P U B L I C   H E A R I N G

before

ASSEMBLY ENERGY & NATURAL RESOURCES COMMITTEE

ON

Senate Bill No. 749

(Energy Conservation Bond Issue)

Held:
June 19, 1980
Assembly Majority Conference Room
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Robert P. Hollenbeck (Chairman)
Assemblyman Thomas F. Cowan
Assemblyman Gerald Stockman
Assemblyman Buddy Fortunato
Assemblyman Bob Franks
Assemblyman Elliott F. Smith

ALSO:

Algis P. Matioska, Research Associate
Office of Legislative Services
Aide, Assembly Energy & Natural Resources Committee

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[SECOND OFFICIAL COPY REPRINT]

SENATE, No. 749

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1980 SESSION

By Senator DWYER

AN ACT authorizing the creation of a debt of the State of New Jersey by issuance of bonds of the State in the sum of *[$30,000,000.00]* *$50,000,000.00* for the *energy audit and* renovation of public buildings, institutions and educational facilities for the purpose of accomplishing a net reduction in energy consumption; providing the ways and means to pay the interest of the debt and also to pay and discharge the principal thereof; providing for the submission of this act to the people at a general election; and providing an appropriation therefor.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. This act shall be known and may be cited as the "Energy Conservation Bond Act of 1980."

2. The Legislature finds that:

a. This State supervises and controls a great number of buildings for education, institutions for the mentally handicapped, correctional facilities, State office buildings and other structures and facilities.

b. While some of these facilities are modern, many are antiquated, turn-of-the-century facilities designed in an era when the supply of energy was thought to be inexhaustible and its price was minimal.

c. The skyrocketing cost of energy today, coupled with the uncertainty of its supply, make it highly desirable for the State, as well as every other public and private entity and for individuals, to make every reasonable effort to conserve energy resources.

d. For this State, this will require a substantial capital investment aimed at modernizing and upgrading its facilities and this can be most economically financed through a bond issue.

3. As used in this act:

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

a. "Commission" means the New Jersey Commission on Capital Budgeting and Planning.

b. "Commissioner" means the Commissioner of Energy.

[b.] *c.* "Renovation" means the planning, improvement, reconstruction, rehabilitation and equipment of public buildings, institutions and educational facilities for the purpose of accomplishing a net reduction in the amount of energy consumed.

[c.] *d.* "Educational facilities" means buildings, structures, and facilities under the supervision and control of the Department of Education or the Department of Higher Education, including, but not limited to, Rutgers, The State University, The College of Medicine and Dentistry of New Jersey, the New Jersey Institute of Technology, the State colleges, the Marie H. Katzenbach School for the Deaf, the Milburn Avenue School for the Hearing Handicapped, the State Library, and the State Museum.

[d.] *e.* "Institutions" means buildings, structures and facilities under the supervision and control of the Department of Corrections or the Department of Human Services.

[e.] *f.* "Public buildings" means buildings, structures and facilities under the supervision and control of any executive department of the State.

g. "Supervision and control" means the holding of any fee simple estate, or any leasehold estate for a duration of more than 10 years.

4. The *[chief executive officer of any department designated pursuant to section 5 of this act to implement a portion of the renovation provided for in this act shall issue and promulgate]* *commissioner**, after consultation with the State Treasurer** shall adopt*, pursuant to law, such rules and regulations as are necessary and appropriate to carry out the provisions of this act. *[Such chief executive officer]* *The commissioner* shall review and consider the findings and recommendations of the commission in the administration of the provisions of this act.

5. Bonds of the State of New Jersey in the sum of *[$30,000,000.00]* *$50,000,000.00* are authorized for the *energy audit and* renovation of public buildings, institutions and educational facilities, as defined herein. Of such total, the proceeds from the sale of bonds shall be allocated*[, to the maximum extent practicable and feasible, according to the following estimates of cost:

a. The renovation of public buildings to be implemented by the Department of the Treasury—$8,000,000.00.

b. The renovation of institutions to be implemented by the Department of Corrections and the Department of Human Services—$12,000,000.00.

c. The renovation of educational facilities to be implemented by the Department of Higher Education and the Department of Education—$10,000,000.00.]* *_as follows:_

a. A sum not to exceed **[_$30,000,000.00_]** **_$3,000,000.00_** _to conduct energy audits of educational facilities, institutions and public buildings for the purpose of determining the necessary renovations thereto._

_b. A sum not less than $47,000,000.00 to conduct the renovation of educational facilities, institutions and public buildings._*

6. Said bonds shall be serial bonds and known as "Energy Conservation Bonds" and as to each series, the last annual installment thereof (subject to redemption prior to maturity) shall mature and be paid not later than 35 years from the date of its issuance but may be issued in whole or in part for a shorter term.

Said bonds shall be issued from time to time as the issuing officials herein named shall determine.

7. The Governor, State Treasurer and Comptroller of the Treasury or any two of such officials (hereinafter referred to as "the issuing officials") are hereby authorized to carry out the provisions of this act relating to the issuance of said bonds, and shall determine all matters in connection therewith subject to provisions hereof. In case any of said officials shall be absent from the State or incapable of acting for any reason, his powers and duties shall be exercised and performed by such person as shall be authorized by law to act in his place as a State official.

8. Bonds issued in accordance with the provisions of this act shall be a direct obligation of the State of New Jersey and the faith and credit of the State are pledged for the payment of the interest thereon as same shall become due and the payment of the principal at maturity. The principal and interest of such bonds shall be exempt from taxation by the State or by any county, municipality or other taxing district of the State.

9. Said bonds shall be signed in the name of the State by the Governor or by his facsimile signature, under the Great Seal of the State, and attested by the Secretary of State, or an **[assstant]** **_assistant_** Secretary of State, and shall be countersigned by the facsimile signature of the Comptroller of the Treasury. Interest coupons attached to said bonds shall be signed by the facsimile signature of the Comptroller of the Treasury.

