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before the

SENATE COMMITTEE ON REVENUE, FINANCE AND APPROPRIATIONS

on

SENATE, No. 1537

(An Act authorizing the creation of debt of the State of New Jersey by the issuance of bonds of the State in the sum of $180 million to provide money to spur construction and rehabilitation of housing.)

Held:
Senate Chamber
State House
Trenton, New Jersey
January 22, 1975

Committee Members Present:

Senator Joseph P. Merlino (Chairman)

Senator Bernard J. Dwyer

Senator Anne C. Martindell

Senator James P. Vreeland

* * * *

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SENATE, No. 1537

STATE OF NEW JERSEY

INTRODUCED DECEMBER 16, 1974

By Senator MERLINO

Referred to Committee on Revenue, Finance and Appropriations

AN ACT authorizing the creation of debt of the State of New Jersey by the issuance of bonds of the State in the sum of $180 million to provide money to spur construction and rehabilitation of housing; to enable such housing to be occupied by senior citizens and families of low and moderate income; to provide the ways and means to pay the interest of said debt and also to pay and discharge the principal thereof; and to provide for the submission of this act to the people at a general election.

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

1. This act may be cited as the "New Jersey Housing Assistance Bond Act of 1975."

2. The Legislature hereby finds that:

a. Despite the existence of numerous Federal programs designed to provide housing for senior citizens and families of low and moderate income, construction and rehabilitation of such housing units has not proceeded at a pace sufficient to provide for the population growth of the State.

b. The need for such new and rehabilitated housing is great and continues to increase, with growing numbers of New Jersey citizens unable to obtain safe and sound dwelling places.

c. The State, through the investment of a relatively modest sum of money, can cause the production of such new and rehabilitated housing to be increased; in conjunction with Federal, other State and local programs acting in concert, such State money can encourage the increased investment of private funds in housing on a multiplier basis far exceeding the initial expenditure of these State funds.

d. The actual cost of providing new and rehabilitated housing units of decent quality and size generally places such units beyond the means of senior citizens and families of low and moderate income. In order to enable such senior citizens and families to occupy such units, some additional form of assistance is necessary. This assistance can and should take many forms, because of the large number of housing programs presently available. By providing conditions that will accelerate housing production under various housing programs, the maximum potential for a rapid increase in housing production is achieved.

e. At this time of serious unemployment in New Jersey, particularly in the housing and construction industries, there is an urgent need for the public sector to stimulate increased economic activity to create expanded employment opportunities for New Jersey's workers.

f. The Legislature also finds and declares that the expenditure of public funds toward these ends is for a public purpose and in the public interest.

3. Except as the context may otherwise require:

a. "Department" means the Department of Community Affairs.

b. "Commissioner" means the Commissioner of the Department of Community Affairs.

c. "Act" means this act, and any amendments and supplements thereto, and any rules and regulations promulgated thereunder.

d. "Housing assistance fund" or "fund" shall mean the fund created by section 4b. of this act.

e. "Low income," and "moderate income" shall be determined by the commissioner pursuant to regulations promulgated under this act, provided however, that the commissioner, in his determination, shall consider the Federal standards for low and moderate income for the various communities within the State of New Jersey.

f. "Qualified mortgagor" means any nonprofit or limited dividend housing sponsor, owner entity or individual, or any municipality, county or public authority, constructing, rehabilitating or operating housing in New Jersey under a Federal or low or moderate income housing program, the New Jersey Housing Finance Agency program, or other programs for low or moderate income occupancy.

g. "Qualified housing development" means any housing project built or rehabilitated or to be built or rehabilitated and operated by a qualified mortgagor.

h. "Senior citizen" means a person of low or moderate income, 62 years of age or older, or families of low or moderate income which consist of two or more persons and the head of which, or his spouse, is 62 years of age or older.

4. a. Bonds of the State of New Jersey in the sum of $180 million are hereby authorized to obtain funds to meet the cost of providing housing assistance as set forth herein.

b. There is hereby created and established in the department a "housing assistance fund" which shall consist of:

(1) All moneys derived from the proceeds of any bonds which may be authorized by this act;

(2) Any moneys which the department shall receive in repayment of loans or advances from the fund, notwithstanding the provisions of any other act or part thereof;

(3) All moneys received from the investment or deposit of the proceeds of any bonds which may be authorized by this act;

(4) Any other moneys made available to the department from any source or sources which the commissioner shall allocate to the fund for the purposes authorized by this act.

c. The commissioner shall submit with the department's annual budget request a plan for the expenditure of housing assistance funds for the upcoming fiscal year. This plan shall include, but not be limited to, the following information: a performance evaluation of the expenditures made from the fund to date; a description of the subsidy programs planned for utilization 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 housing assistance funds; and an estimate of expenditures for the upcoming fiscal year. This information shall be used to assist the Legislature in determining the amount to appropriate from the fund.

