemployment question, I have heard many tales of woe and more or less criticism of the methods employed in furnishing employment on county road work. Being interested in a young father, whose credit at the stores is strained to the breaking point, I called upon Jim Phillips at the Y. M. C. A. employment headquarters to see if all the facts were known regarding the case. A 20 minute talk with Mr. Phillips convinced me that every effort is being made to get such information regarding each case which would enable him to determine the most deserving of work. He explained that occasionally an imposter would get by for a short time but that they were invariably reported by some one. Mr. Phillips impressed me with his responsibilities seriously, and so far as I could see he has what I would call a "Chinese puzzle" to solve. With the cooperation of the public I believe Mr. Phillips' experience and good judgment can be depended upon to do the right thing by everyone.

Eugene T. Prescott, 1064 Oak St.

Salem, Ore., Dec. 12th, 1931. To the People: Will it not be a very great injustice to saddle upon the homeowners \$2,500,000.00 of mortgage in addition to the \$1,117,491 of present mortgage and the further debt already existing above this for pavement, etc? Which all totals not less than \$4,000,000. This calls for an annual interest charge of \$200,000, and this all is to be saddled on the homeowners.

It calls to mind an experience a few weeks past of the writer in a proposition to have him take the bond of a small city in place of a mortgage security. Upon investigation concerning the bond we found the report of the city clerk as follows: "Total bonded indebtedness, \$138,000.00; assessed valuation, \$136,965.00; intangible prop., \$22,825.00; interest in default, \$1,795.00; \$1000 in bonds and \$1,762.50 in interest has been paid; the rate of 50c on the dollar since July 1, 1931. 50% is being offered for all that is due and in default."

It seems there are people who are not only willing but anxious to run into debt to all possible extent, which proves to be a great calamity to an individual and a community. J. J. NUNN, 940 N. 19th St., Salem, Oregon.

Fossil remains of prehistoric elephants have been found in nearly every one of Nebraska's counties.

SEATTLE — A total of 340 mills reporting to the West Coast Lumbermen's association for the week ending December 5, operated at 26.3 per cent of capacity, as compared to 27.1 per cent of capacity for the second preceding week. Last week contained a holiday, Thanksgiving, and is not directly comparable. Operations were 24.4 per cent of capacity and 44.0 per cent for the same week last year. For the first 48 weeks of 1931 these mills have operated at 37.5 per cent of capacity as compared to 54.2 per cent for the same period of 1930. During the week ended November 28, 206 of these plants were reported as down and 134 as operating. Those operating reported production as 43.6 per cent of their group capacity.

Current new business reported by 220 identical mills was 7.6 per cent over production and totaled 5,000,000 feet more than the footage received the previous

## WHO CAN VOTE, WHEN AND WHERE SPECIAL CITY ELECTION TUESDAY

Who can vote: Any duly registered voter. No property owning qualifications. When: Between hours of 8 a. m. and 8 p. m. Tuesday, December 15.

Where: There will be seven voting places, grouped in wards of two to four precincts to each ward. These are:

- FIRST WARD: Comprised of Precincts Salem No. 9, No. 10, No. 15, and No. 22. Polling place: First German Baptist church, corner D and North Cottage streets.
- SECOND WARD: Comprised of Precincts Salem No. 2, No. 11, and No. 21. Polling place: Eligh Building, 512 State street.
- THIRD WARD: Comprised of Precincts Salem No. 16 and No. 17. Polling place: City hall.
- FOURTH WARD: Comprised of Precincts Salem No. 4, No. 5, and No. 12. Polling place: Swedish Tabernacle, corner Mill and 15th streets.
- FIFTH WARD: Comprised of Precincts Salem No. 7, No. 8, No. 14, and No. 21. Polling place: St. Vincent de Paul school, on Myrtle avenue between Highland and Columbia.
- SIXTH WARD: Comprised of Precincts Salem No. 1, No. 3, No. 19, and No. 20. Polling place: Yale Electric Laundry, 354 North 21st street.
- SEVENTH WARD: Comprised of Precincts Salem No. 6, No. 18, No. 18, and No. 24. Polling place: E. Sherwood residence, 787 Cross street.

## BUILDING ACTIVITY SHOWS MORE GAIN

### Fourteen Permits Issued in Last Week; new Jobs Small, Numerous

Building operations in the city, which showed a gain during the first week of the month, mounted even higher last week, in comparison with the late season in November. Fourteen permits were issued for jobs estimated to cost a total of \$1123.75, of which \$540 was for new construction.

During the previous week the five permits issued amounted to \$1903, none of which was for new construction. The new jobs passed on by the city building inspector last week were: R. Schmutz, shed at 995 Market street, \$250; I. F. Shatt, garage at 640 North 14th street, \$30; S. Ray White, garage at 1520 North Capitol street, \$85; and R. H. Barton, fireplace at 715 Hood street, \$175.

Repair operations were as follows: T. G. Harris, dwelling at 1660 Waller street, \$40; J. C. Nelson, garage at 104 East Wilson street, \$15; J. T. Hollett, dwelling at 785 North 17th street, \$15; A. W. Smithers, dwelling at 880 North Cottage street, \$133.75; George Nelson, dwelling at 543 Leslie street, \$145; Erta apartments, 875 North Liberty street, \$82.