Such bonds may be issued notwithstanding that any of the officials signing them or whose facsimile signatures appear on the bonds or coupons shall cease to hold office at the time of such issue or at the time of the delivery of such bonds to the purchaser.

10. a. Such bonds shall recite that they are issued for the purposes set forth in section 5 of this act and that they are issued in pursuance of this act and that this act was submitted to the people of the State at the general election held in the month of November, 1980 and that it received the approval of the majority of votes cast for and against it at such election. Such recital in said bonds shall be conclusive evidence of the authority of the State to issue said bonds and of their validity. Any bonds containing such recital shall in any suit, action or proceeding involving their validity be conclusively deemed to be fully authorized by this act and to have been issued, sold, executed and delivered in conformity herewith and with all other provisions of statutes applicable thereto, and shall be incontestable for any cause.

b. Such bonds shall be issued in such denominations and in such form or forms, whether coupon or registered as to both principal and interest, and with or without such provisions for interchangeability thereof, as may be determined by the issuing officials.

11. When the bonds are issued from time to time the bonds of each issue shall constitute a separate series to be designated by the issuing officials. Each series of bonds shall bear such rate or rates of interest as may be determined by the issuing officials, which interest shall be payable semiannually; provided, that the first and last interest periods may be longer or shorter, in order that intervening semiannual payments may be at convenient dates.

12. Said bonds shall be issued and sold at such price not less than the par value thereof and accrued interest thereon, and under such terms, conditions and regulations, as the issuing officials may prescribe, after notice of said sale, published at least once in at least three newspapers published in the State of New Jersey, and at least once in a publication carrying municipal bond notices and devoted primarily to financial news, published in the city of New York or in New Jersey, the first notice to be at least 5 days prior to the day of bidding. The said notice of sale may contain a provision to the effect that any or all bids in pursuance thereof may be rejected. In the event of such rejection or of failure to receive any acceptable bid, the issuing officials, at any time within 60 days from the date of such advertised sale, may sell such bonds at private sale at such price not less than the par value thereof and

accrued interest thereon and under such terms and conditions as the issuing officials may prescribe. The issuing officials may sell all or part of the bonds of any series as issued to any State fund or to the Federal Government or any agency thereof, at private sale, without advertisement.

13. Until permanent bonds can be prepared, the issuing officials may, in their discretion, issue in lieu of such permanent bonds temporary bonds in such form and with such privileges as to registration and exchange for permanent bonds as may be determined by the issuing officials.

14. The proceeds from the sale of the bonds shall be paid to the State Treasurer and be held by him in a separate fund and be deposited in such depositories as may be selected by him to the credit of the fund, which fund shall be known as the "Energy Conservation Fund."

15. a. The moneys in said "Energy Conservation Fund" are hereby specifically dedicated and shall be applied to the cost of the purposes set forth in section 5 of this act, and all such moneys are hereby appropriated for such purposes, and no such moneys shall be expended for such purpose (except as otherwise hereinbelow authorized) without the specific appropriation thereof by the Legislature, but bonds may be issued as herein provided notwithstanding that the Legislature shall not have then adopted an act making specific appropriation of any of said moneys. ***Moneys in the "Energy Conservation Fund" may be appropriated or expended for the purpose of providing the non-Federal share of any Federal program which finances the energy conservation renovation of public buildings, institutions and educational facilities supervised and controlled by the State.***

b. At any time prior to the issuance and sale of bonds under this act, the State Treasurer is hereby authorized to transfer from any available money in the treasury of the State to the credit of the "Energy Conservation Fund" such sum as he may deem necessary. Said sum so transferred shall be returned to the treasury of this State by the treasurer thereof from the proceeds of the sale of the first issue of bonds.

c. Pending their application to the purpose provided in this act, moneys in the "Energy Conservation Fund" may be invested and reinvested as other trust funds in the custody of the State Treasurer in the manner provided by law. Net earnings received from the investment or deposit of such fund shall be paid into the General State Fund.

16. In case any coupon bonds or coupons thereunto appertaining or any registered bond shall become lost, mutilated or destroyed, a new bond shall be executed and delivered of like tenor, in substitution for the lost, mutilated or destroyed bonds or coupons, upon the owner furnishing to the issuing officials evidence satisfactory to them of such loss, mutilation or destruction, proof of ownership and such security and indemnity and reimbursement for expenses as the issuing officials may require.

17. Accrued interest received upon the sale of said bonds shall be applied to the discharge of a like amount of interest upon said bonds when due. Any expense incurred by the issuing officials for advertising, engraving, printing, clerical, legal or other services necessary to carry out the duties imposed upon them by the provisions of this act shall be paid from the proceeds of the sale of said bonds, by the State Treasurer upon warrant of the Comptroller of the Treasury, in the same manner as other obligations of the State are paid.

18. Bonds of each series issued hereunder shall mature in annual installments commencing not later than the tenth year and ending not later than the thirty-fifth year from the date of issue of such series, and in such amounts as shall be determined by the issuing officials, and the issuing officials may reserve to the State by appropriate provision in the bonds of any series the power to redeem all or any of such bonds prior to maturity at such price or prices and upon such terms and conditions as may be provided in such bonds.

