

### HANSON'S REPORT TO THE COUNCIL

Honorable Mayor and City Council:  
Medford, Oregon.  
Gentlemen:

Pursuant to your direction I have conducted an investigation of the financial condition of the City of Medford with a view to devising and submitting to you for adoption a comprehensive plan for the readjustment of the finances of the city.

The special inquiry deals with the condition of the local improvement assessments and the mode of payment thereof. Before definite conclusions can be drawn regarding the improvement indebtedness it is necessary to consider the city's general debt and its water debt. I have therefore arranged all these obligations in three groups:

- (a) General City debt.
- (b) Water debt.
- (c) Improvement debt.

The people must pay both principal and interest of the general debt by tax levy. The city water plant is a business institution producing revenues and should be organized and conducted with such business economy that it will pay both principal and interest upon the water debt and provide such other money as are required to take care of depreciation and replacements.

The improvement debt comprises bonds offset by assessments levied upon private property for paving, sewer and water main improvements. The assessments have been bonded under the "Bancroft Act" and are payable in installments. There has been falling off of such installment payments within the last two years. To avoid default in interest payment of these improvement bonds the city has advanced large sums. These bonds commence to fall due in 1919 and annually thereafter. They must be paid at maturity unless a plan can be devised for refunding. In considering the matter of their payment or a plan for refunding, the debt paying ability of the city and the private property assessed for these improvements must be carefully analyzed.

For the purpose of showing graphically the present status of all municipal bonds of the City of Medford and a comprehensive plan for their payment within reasonable time and with the lowest annual tax levy therefor, I have extended the bonded indebtedness upon the tables attached to the report.

Table 1—Class A, General City Bond

No sinking fund has been created for any of these issues although \$25,000 falls due on February 1, 1918, and \$28,000 on April 1, 1921. The \$25,000 issue I would recommend that you refund by the issuance of twenty-year serial bonds payable in equal annual installments. As to the \$28,000 issue, an \$8,000 sinking fund should be created by maturity and the balance refunded by the issuance of \$30,000 serial bonds payable in fifteen installments of \$2,000 each. The \$30,000 and the 29,000 issues should be paid at maturity from a sinking fund realized from tax levies in accordance with the table.

Upon the basis of the existing property valuation the annual tax levy required to pay principal and interest upon the city's general debt is shown in the table, the levy for 1917 being two and one-fourth mills and never increasing above two and three-fourth mills.

Table 2—Class "B" Water Bonds

The \$45,000 issue falls due March 1, 1917 and has an available sinking fund of \$141,232.90. Enough should be taken from the revenues to raise this sinking fund up to \$15,000, the balance of \$30,000 should be refunded with twenty-year serial bonds payable in fifteen installments commencing the sixth year.

The \$29,000 issue has no sinking fund now. Water revenues should be set aside into the sinking fund in accordance with the following table to retire the principal at maturity. The same should be done with the \$24,000 issue and the \$27,000 issue.

The \$205,000 issue is the last to fall due, maturing July 1, 1924. Inasmuch as the burden of retiring the principal of the other water issues must be met before the \$205,000 issue matures, I would recommend that the payment into the sinking funds for this issue be delayed for some years.

The revenues of the water plant last year were insufficient to meet the cost of operation, bond interest, a sinking fund for principal and establish a depreciation and replacement account. In addition to the cost of operation and the fund for depreciation and replacement it will require a sum largely in excess of thirty thousand dollars annually for interest and principal from now until the maturity of the outstanding water bonds.

On the basis of the present average water revenues and assuming that the water plant can be operated with such business economy and regard for the protection of its income that the net sum of twenty-five thousand dollars annually may be taken from the water fund and applied to the water debt, principal and interest—we observe the following condition as shown on table 3: During the year 1917 the total payment on the water

debt in accordance with the plan above indicated is \$29,241.09. This will permit setting aside into a surplus fund \$47,599.00. During the years 1917-18-19 and 20 the surplus thus accumulating will amount to \$16,009.00. During the year 1921 all of the \$25,000 will be needed to pay principal and interest. During the year 1922 the principal and interest on the water debt will exceed \$28,000, during the years 1923-25 and 26 the \$16,000 reserve fund will be needed to meet the heavier principal and interest payments, and it will also be necessary to raise \$3700 additional by the levy, or one mill on the present valuation. During the years 1925 to 1929, inclusive, tax levies in aid of the principal and interest of the water debt will be needed, the maximum being one and one-half mills on the present valuation. From that time on, in addition to the annual sum of \$25,000 from the water revenue, substantial annual tax levy contributions will be needed to pay all of the water bond interest and principal including the sinking fund for the \$295,000 issue. This sinking fund should be established not later than the year 1929.