5. The commissioner is authorized to utilize moneys from the housing assistance fund for the following purposes and programs:

a. Interest rate subsidy. The commissioner may enter into contracts and agreements with qualified mortgagors, or with mortgagees thereof, pursuant to which the commissioner may make direct payments to such mortgagors or mortgagees to assist in paying mortgage interest charges on qualified housing developments, where such direct payments will be applied to decrease rental or carrying charges to low and moderate income occupants of such housing.

b. Assistance to qualified housing developments. The commissioner is authorized to enter into contracts or other agreements pursuant to which financial assistance will be provided for qualified housing developments, including but not limited to those constructed, financed, or rehabilitated under Federal, other State, or locally aided low and moderate income programs, where such assistance is necessary to provide financial feasibility and enable the developments to be completed. Without limiting the generality of the foregoing, such assistance may include: a direct loan to a qualified housing mortgagor, subordinated to the Federal or other State mortgage loan, with repayment of principal, and interest, if any, referred until such time as such Federal or other State loan is paid or otherwise discharged or released; and grants or loans to municipalities for urban homesteading, or rehabilitation and direct sale of properties acquired either through tax foreclosure or from the United States Department of Housing and Urban Development.

6. The commissioner shall issue and promulgate such rules and regulations as are necessary and appropriate to carry out the provisions of this act.

7. The bonds provided for herein shall be serial bonds and known as "State Housing Assistance Bonds" and, as to each series, the last installment thereof (subject to redemption prior to maturity) shall mature and be paid not later than 35 years from the date of its issuance.

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

9. The Governor, State Treasurer and Comptroller of the Treasury, or any two 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.

10. 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.

11. 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 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 official 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.

12. a. Such bonds shall recite that they are issued for the purpose 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, 1975, and that it was approved by a majority of the legally qualified voters of the State voting thereon at such election. Such recitals 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.

13. 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.

14. 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 made 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 in 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.

15. 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.

16. The proceeds from the sale of bonds shall be paid to the State Treasurer and be held by him for the housing assistance fund in a separate account, to be deposited in such depositories as may be selected by him to the credit of the fund, which fund shall be known as the housing assistance fund.

17. a. The moneys in said 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 of such moneys are hereby appropriated for such purpose, 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.

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 such fund, such sums as may be deemed necessary for the purposes of this act by the State House Commission, which 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 purposes provided in this act, moneys in the housing assistance fund may be invested and reinvested as other trust funds in the custody of the State Treasurer in the manner provided by law. All earnings received from the investment or deposit of such funds shall be paid into the housing assistance fund.

18. In case any coupon bonds and 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 and also such security and indemnity and reimbursement for expenses as the issuing officials may require.

19. 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.

20. 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, but 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.

21. 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, providing 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 that would be paid on the bonds to be 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.

22. To provide funds to meet the interest and principal payments required for the bonds issued in this act and outstanding, there is hereby appropriated in the order following:

a. Revenue derived from the tax collected under and by virtue of the State sales tax, 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 that 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 fees, charges and taxes specified in subsection a. of this section shall thereon be considered and treated as part of the General State Fund, available for general purposes.

23. 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 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.

24. 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, 1975, 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 shall cause to be printed on each of the said ballots, the following:

If you approve the act entitled below, make a cross ($\times$), plus ($+$) or check ($\vee$) mark in the square opposite the word "Yes." If you disapprove the act entitled below, make a cross ($\times$), plus ($+$), or check ($\vee$) 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.	HOUSING ASSISTANCE BOND ISSUE Shall the act entitled "An act authorizing the creation of debt of the State of New Jersey by the issuance of bonds of the State in the sum of $180 million to provide money to spur construction and rehabilitation of housing; to enable such housing to be occupied by senior citizens and families of low and moderate income; to provide the ways and means to pay the interest of said debt and also to pay and discharge the principal thereof; and to provide for the submission of this act to the people at a general election," be approved?
	No.	INTERPRETIVE STATEMENT Approval of this act would authorize the sale of $180 million in bonds to be used for the construction or rehabilitation of housing for senior citizens and for families of modest incomes, to loosen a tight housing market, to stimulate increased economic activity and to create useful job opportunities.

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 now provided for by law in the case of the 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 an election in favor of the approval of this act, then all the provisions of this act shall take effect forthwith.