19. The issuing officials may at any time and from time to time issue refunding bonds for the purpose of refunding in whole or in part an equal principal amount of the bonds of any series issued and outstanding hereunder, which by their terms are subject to redemption prior to maturity, provided such refunding bonds shall mature at any time or times not later than the latest maturity date of such series, and the aggregate amount of interest to be paid on the refunding bonds, plus the premium, if any, to be paid on the bonds refunded, shall not exceed the aggregate amount of interest which would be paid on the bonds refunded if such bonds were not so refunded. Refunding bonds shall constitute direct obligations of the State of New Jersey, and the faith and credit of the State are pledged for the payment of the principal thereof and the interest thereon. The proceeds received from the sale of refunding bonds shall be held in trust and applied to the payment of the bonds refunded thereby. Refunding bonds shall be entitled to all the benefits of this act and subject to all its limitations except as to the

maturities thereof and to the extent herein otherwise expressly provided.

20. To provide funds to meet the interest and principal payment requirements for the bonds issued under this act and outstanding, there is hereby appropriated in the order following:

a. Revenue derived from the collection of taxes as provided by the "Sales and Use Tax Act" (P. L. 1966, c. 30) as amended and supplemented, or so much thereof as may be required; and

b. If in any year or at any time funds, as hereinabove appropriated, necessary to meet interest and principal payments upon outstanding bonds issued under this act, be insufficient or not available then and in that case there shall be assessed, levied and collected annually in each of the municipalities of the counties of this State a tax on real and personal property upon which municipal taxes are or shall be assessed, levied and collected, sufficient to meet the interest on all outstanding bonds issued hereunder and on such bonds as it is proposed to issue under this act in the calendar year in which such tax is to be raised and for the payment of bonds falling due in the year following the year for which the tax is levied. The tax thus imposed shall be assessed, levied and collected in the same manner and at the same time as other taxes upon real and personal property are assessed, levied and collected. The governing body of each municipality shall cause to be paid to the county treasurer of the county in which such municipality is located, on or before December 15 in each year, the amount of tax herein directed to be assessed and levied, and the county treasurer shall pay the amount of said tax to the State Treasurer on or before December 20 in each year.

If on or before December 31 in any year the issuing officials shall determine that there are moneys in the General State Fund beyond the needs of the State, sufficient to meet the principal of bonds falling due and all interest payable in the ensuing calendar year, then and in the event such issuing officials shall by resolution so find and shall file the same in the office of the State Treasurer, whereupon the State Treasurer shall transfer such moneys to a separate fund to be designated by him, and shall pay the principal and interest out of said fund as the same shall become due and payable, and the other sources of payment of said principal and interest provided for in this section shall not then be available, and the receipts for said year from the tax specified in subsection a. of this section shall thereon be considered and treated as part of the General State Fund, available for general purposes.

21. Should the State Treasurer, by December 31 of any year, deem it necessary, because of insufficiency of funds to be collected from the sources of revenues as hereinabove provided, to meet the interest and principal payments for the year after the ensuing year, then the treasurer shall certify to the Comptroller of the Treasury the amount necessary to be raised by taxation for such purposes, the same to be assessed, levied and collected for and in the ensuing calendar year. In such case the Comptroller of the Treasury shall, on or before March 1 following, calculate the amount in dollars to be assessed, levied and collected as herein set forth in each county. Such calculation shall be based upon the corrected assessed valuation of such county for the year preceding the year in which such tax is to be assessed, but such tax shall be assessed, levied and collected upon the assessed valuation of the year in which the tax is assessed and levied. The Comptroller of the Treasury shall certify said amount to the county board of taxation and the county treasurer of each county. The said county board of taxation shall include the proper amount in the current tax levy of the several taxing districts of the county in proportion to the ratables as ascertained for the current year.

22. For the purpose of complying with the provisions of the State Constitution this act shall, at the general election to be held in the month of November, 1980 be submitted to the people. In order to inform the people of the contents of this act it shall be the duty of the Secretary of State, after this section shall take effect, and at least 15 days prior to the said election, to cause this act to be published in at least 10 newspapers published in the State and to notify the clerk of each county of this State of the passage of this act, and the said clerks respectively, in accordance with the instructions of the Secretary of State, shall cause to be printed on each of the said ballots, the following:

If you approve the act entitled below, make a cross (×), plus (+), or check (√) mark in the square opposite the word "Yes."

If you disapprove the act entitled below, make a cross (×), plus (+), or check (√) mark in the square opposite the word "No."

If voting machines are used, a vote of "Yes" or "No" shall be equivalent to such markings respectively.

	Yes.	ENERGY CONSERVATION BOND ISSUE Should the "Energy Conservation Bond Act of 1980" which authorizes the State to issue bonds in the amount of *[$30,000,000.00]* *$50,000,000.00* for the *energy audits and* renovation of public buildings, institutions, and educational facilities to produce a net reduction in energy consumption therein; and to provide a means to pay the principal and interest on these bonds, be approved? INTERPRETIVE STATEMENT **[Approval of this act will authorize the sale of *[$30,000,000.00]* *$50,000,000.00* in bonds to be used *for energy audits and* to make energy-saving renovations to public buildings, institutions and educational facilities supervised and controlled by the State.]** **Approval of this act will provide $3,00,000.00 for energy audits and $47,000,000.00 for energy saving renovations to public buildings, institutions, and educational facilities supervised and controlled by the State, for a total of $50,000,000.00 in State bonds. These funds are essential to make necessary energy conservation improvements to State buildings, which will result in a net reduction in the amount of energy consumed and reduce the State's annual energy bill.**
	No.	

The fact and date of the approval or passage of this act, as the case may be, may be inserted in the appropriate place after the title in said ballot. No other requirements of law of any kind or character as to notice or procedure except as herein provided need be adhered to.

The said votes so cast for and against the approval of this act, by ballot or voting machine, shall be counted and the result thereof returned by the election officer, and a canvass of such election had in the same manner as is provided for by law in the case of this election of a Governor, and the approval or disapproval of this act so determined shall be declared in the same manner as the result of an election for a Governor, and if there shall be a majority of all the votes cast for and against it at such election in favor of the approval of this act, then all the provisions of this act not made effective theretofore shall take effect forthwith.