The ordinance providing for the water bonds declare that the interest shall be raised by tax levy and that the principal shall be raised from the revenues of the water plant. The plan which I have indicated on table 2 will make possible the payment of all the principal and a part of interest from the revenue alone, without accumulating large sinking funds over too long a period of years. But it will be necessary during the years 1921 to 1928, when the last issue of bonds finally matures to contribute to the payment of present water debt by way of tax levies the sum of \$138,500. In other words for the next four years on this basis the water revenues will carry the water debt, for the remaining seventeen years tax levy contributions must annually be made.

It would require an annual levy of five mills to pay water bond interest if the ordinance provisions were exactly followed, and this would continue with slight reductions after 1923 due to the gradual retirement of the bonds—and the taxpayers would be required to contribute a total sum of \$349,125 beside commencing the immediate accumulation of sinking fund accounts which would have to be carried over a long period of years.

#### Water Meters Advised

With an increase in population there will come an increase in revenue perhaps sufficient to delay the necessity of tax contribution for some years. This will be possible however only on one condition. The present daily consumption at the time of greatest use of water is five hundred gallons per capita. If the city will through the use of meters and by other protective measures eliminate the large daily waste of water it will be possible to supply water to an increased population without increasing the capacity of the plant, which is already taxed to its limit at the time of greatest use.

Any increase in the plant for the purpose of bringing more water to the city means a very heavy expenditure. It is estimated that the cost of installing pipes for bringing an increased supply of water to the city, together with other expenditures which must be made, will cost about \$365,000. It may safely be assumed that the water department will be called upon to make these expenditures within the next twenty years. These new capital investments will approximately double the water debt. This makes it imperative that a definite plan for the payment of the existing debt be adopted and carried out.

New capital investment should be financed by the issuance of new bonds which in turn should be retired as to principal and interest from the revenues.

The \$45,000 bond debt was created in 1887 for the purchase of the old pumping plant. No part of this principal has ever been paid and the city has already paid \$67,500 in interest thereon besides interest which it must pay for the coming fifteen years. All the money it has to apply upon the debt is \$14,123.90. The city has not laid aside a dollar to apply upon the principal of any of the other water bond issues. In view of these facts and the heavy expenditure for capital investment, which must be made before the present water bonds mature, it is of the utmost importance that the water revenues be protected in every way consistent with good business management to the end that the annual sum at least of \$25,000 of these revenues may be assured for principal and interest of the water debt. Whether new capital investments must be retired as to principal and interest entirely from general tax levies or can be met in part at least from water revenues is dependent on the amortization of the present liabilities at maturity.

Table 3—Class "C" Improvement Bonds

These bonds are represented by

assessments levied upon private property for paving, sewers and water mains. The total original amount of these assessments was \$1,241,547.32. The unpaid principal is \$705,500. An initiative petition has been filed with the city council and will be submitted to the voters in January, 1917, relating to the paying assessments. This measure provides: (a) That the city shall assume all of the original paying debt, the principal sum of which was \$926,292; (b) That the city shall pay back all paying assessments already paid; (c) That the city shall assume all outstanding paying assessments plus interest to be paid upon the outstanding paving bonds.

The initiative measure contemplates (1) that the interest which the city has already advanced shall be eliminated as a credit item; (2) that general city warrants to the amount of \$370,000 bearing 5 per cent interest shall be issued to the owners of property on which paving assessments have been paid to the amount of such payments, and that these warrants can be used for the payment of taxes; that 5 per cent of the warrants shall be payable annually. (3) The measure also provides for the issuance of \$500,000 of general city refunding bonds to retire the existing paving bonds, the rate of interest being fixed at 5 per cent.—bonds to be sold for not less than par and to be payable serially in twenty equal annual installments.

Assuming that the warrants shall be issued and delivered and that the bonds shall be issued and sold, table 4 shows graphically the way in which such debt must be paid and the tax levy based on the present valuation necessary therefore.

Table 4—Class "C" Pending Initiative Measure

In the light of the present involved condition of the finances of the city of Medford, it is more than likely that the city will be unable to sell these proposed refunding bonds at 5 per cent. The initiative measure prohibits a sale at a higher rate or at a discount. If the city should adopt this proposed initiative measure and thereby assume the entire paying debt, issue the warrants but be unable to sell the refunding bonds, it would then be compelled to pay the warrants and to pay the outstanding paving bonds with interest at maturity.

Table 5 shows how much must be levied each year to pay the outstanding paving bonds at maturity and the warrants provided for by the pending measure, which limits the annual levy therefore to 20 mills.