25. This section and section 24 shall take effect immediately and the remainder of the act shall take effect as and when provided in the preceding section.

x

STATEMENT

This bill is intended to address two urgent problems facing the citizens of New Jersey. The first is the growing number of difficulties citizens of the State are encountering in their attempts to obtain safe and sound housing. The second is the persistently high rate of unemployment the State is experiencing, particularly in the housing and construction industries.

By authorizing $180 million in bonds for various forms of housing subsidies for senior citizens and families of low and moderate income, the number of safe and sound housing units in the State will be expanded. The resulting increase in activity in the housing industry will help alleviate the unemployment problem in this sector of the State's economy.

This legislation, like the housing bond issue approved by the voters in 1968, authorizes the use of the bond proceeds to subsidize interest rates for qualified housing developments, and to provide "seed money" assistance to help Federally-aided developments get started. This legislation, however, expands the scope of that program in several ways:

(1) It redefines a "qualified mortgagor" recipient to include municipalities, counties and public authorities, and now covers rehabilitation and reconstruction of old existing units as well as new buildings.

(2) The moneys raised by the proposed 1975 bond issue can be used in conjunction with other State-supported housing programs (e.g. those of the Housing Finance Agency) and with locally aided developments. The 1968 program only gave explicit authorization for "special assistance" to Federally-aided developments.

(3) It severs the link between aid from this housing assistance fund and other government programs. Moneys from the fund would not have to be used only to support developments primarily funded from other government programs; the fund itself can be the primary source of support. This could reduce delays in housing starts that arise from attempts to coordinate several different government agencies.

(4) Assistance can be given to municipalities for the rehabilitation of residential properties acquired through tax foreclosure or from HUD. This is especially important in view of the recent enactment of an accelerated foreclosure law, P. L. 1974, c. 91 (Senate Bill No. 617), which may bring numerous deteriorating but salvageable properties more speedily into municipal hands.

Section 4 (c) provides that the Commissioner of Community Affairs submit its plan for the expenditure of housing assistance fund moneys each year with its budget request. The Legislature will then determine, as part of the appropriations process, the amount to appropriate each year from the fund. The commissioner is also required to submit a performance evaluation of previous expenditures from the fund and a copy of the regulations issued pursuant to section 6. This whole subsection is intended to insure careful legislative control and supervision over expenditures from the fund.

This bill also provides that interest on deposited funds accrue to the housing assistance fund rather than the General Treasury.

Other than for the amount of the bonds proposed, this program is substantially similar to that approved by the Legislature in 1974 (P. L. 1974, c. 117).

SENATOR JOSEPH P. MERLINO (Chairman): I will now call this meeting of the Senate Revenue, Finance, and Appropriations Committee to order for the purpose of taking testimony on Senate bill 1537. This bill authorizes the issuance of state general obligation bonds in the amount of $180 million "to provide money to spur the construction and rehabilitation of housing to be occupied by senior citizens and families of low and moderate income." In order that we may proceed in an orderly fashion, I will ask anyone who wishes to testify, who has not already done so, to give his or her name to Mr. Zuzzio, our staff assistant. I will ask anyone who has a written statement to submit copies to the committee members; if you have only one copy, please submit it to Mr. Zuzzio at this time and he will have additional copies made for the court stenographer and members of the staff.

I am very happy to see that we have five or six people who are here to offer some testimony and some help on this proposal, but I must say that I am rather disappointed in the interest and concern of the members of the Legislature who, obviously, do not find this to be of interest. The record will note that Senator Dwyer is here with me today -- two out of ten which is not very representative, at least not in the quantity, but I am sure the quality is here.

SENATOR DWYER: One and one-half; I just broke my glasses.

SENATOR MERLINO: The first speaker on the agenda is the Mayor of the City of Trenton, Arthur J. Holland.

M A Y O R A R T H U R J. H O L L A N D: Mr. Chairman and Senator Dwyer: I am Arthur J. Holland, Mayor of the City of Trenton. I am pleased to appear before you to discuss this State's housing needs which are addressed by the Housing Assistance Bond Issue legislation pending before this committee.

The need for subsidized housing, as well as for rehabilitation assistance, is currently the subject for analysis in Housing Assistance plans being prepared by 46 New Jersey municipalities and eight urban counties eligible for community development block grants under Title I of the Housing and Community Development Act of 1974. This estimate of the total number of subsidized units required by all of these local governments would illustrate dramatically the magnitude of our State's housing needs. This estimate would also show the gap between subsidized units needed and available Federal funding. In Trenton, for example, the need for housing units affordable to lower income households (i.e., having under $10,000 annual income) is estimated to be about 7,000, while the entire allocation of units under the Title II Section 8 Program for the northern half of New Jersey is 5,000 units. The fact is that the Federal government has scaled down housing production assistance, and is leaving to the states more of the burden for meeting their housing needs.