23. There is hereby appropriated the sum of $5,000.00 to the Department of State for expenses in connection with the publication of notice pursuant to section 22.

24. The *[chief executive officers of departments designated pursuant to section 5 of this act to implement construction provided for in this act]* *commissioner* shall submit to the State Treasurer and the commission with the department's annual budget request a plan for the expenditure of funds from the "Energy Conservation Fund" for the upcoming fiscal year. This plan shall include the following information: a performance evaluation of the expenditures made from the fund to date; a description of programs planned during the upcoming fiscal year; a copy of the regulations in force governing the operation of programs that are financed, in part or in whole, by funds from the "Energy Conservation Fund"; an estimate of the amount of money saved by the program to date; and an estimate of expenditures for the upcoming fiscal year. **The commission shall not approve any project submitted by the commissioner unless such renovations are in conformance with the long-range facilities plans of the agencies and said facilities are not to undergo major renovations, be vacated, condemned, or demolished prior to the payback period of the energy conservation improvement.**

25. Immediately following the submission to the Legislature of the Governor's Annual Budget Message the *[chief executive officer of each department designated pursuant to section 5 of this act]* *commissioner* shall submit to the relevant standing committees of the Legislature, as designated by the President of the Senate and the Speaker of the General Assembly, and to the special joint legislative committee created pursuant to Assembly Concurrent Resolution No. 66 of the 1968 Legislature, as reconstituted and continued by the Legislature from time to time, a copy of the plan called for under section 24 of this act, together with such changes therein as may have been required by the Governor's budget message.

26. Not less than 30 days prior to entering into any contract, lease, obligation, or agreement to effectuate the purposes of this act, the *[chief executive officer of any department designated pursuant to section 5 of this act]* *commissioner* shall report to and consult with the special joint legislative committee created pursuant to Assembly Concurrent Resolution No. 66 of the 1968 Legislature as reconstituted and continued from time to time by the Legislature.

27. This section and sections 22 and 23 of this act shall take effect immediately and the remainder of the act shall take effect as and when provided in section 22.

ASSEMBLYMAN ROBERT P. HOLLENBECK (Chairman): We have a quorum, so we may as well start the public hearing on S-749. As required by the rules, we must have a public hearing on bond issues. We had some preliminary information earlier, at the last meeting, with reference to the bond issue. We know what it does, so I won't bother going into a description of it. We will start right away with the public hearing portion of this meeting.

We have a representative for Senator Dwyer, Lyle Dennis. Do you want to testify, Lyle?

L Y L E   D E N N I S: Thank you, Mr. Chairman. My name is Lyle Dennis. I am the Assistant to the Majority Leader of the Senate. Senator Dwyer would have been here himself this morning, but he had a previous commitment which made that impossible. He asked that I deliver a statement in his stead, and I would be pleased to answer any questions at the completion of the statement.

It is not exactly news that the price of energy has skyrocketed since 1973, and every indication is that it will continue to do so. This increase in unit cost has had a serious negative impact on the pocketbook of every resident of this State and, for that matter, of this country.

The crisis which has resulted from this unprecedented price escalation is truly one of national dimension. As a nation, we are overly dependent on sources of energy which are both unreliable and uncontrollable. Every attempt to lessen the severity of this problem is a necessary component of the overall solution.

A variety of techniques has been proposed or adopted to accomplish this. Among these are voluntary conservation, production standards for energy-consuming machinery, controlling and de-controlling of prices, Lifeline, energy stamps, rationing, and so on. Many of these have come from Washington, and some have come right from this building.

This State, just like every other, has an obligation to do what it can to encourage its residents and its resident corporations to reduce their energy consumption. But, at the same time, it is the obligation of the State, as a major consumer of energy, to set its own house in order. Let me outline for you the magnitude of the problem facing state government.

In fiscal year 1972-1973, which was the last full state fiscal year before the Arab oil embargo, New Jersey spent $11,471,000 on fuel and utilities. The numbers, incidentally, that I will give you are the specific budgeted amounts in the Governor's recommended budget, and exclude Rutgers, the College of Medicine and Dentistry, and NJIT, for which there are not specific budgeted amounts, but which, particularly in Rutger's case, do consume additional amounts of energy -- substantial amounts.

The next year, that $11,471,000 increased by 44%, to $16.5 million, and by another 40% the following year, to $23.1 million. In fiscal year 1980, the year currently in progress, $37.7 million was appropriated for fuel and utilities. The Governor's budget for fiscal 1981, the budget that will come before the Legislature next week, recommends a 54.5% increase, to $54.4 million, and some department heads have expressed concern that this may not be enough.

In total, what we have seen is a 475% increase in just eight years. And, we see this increase without a large increase in the number of buildings owned and operated by the State. No new colleges have opened; no large institutions have been built. There has been an occasional new office building, but nothing which would cause an increase of the magnitude I have outlined.

Senator Dwyer believes that S-749 has the potential to help relieve the enormous budgetary pressure caused by fuel and utility price escalation. The $54.4 million recommended in the Governor's fiscal 1981 budget is simply too much money. The State of New Jersey cannot afford to let that kind of money go up the chimneys, out the windows, and through the ceilings of state-owned buildings.

To summarize the problem, State Government, just like its citizens, is being assaulted by skyrocketing energy prices. Fuel oil is going out of sight and many state facialities - in fact, most state state facilities - depend on fuel oil. Maintenance and capital have been deferred due to budgetary stringencies, which leaves energy-wasing problems uncorrected.

This administration has moved steadily and correctly in the area of no-investment, and low-investment, energy conservation. Temperatures are kept low in winter and high in summer. Excess lighting has been removed. Window air conditioners are covered and sealed.