On the basis of the present assessed valuation the tax levies for the amounts necessary to pay at maturity the outstanding paving bonds and the warrants provided for in the initiative measure, as shown in table 5, will be forty-seven (47) mills in 1918 and cannot be made to average less than approximately forty-four mills during each of the years 1918-19-20 and 21.

To place upon the city at large a paving debt in excess of a million dollars in addition to its existing general debt and water debt amounts to an imposition on the taxpayers of an obligation beyond their ability to discharge.

On the other hand if legal measures shall be taken to compel the property owners to pay assessments at maturity, such action while due to the delinquency of the property owners themselves will in many cases amount to confiscation. A plan should, in my opinion, be adopted as an amendment to the city charter authorizing the extension of time within which the property owners may pay the unpaid balance not only of their paving but of their sewer and water main assessments. With this in view, after a careful consideration of the matter, I would recommend that a charter amendment be prepared and submitted to the voters providing that during the years 1917, 1918 and 1919 only interest be paid upon improvements assessments and that one-tenth of the unpaid principal be paid annually for the following ten years. This plan will operate to relieve the property owners of any payment on principal during the coming three years and distribute the burden of the unpaid principal over a period of years up to and including 1930.

#### Pay in Life of Improvements

While it is true that the community has carried forward a larger amount of street improvements than seems necessary for a city of the population of Medford, nevertheless the improvements are substantial and of a lasting character. The plan which I submit to you while extending the time of payment very materially is so arranged as to provide for final payment of the assessment within the life of the improvement.

Provision should be made in the charter amendment for a more definite and adequate method to enforce collection of unpaid assessments and installments.

If this plan for providing a more lenient and reasonable method and time for paying these assessments by the property owners shall meet with your approval it will be necessary to refund the existing improvement bonds. Pursuant to state law and

charter provisions under these various improvements have been carried out, the city has made 267 improvements necessitating 267 accounts. Portions of these accounts representing properties applying to be bonded have been consolidated into fifty bond accounts and bonds issued on the faith and credit of the city therefore.

The net result is that the city recorder must take into consideration the two hundred sixty-seven improvement accounts and the fifty bond fund accounts, or a total of three hundred and seventeen individual accounts. Separate consideration must be given to principal payments and to interest payments in these various accounts. The practical effect of this system is to create a confusion of accounts which becomes worse confounded the longer it is continued.

I would recommend that all of the unpaid assessment accounts be audited and reconciled and transferred to one consolidated lien docket and established as a consolidated improvement district. The fund for this district will carry only two accounts, one for principal and the other for interest. The outstanding improvement bonds should be retired following the adoption of the charter provision by the issuance of refunding improvement bonds against the consolidated district. These bonds will provide that interest alone need be paid during the years 1917-18 and 19, and that the city shall have the option to pay any of the bonds before maturity on any semi-annual interest payment date.

The last installment payment of the assessments will become due at the end of the thirteenth year. It is advisable that the bonds shall fall due at a somewhat later date so that the assessments may be collected from delinquent property owners before the bonds mature. I therefore recommend that the bonds mature at the end of fifteen years, which will allow ample time for the collection of all assessments before their final maturity.

If the city will adopt a systematic plan for the payment of its general debt and the water debt as I have suggested above and will arrange to refund its special improvement indebtedness along the lines indicated, it will have, in my opinion, every reasonable prospect for securing a fair market for its refunding bonds and its improvement bonds at favorable interest rates.

#### Legal Phases

The legality of the plan which I have indicated for the readjustment of the improvement finances involves first, (1) the legality of the outstanding assessments and, second (2), the power of the city to provide in its charter for a different method of collection and for the refunding of the bonds. That the city had power to make these improvements and to levy special assessments therefor is well established in this state. Its right to reassess under certain conditions has recently been affirmed by the Oregon supreme court in the case of *Phillips vs. the City of Medford*. North Riverside avenue was improved by paving and an assessment levied against the property of Mrs. O. W. Henderson. A mortgage against this property in favor of the Jackson County bank was subsequently foreclosed and the city made a party defendant. The city did not appear to contest the litigation and protect its improvement assessment lien, which under the law was superior to the mortgage lien. The decree of the court as in other default cases followed the allegations of the complaint and declared that the mortgage lien was superior to the assessment lien, and that the assessment lien was cancelled by the foreclosure of the mortgage lien. The effect of this judgment is that the city's assessment for paving against this property is cancelled. The decision, however, affects only the property involved in that litigation. It does not change the existing law which declared that the lien of special assessments is superior to all liens except general taxes.

If the mayor and city council entertain any doubt as to the correctness of this legal proposition they can speedily set the matter at rest by instituting proceeding to enforce the collection and acquire title to any selected property against which there is a delinquent improvement assessment and also an outstanding mortgage.