Fred Tiffany, garage at 544 Perry street, \$45; Mrs. Joe King, dwelling at 529 South Commercial street, \$45; David Warner, move garage, 882 Highland avenue, \$15; Southern Pacific commissary warehouse at 465 South 13th street, \$60.

## UNFILLED ORDERS FOR LUMBER GAIN

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## SCHOOL'S MUSICAL PROGRAM OUTLINED

### Event Friday Night Planned To Bring out Latent Talent of Pupils

Sponsored by the school principals' association of Marion county in a plan to bring before the public latent talent in school children, a musical program will be given Friday night at the high school auditorium here with children from nine communities participating. The program open to the public without charge, will start at 8 o'clock.

The towns represented and by what will include: Aumsville, girls' glee club; Gervais, boys' glee club; Hubbard, girls' glee and triple trio; Mill City, girls' glee club; Silvertown, instrumental ensemble and girls' glee; Stayton, boys' glee and solo violinist; Turner, girls' glee; Woodburn, boys' and girls' glee clubs; Salem, boys' quartet, octet, mixed chorus and Salem high school band.

Arrangements for the musical program are in charge of R. W. Tavenner, F. W. Wolf and E. R. Derry of Salem, while publicity is being handled by Dr. P. O. Riley, Hubbard, and Mr. Tavenner. Christmas carols will be sung by the combined groups.

Weet Texas expects one of the largest pecan crops in years this fall.

## COLEMAN TO TALK ON LABOR OUTLOOK

Dr. Norman F. Coleman, president of Reed college of Portland will talk on "Unemployment and the Labor Situation" at the Methodist church Monday evening at 6:30 p. m.

Dr. Coleman, prior to becoming president of Reed college, was head of the Loyal Legion of Lumbermen of Oregon and Washington, the organization of mill employees of the northwest and is probably one of the best qualified men on labor conditions in Oregon.

The talk is given under the auspices of the Men's Council of the First M. E. church on State street at 6:30 p. m. next Monday. Public officials, Willamette factory members and business men of the town interested in the problems of unemployment and labor are cordially invited to attend. Supper will be served by J. B. Crary.

## Howard's Term Deemed Limited

V. W. Howard, elected district attorney of Jefferson county in 1930, to succeed Vine W. Pearce, who died, will serve only the unexpired term of his predecessor, Attorney General Van Winkle held in an opinion handed down here today. Pearce was district attorney of Jefferson county for many years.

The opinion was requested by Hal E. Hoos, secretary of state.

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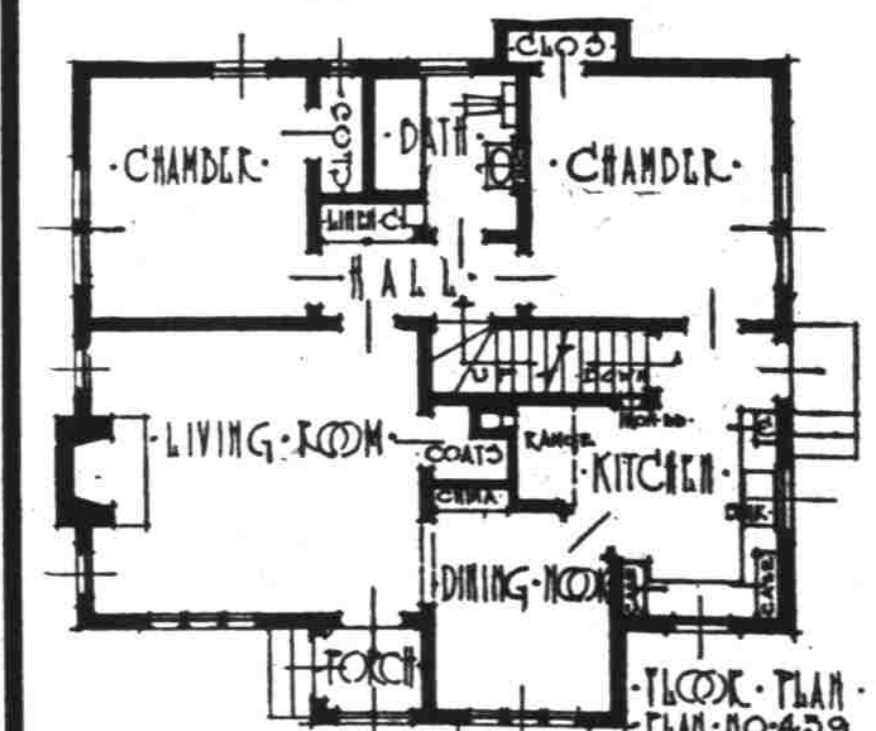
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All of the rooms are of ample size and have cross ventilation. The kitchen and bathroom are well equipped and there is abundance of closet and cupboard room throughout the house. Besides the two large corner bedrooms on the ground floor, a stairway leads to more sleeping space in the upper story.

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