Now is the time to move into the second phase of energy conservation. This phase involves the investment of state funds to achieve a large-scale reduction in energy consumption, leading to a stabilization in energy-related expenditures. This is where S-749 would come in.

S-749, as you know from your discussion on Monday, would place before the voters this November a request to authorize a bond issue "for the renovation of public buildings, institutions, and educational facilities." The purpose would be to upgrade the energy efficiency of buildings which are owned and operated by the State of New Jersey. The amount of this bond issue is $50 million. The sponsor believes that the amount will address the immediate need and yet is not so large that it would be unacceptable to the voters in November.

Of the $50 million, not more than $3 million may be used for energy audits of those state-owned buildings which have not already been audited. And, not less than $47 million will be used for the design, acquisition, and installation of the energy conservation projects.

Because this is bond money, the kind of projects which would be desirable are long-life improvements. Boiler replacement, valve installation, heat-zoning, computerized energy management systems, installation of high-efficiency lighting, insulation and storm windows or thermal windows are all examples of work that should be done. Likewise, solar and other alternative energy sources, currently being pursued by the Department of Energy, could be funded from this money.

The individual projects would be selected by the Department of Energy and included in its annual capital program. The selection could be based on payback periods -- the shorter the payback, the higher a priority the project would be.

Let me state, in no uncertain terms, the crucial point about this bill. S-749, if properly implemented, will cost the taxpayers of this state absolutely nothing. The payback in terms of energy savings will outweigh the total cost of retiring the bonds in about 7 years. It is not often that this statement can be made, but this is clearly such a case. This bill will help to correct a serious problem which we can no longer afford to leave uncorrected, either financially or as a society.

Again, Mr. Chairman, let me thank you on behalf of Senator Dwyer for this opportunity to present this bill to you. I would be pleased to answer any questons.

ASSEMBLYMAN HOLLENBECK: Does any member of the Committee have a question for Mr. Dennis? Mr. Franks.

ASSEMBLYMAN FRANKS: Mr. Dennis, could you repeat those figures?

MR. DENNIS: Sure. Actually, if you want to give me a minute to dig it out, I could probably give you every year since '73.

ASSEMBLYMAN FRANKS: That is not necessary.

MR. DENNIS: The figures that I quoted are $11,471,000 in fiscal 1973. In fiscal 1974, it was $16,500,000. In fiscal 1975 it was $23,100,000. In fiscal 1980 it was $37.7 million. And, for fiscal 1981, which is the budget you will be voting on next week, it will be $54.4 million.

ASSEMBLYMAN FRANKS: Thank you.

ASSEMBLYMAN HOLLENBECK: Mr. Smith.

ASSEMBLYMAN SMITH: In light of the payback that we are looking at here - a seven year average life of $50 million - the bill calls for a 35 year maximum term for the bond, and I am concerned that if this isn't handled fiscally prudent, we are going to get into a situation where we are going to dilute our savings.

Now, I have prepared an amendment, and I don't know whether it is going to fly or not, that would reduce this to some figure below 35 years. I have had discussions with Jerry Burke and with our staff here, and they have had discussions with the Treasurer's office, and they feel very strongly that they want the 35 years. But, from my way of thinking, it doesn't make any sense to string it out that long. I would like to see something put in here - some guarantee, or some rule and regulation - whereby we can get this thing paid off in a lesser time. I fully realize, also, that the construction may take 12 years in order to complete this $50 million construction project in its various phases. But, on the other hand, I don't think it is fiscally prudent and responsible to string this thing out for 35 years. Would you like to comment on that?

MR. DENNIS: Yes, I would. Just to bring the rest of the Committee to the point where Mr. Smith is starting, the Constitution prescribes that bond issues can be issued for a period not to exceed 35 years. That limitation was placed in the Constitution to prevent the State from becoming unduly burdened by debt service, and that has been in the Constitution, in fact, since 1947. Every bond issue issued since 1947, has contained that 35-year provision. It is true that it is currently unlikely that bonds would be issued for 35 years. The longest periods that have ever been issued for bonds - at least during this administration - have been 27 years, according to David Beale, the Deputy State Treasurer.

However, the problem is that market conditions cannot be anticipated. It may be that two years from now the Treasurer will go into the bond market with a package of issues and it will be necessary for him to season that package with some amount of 30 year paper, for example. To take that flexibility away from the Treasurer, whoever the Treasurer might be at that time - this is no reflection on the current Treasurer at all - would not be prudent, I think.

Let me give you an example of the type of problem that could come about. The Legislature, in 1973, changed the boiler plate language of the Handicapped Facilities Bond Issue, to prevent the Treasurer from selling those bonds at an interest rate above 6%. This seemed perfectly reasonable at the time since bonds were selling at that point from 4% to 5%. That provision delayed the construction of schools for the handicapped by almost a year while the Treasurer waited for the bond market to be right for a 6% bond issue.

I think it also has to be noted that bonds are serviced from the general revenues of the State. They are not paid from the savings of that bond issue, nor could they be. The bond houses would simply not buy them if they were.

The 7-year payback, cited by the Department, and which I cited in my statement, simply means that after 7 years, the State will have already saved the amount of money that these bonds cost, no matter how long they take to retire.

Finally, I have to make one pragmatic point. With both Houses of the Legislature actively considering packing it in next Thrusday, I think it may be a less than desirable thing to amend the bill at this point. That would kind of be my bottom line.

Let me make on other observation that came to me while you were speaking. I think the Committee statement would be an ideal place to clearly reflect the intent of the Committee, because I think it is the intent of the Committee that these bonds, and all bonds for that matter, be sold for a shorter period and they should be retired as quickly as possible.