Under the Bancroft act property owners are given the option of paying their assessments in cash or paying in installments upon making written application and waiving irregularities in the proceedings. The legislature may provide a different method of collection and payment. Such power under the Oregon constitution may be expressed in the Medford charter. The exercise of that power invades no vested rights. In my opinion, the electors of Medford have the legal power to amend their charter and the Bancroft act itself by providing a new method for the collection of these unpaid improvement assessments and by providing for the issuance and sale of refunding bonds as above indicated and outlined.

In the general demand for permanent improvements, which marked the development period in Medford, the day of payment was apparently often overlooked. That day has arrived during a period of real estate inactivity. The burden of these assessments often overtaxed the property owners debt paying ability, and principal payments have fallen off. The city has even advanced large sums to meet interest payments. Such reasonable extension of time for the payments of these assessments should be provided as will enable the greatest number of property owners to pay both principal and interest and avoid losing their properties. It will be seen from the foregoing tables and the analysis thereof that the city of

Medford is not in financial condition to relieve the property owners of their special assessments.

The best that it can hope to do is to put its own finances in order, reduce the tax levy to a minimum and provide for an extension of time for the payment of outstanding special assessments.

The city's general credit, already heavily involved, is further affected by the recent authorization of an issue of \$300,000 of Railroad Construction bonds. This issue is now involved in litigation. If the issue shall be held to be legal, the city's general credit will no longer be affected thereby, but if these bonds shall be held legal, and the city shall succeed in selling the same, provision must be made for the annual payment of \$18,000 interest and the retirement of the principal.

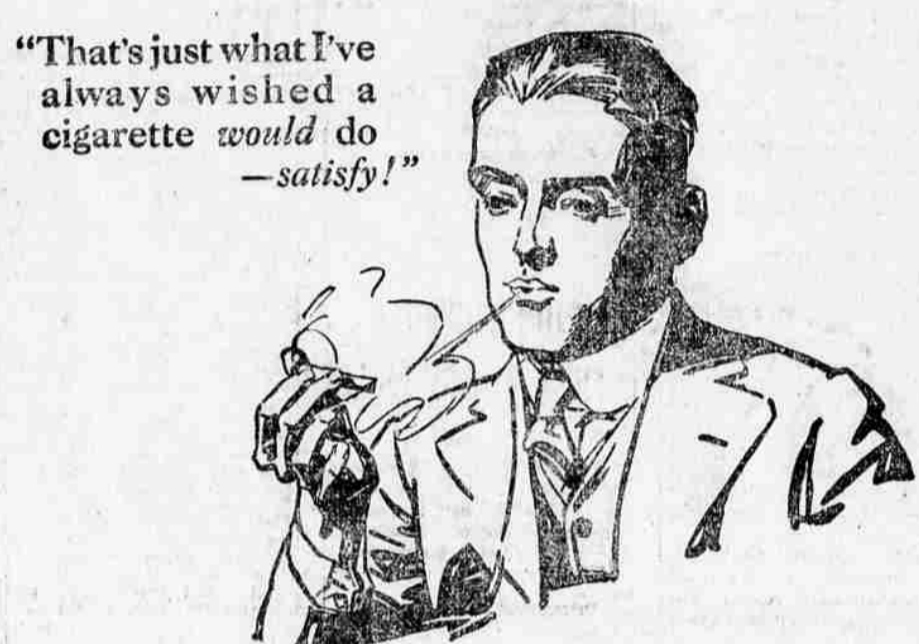
#### Summary

In conclusion I beg to invite your attention to the fact that the plan, which I have submitted to you above, contemplates an orderly arrangement of the city's financial program with special reference to a constructive method for the payment of its general debt, its water debt and the special improvement debt in the light of the ability of the city and the property owners to pay. The plan is so arranged that the tax levy shall at all times be kept at the lowest possible point, and the burden of the special assessments will be extended over a considerable period of time.

### CONTEST LOOMS IN NORTH DAKOTA COURT

FARGO, N. D., Nov. 28.—An election contest in North Dakota is promised if supreme justices-elect attempt to claim their seats Monday as has already been agreed between R. M. Grace and J. E. Robinson, and partly acquiesced in by Luther E. Birdsall, according to word received here today. The justices-elect seek to take their seats on the supreme bench Monday under a section of the state constitution which provides that justices should serve from the first Monday following their election. This provision, present members of the court maintain was adopted to avert an emergency in 1889 when the state was admitted to the union.

No justices since then have sought to avail themselves of this clause, but have taken seats with other state officials on January 1. The state canvassing board does not meet until next Tuesday and it is asserted the justices-elect have no legal right to their seats until their election has been certified.



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