ASSEMBLYMAN SMITH: I would like to see some mechanism, and this is a possibility. We have oversight and we also have watchdogs that are going to consider this over the years. I think that I would like to be assured, and I think the taxpayers would like to be assured, that we are not going to lose all of these savings in interest payments on an abnormally long pay-out period for something that I feel is an important project to be done. There is no question in my mind about the intent here. My feeling is that this should be done, but in the business world if we get a construction loan, it is for 25 years; if we get a home improvement loan, it is for 5 years. I think we are talking about the same kind of parameters here. We are talking about a home improvement loan for the State of New Jersey to fix up for energy conservation. You know, from a practical standpoint, and from a good business standpoint, that is the way it should be.

MR. DENNIS: Right. I do see a slight difference, though, in that when the Treasurer goes into the bond market, he enters that market not with-- Let's say, for example, there is a $15 million appropriation made from this bond issue - assuming it is accepted in November - he does not take a $15 million appropriation and go into the bond market with it. He pakages 6 or 7, or whatever, bond issues and trys to put them together.

ASSEMBLYMAN SMITH: I understand - to get the most favorable interest rate.

MR. DENNIS: That's right. That is where he feels he needs the flexibility.

ASSEMBLYMAN HOLLENBECK: Are there any other questions of Mr. Dennis? (no response) Thank you, Mr. Dennis.

MR. DENNIS: Thank you.

ASSEMBLYMAN HOLLENBECK: Mr. Richman, from the Department of Energy.

C H A R L E S A. R I C H M A N: Thank you, Mr. Chairman, members of the Committee, I am Charles Richman, Assistant Commissioner of the State Department of Energy. Thank you again for the opportunity to discuss Senate Bill 749, known as the Energy Conservation Bond Act of 1980.

We consider this piece of legislation - the ability to put this question before the voters in November - as one of the more important activities of our Department this year. Very often we hear from the public, "What is the government doing? Why isn't it leading the way"? We preceive this bond issue as a clear example of how we can lead the way. This especially shows the commercial sector - which traditionally has lagged behind - how energy conservation can be done, and what types of devices can be employed.

Our staff has estimated that in combination with a proper maintenance and development schedule, and the types of devices and capital improvements that can be made available through this bond issue, some 30% of the expenditures on a given building in the State that are now taking place for energy can be reduced.

The speaker just before me spoke of the actual appropriations for energy. However, during the past several years, with the wildly escalating prices of energy, the State Government, in fiscal year 1980, probably exceeded appropriations by some $12 million in actual cost for energy. And, when you have to pay your energy bill, as all of us must, that means programs suffer. That obviously is wrong, and it is obviously bad in terms of governmental services.

We would expect that the bonds and the money developed from the sale of the bonds, will primarily be used in the areas of energy conversion and distribution system in buildings, in upgrading the electric systems and lightings, in envelope retrofits, and with the possibility - and it is only a possibility - of some cogeneration, although the capital investment there is probably higher than we would want to see out of a $50 million bond issue.

I would point out to you, as Assemblyman Smith has pointed out, that there is oversight in the development of the rules and regulations within this bond issue. Our statute - the Department of Energy Statute - calls for any rule and regulation developed by our department to come before you, and you have 60 days in which to comment on or veto those regulations. So, it will require a very close working relationship between our agency and the committee, in designing the type of retrofits, and the type of paybacks and cost benefit analysis over the years that we would be spending with this bond money -- that we would be spending the taxpayers' money on. And, we look forward, obviously, to this close relationship.

I would like to just point out some potential savings, and some of the specifics of what we have found in our study so far. At Rahway State Prison, for instance, the replacement of a steam line, which now has deteriorated to the extent that the ground is warm where the steam line is buried, we are talking about an expense of about $600 thousand, and a savings, annually, of about $570 thousand - or just over a one-year payback.

There is something called a boiler economizer. Basically, we are only talking about equipment that is associated with the boiler to balance the loan, to make sure that it runs in cycles properly. Most industry has installed this type of equipment. Certainly, the Chemical industry installed this type of equipment 30 and 40 years ago. We have state buildings that do not have that type of equipment. The installation of that, the cost of the unit, and maintenance of that unit, runs about $33,000 a year. Our expectation at some of our universities is that we will be saving about $73 thousand a year, on that simple device installation on boiler equipment. I am talking about a 6-month payback.

One of my engineers has said that in putting these devices on our boilers, we are going to be bringing some of these buildings into this century, that is how badly they are now operated and what can be saved.

As a comparison, and maybe as a goal, we have looked at the State of Minnesota, which has had an active program, such as this, for the last seven or eight years, and we find that our colleges use three times more energy, when you adjust for degree days and adjust for the age of the buildings, than the colleges Minnesota do; that our hospitals use twice as much; and that our correction facilities use four times more energy than a state that has had a significant energy conservation retrofit program. While I can't guarantee you that we are going to equal Minnesota, certainly we are going to be able to bring our facilities in closer line with the rest of the country. My engineers inform me that, especially in the corrections area when you compare the losses in those facilities, we have probably one of the worst records in the country today, in terms of our energy use and work at those facilities. Forty nine million dollars was spent last year on energy costs in the State, and that obviously has been escalating at the cost of energy has increased this year. At only seven percent or ten percent, the savings are vast; they are significant. It will pay off the bonds, and we believe that this Act is a major step forward, both in terms of the state government - the running of state government efficiently - and certainly showing the public that we want to do the right thing.

If there are any questions, I will be happy to answer them.

ASSEMBLYMAN HOLLENBECK: Does any member of the Committee have any questions for Mr. Richman?

ASSEMBLYMAN COWAN: As you stand now, Charlie, in the research that you presented here today, what would you say you have to go with if this bond issue went through? When would you be able to put it into effect?

MR. RICHMAN: We will be able to submit to the Committee in the Fall, even before the bond issue is on the ballot, an analysis of state government facilities, showing you where we think the major savings can occur, what types of devices, etc. We think much of it has to do with the heating and cooling systems.

ASSEMBLYMAN COWAN: I am talking about a sense of priorities, because if you are going to show the public, I assume it is your intent to show them where you are going to hit first, what you are going to do, and how much you are going to save.

MR. RICHMAN: Well, there are two areas, probably. The least energy efficient, and the most energy usage areas are the two places we would be keying in on. The least energy efficient is corrections, but it still only uses 9% of the state's energy budget. The Department of Human services uses nearly 25% of the energy used in the state. Their facilities are clearly an area we would key in on. Higher Education -- the state colleges, including Rutgers, the College of Medicine and Dentistry, and NJIT use about 46% of all the energy used by State Government. They too would be clearly looked upon.

Additionally, at the same time, we are internally going to be funding, through a committee that was set up by the Governor's office, a study on cogeneration at state facilities. We have identified six or seven potential candidates, and we will be issuing a request for proposals for a detailed engineering study of those six or seven sites. We are working closely with our utilities in the state on these identifications, and on the need for steam, electric load. That will be happening as a parallel to what will be taking place under this.

ASSEMBLYMAN HOLLENBECK: Will these funds generate any federal funds?

MR. RICHMAN: These funds should be able to generate some federal funds of the School and Hospital Program. We will probably be coordinating the last cycle of the School and Hospital Program with the first monies available under this, and that would give us a fifty-fifty match toward the capital expenditures. Congress seems to like that program, and we are hopeful it will be extended beyond what is called the third cycle. That would free up more federal money for us.

ASSEMBLYMAN SMITH: On your timing on this, when do you think that some of these projects will be in place -- three or five years in the future?

MR. RICHMAN: That is realistic.

ASSEMBLYMAN SMITH: That is my gut reaction to it.

MR. RICHMAN: That is certainly realistic.

ASSEMBLYMAN SMITH: That is providing we get it designed, bid, and constructed.

MR. RICHMAN: Now, there are some items, such as I spoke of -- the boiler economizers--

ASSEMBLYMAN SMITH: That's an easier item.

MR. RICHMAN: That's easy. Those types of devices can be ordered and installed - you are not talking about design work - in under a year. But, because of the need, first, for an engineering design -- bidding it, engineering design, then bidding the construction work -- you really talk about two years for that process. You talk about 18 months in the private sector, and with our bidding process, you add six months to that.

ASSEMBLYMAN SMITH: The outside probably would be five years?

MR. RICHMAN: I would think the outside would be five years, to at least get started.

ASSEMBLYMAN SMITH: Yes. Thank you.

ASSEMBLYMAN HOLLENBECK: Are there any further questions? (no response) Thank you, Charlie.

MR. RICHMAN: Thank you, sir.

ASSEMBLYMAN HOLLENBECK: We will now have Mr. Fred Butler, New Jersey Commission on Capital Budgeting and Planning.

FREDERICK BUTLER, JR.: Good morning, Mr. Chairman, members of the Committee. I have written testimony that is being handed out.

It is a pleasure to report to you that the Commission on Capital Budgeting and Planning has unanimously endorsed S-749, a $50 million bond fund to provide energy conservation improvements for state-owned buildings. The Commission has noted that this legislation would play a significant role in the reduction of energy consumption, and, in turn, save the State of New Jersey money in reduced energy costs. This reduction is projected to be between 10 and 20 percent of current expenditures, and it could cover the entire cost of this program in approximately 10 years.

It should be noted that there has been approximately a 475% increase over the past 8 years in the cost of energy in state owned buildings. The fiscal year 1972 budget contained $11.4 million for energy. The fiscal year 1980 budget is $37.7 million. And, $54.4 million was recommended by the Governor for fiscal year 1981. It is the opinion of the Commission, and the bill's sponsor, Senator Dwyer, that this measure has the potential to help relieve this enormous budgetary pressure caused by the rising cost of energy.

The State has already made several moves to solve the energy problem. Temperatures in state buildings are being kept low in winter and higher in the summer. S-749 seems to be the second phase of energy conservation: The investment of state funds to accomplish large-scale reductions in energy use. It should be noted that various departments have submitted energy conservation requests as components of bond referendum requests, or as components of their capital request to the Commission. The Commission has put its full support behind S-749, and has deleted the individual department energy conservation requests, in order to have a more efficient administrative prioritization, and allocation of the funds through the mechanism that this bill sets up.

All energy conservation capital projects, under the terms of this bill, would be requested of the Department of Energy, and then recommended by the Department of Energy to the Capital Budgeting and Planning Commission. And, after careful analysis by the Commission and its staff, it would be included in the Commission's annual capital budget recommendations to the Governor and the Legislature.

In closing, Mr. Chairman, I would like to say that it should be emphasized that the program envisoned by this Energy Conservation Bond Bill represents, over the long term, a net savings to the taxpayers of New Jersey. The return on investment, in terms of energy costs saved, will outweigh the total cost of these bonds. It is not often the case that legislation like this is proposed and the state really cannot afford to let this opportunity go by.

Again, Mr. Chairm, the Commission on Capital Budgeting and Planning has put its full support behind this bill.

ASSEMBLYMAN HOLLENBECK: Does any member of the Committee have any questions for Mr. Butler? (no response)

Elliott, I am going to bring up your question again, all right?

ASSEMBLYMAN SMITH: All right.

ASSEMBLYMAN HOLLENBECK: It is a valid question he brought up, and it is in reference to payback periods. We were talking about seven and one-half or eight year payback periods, a five year probable time before they can have it actually implemented, and the issuing of 35-year bond notes -- would that have a tendency to water down the savings?

MR. BUTLER: The language in the bill says up to 35 years, and I think that gives the Treasurer - and I really can't speak for the Treasurer, or the Treasurer's office - the flexibility to get the best possible combination bond terms when that office floats those bonds. It is, in a sense, inaccurate to think of the bonds themselves and the payback period, because the monies that would be saved, would go into the general fund; it would, in fact, not be expended from the general fund, whereas the bonds are in a separate category. I can assure you that the Treasurer is diligent in achieving the best possible rate for those bonds, which may mean a mix of certain periods of time for which those are floated. So, I think that the maximum 35 year limit, which I think is the statutory maximum - is realistic, and it allows for flexibility, which is most important when floating these bonds. Again, the Treasurer can respond to that if there are any further questions.

ASSEMBLYMAN HOLLENBECK: Does the Commission, in their overview of the request of the Department of Energy, look into the areas of whether the improvement is a capital improvement for energy, or whether it was a capital maintenance expense?

MR. BUTLER: Yes, this is very important, Mr. Chairman. The Commission and its staff were very pleased to see that the review process would bring the Commission back in, because the way we foresee the process, the Department of Energy will evaluate the energy component of a given improvement; whereas, the Commission would examine that proposed outlay of capital funds in terms of the overall capital future of the building, and we would certainly be looking for energy improvement in buildings that we were going to continue to use. We would not like to see energy improvements with a payback, say, of seven years on a building that we don't think we are going to use much more than seven years.

As you know, we do the long-range capital forecast for the State.

ASSEMBLYMAN HOLLENBECK: I assume that those requests also take into consideration the life cycle costs?

MR. BUTLER: Yes, sir.

ASSEMBLYMAN HOLLENBECK: Of the particular improvement?

MR. BUTLER: Yes, that is correct.

ASSEMBLYMAN HOLLENBECK: Have we generated any other questions? (no response) Thank you very much, Mr. Butler.

Is there any member of the general public who would like to testify for the bond issue? (affirmative response) Will you please come up to the front of the room? Please give your full name, preferably spelled, and whom you represent.

M A R G E R Y C O H E N: I am Margery Cohen, from the League of Women Voters.

The League State Board voted yesterday to support S-749, and we believe there is much merit in this bond issue, which enables the State to lead the way by conserving energy in its own buildings. It is our hope that you, the Committee, and the Assembly, will support it too.

Our members have worked for conservation and legislation to implement it for a long time. We think S-749 will promote energy conservation, and it follows our position of carrying out national energy policies at the state level. With the cost of energy, it is clear that it is highly desirable for the State to make every reasonable effort to conserve energy. The state has many facilities which require substantial capital funds to bring them up to the point of being energy efficient.

We think the bond issue is the proper way to amortize long term improvements. Our discussions with the State Capital Needs Commission has verified that they too, of course - as we have just heard - support it. Not only will there be savings in energy, but the debt will be paid off, we hope, within a reasonable period of time. In addition, while decreasing the waste of energy in these buildings, which presently is the case, the improvements will provide for the occupants and residents of a better workplace. Proper weatherization has the added benefits of eliminating drafts and keeping the buildings cooler in the summer. So, we do support this bond issue, but with some cautious reservations. Many of your concerns are ours also.

The League and the public has been shaken by the way other bond issue monies have been spent in the past, so we would like the specifics spelled out. Is there a plan of how the money is to be spent available for the public to see? Is there a cost-benefit formula so that the public receives maximum return for its investment? Is there an awareness that the most cost-effective methods are sometimes the simplest -- caulking and insulating? How are the priorities to be chosen? Is there going to be an overall state decision of what needs to be done, where it needs to be done, and when it needs to be done? Will there be engineering expertise involved in the process? We in the public would appreciate the answers to these questions which you are obviously going to ask.

Sometimes in the past we have seen government spend monies in ways that turn out to be more symbolic than concrete. We hope that S-749 will be a real energy saving program, laid out for all to see and understand in practical and achievable ways to reach realistic goals that will be a model for the rest of the country to see what our state can do, both for New Jersey citizens and in our national interest.

The League thanks the Committee for the opportunity to be heard.

ASSEMBLYMAN HOLLENBECK: Does anybody have any questions? (no questions) I think, in reference to some of the question that you have raised, we have already raised some of these questions, and I think some of them have been answered by Mr. Butler and by Mr. Richman.

MS. COHEN: I heard that.

ASSEMBLYMAN HOLLENBECK: Gentlemen?

ASSEMBLYMAN SMITH: Your concerns are our concerns also.

MS. COHEN: That is what I began to hear this morning, and I was very happy to hear it. Thank you.

ASSEMBLYMAN HOLLENBECK: Thank you very much. Is there any other member of the general public that would like to testify? (affirmative response) Would you please come forward and give us your name, spelling, and who you represent.

FRANCINE ELVIN: My name is Francine Elvin, and I represent the League for Conservation Legislation. The League for Conservation Legislation, a collaboration of environmental and conservation groups and concerned individuals, strongly supports S-749. We support this bill for a variety of reasons:

First, the state's consumption of oil will be greatly reduced.

Second, it appears that the monies expended will be paid back in a short period of time.

Third, some of the funds from the bond issue should qualify for matching funds from federal grants.

As testified to today, the Commission on Capital Budgeting and Planning has thoroughly reviewed the bond issue and given its approval.

The League for Conservation Legislation urges you to vote affirmatively to release this bill from Committee and to vote for its passage on the floor of the Assembly. Thank you very much.

ASSEMBLYMAN HOLLENBECK: Thank you. Does any member of the Committee have any questions? (no questions) Thank you very much.

MS. ELVIN: Thank you.

ASSEMBLYMAN HOLLENBECK: Is there any other member of the public who wishes to testify on S-749? (no further testimony given)

Gentlemen, at this time I will ask for a motion to conclude this public hearing portion of our meeting. (at which time motion is made and seconded)

(hearing concluded)