In addition to meeting the need to provide affordable and decent housing for lower income households, new housing is also needed to revitalize our State's cities. The construction of middle and moderate income housing planned for urban renewal land has been an important, but largely elusive, goal pursued by Trenton as well as many other New Jersey cities. Federal assistance for housing production under the

Section 236 Program, on which cities had relied to construct such housing, was revived only briefly last year with the release of a mere 70,000 units nationwide after a one year moratorium. As a consequence, most subsidized units which had been planned for vacant renewal sites in New Jersey remain unbuilt. The number of such units is substantial. According to a survey of housing and renewal agencies throughout the State, conducted by Trenton's Department of Planning and Development, a copy of which I now submit, over 15,000 units had been planned for renewal sites with some 11,000 to have been assisted under the "236" Program. Many of these sites, having been vacant for years, represent an unfulfilled promise to replace with something better that which was torn down, as well as an investment of over $87 Million for acquisition, relocation and demolition - an investment on which there has been no return. Housing units for these sites are, of course, in addition to a probably even greater number of units planned for non-urban renewal areas.

The Section 8 housing assistance program may offer some hope for providing additional subsidized units but, according to the New Jersey Housing Finance Agency and a mortgage banker who heads the National Leased Housing Association, the regulations developed by HUD may limit drastically the usefulness of this program.

There is the added problem of building these units at or below the fair market rental established by HUD. It appears that an additional subsidy provided by the State through the Housing Finance Agency may be necessary to make the Section 8 Program feasible. This subsidy, for example, could be used to lower the interest cost for developers of Section 8 units or to supplement rental payments beyond the fair market rents established by HUD.

Assistance is also needed for moderate income housing to be built under the Housing Finance Agency apart from the Section 8 Program. A subsidy beyond that offered through the tax exempt feature of the Housing Finance Agency's bonds is necessary to make this housing marketable. To illustrate this point, the HFA-financed Kingsbury housing development in Trenton offers an efficiency apartment at a market rental of $205 and two-bedroom units at market rental of $310. As a consequence of these high rent levels, only two units have been rented at a market rate in the last two years these units have been available.

In discussing the need for new subsidized housing, I want to underscore in particular the needs of the elderly. Just a year ago, I had the opportunity of describing those needs in some detail before the Subcommittee on Housing for the Elderly of the Senate Select Committee on Aging, chaired by New Jersey's U.S. Senator Harrison A. Williams, Jr. As I pointed out at that time, the construction of some 400 public housing units for the elderly has accommodated only about

13% of the elderly estimated to be eligible for such housing in Trenton. More subsidized housing is obviously essential if the elderly poor, as well as the moderate income elderly on fixed incomes, are to be adequately housed at an affordable cost.

Finally, let us not forget that by providing more subsidized housing, more jobs are provided. With a Statewide unemployment rate approaching 10%, this consideration is as important as providing new housing. Without these jobs, the ability of many of our residents to pay rents, and mortgage charges as well as property taxes, is seriously jeopardized. They and residents throughout the State could find themselves unable to afford better housing and may even be forced into lower cost housing, thus aggravating the problem of an insufficient supply of decent lower cost housing in New Jersey.

I urge this committee to take prompt action on Senate Bill 1537 so that the Housing Assistance Bond Issue can be placed before the voters in November.

SURVEY OF HOUSING PLANNED FOR URBAN RENEWAL SITES

City	Renewal Sites Proposed for Subsidized Housing	Total No. of Acres for Subsidized Housing	Total No. of Units Planned	Number of 236 Units	Total Amt. Spent for Acq., Reloc., and Demolition	Annual Interest Costs on Bonds
Asbury Park	1	6.10	170	170	$ 1,037,459	$ 288,089
Atlantic City	2	3.6	312	36	1,004,081	158,069
Camden	3	110	2,000	450	14,663,712	190,695
Carteret	1	25	330	176	6,000,000	60,000
East Orange	1	2.7	200	None	2,824,000	140,000
Englewood	1	7.5	90	90	1,500,000	50,000
Glassboro	1	22.	175	175	166,966	2,592
Jersey City	5	77	4,391	3,561	14,178,700	2,298,000
Long Branch	1	5	100	100	250,000	15,000
Maple Shade	1	1.75	105	105	671,424	12,438
Montclair	1	10	150	126	225,000	-
Newark	7	78.37	4,185	3,592	29,344,000	1,760,000
Newton	1	8	220	220	293,000	17,580
Passaic	1	1	70	70	100,000	15,000
Paterson	4	8.7	474	440	2,800,000	110,000
Plainfield	1	7	90	90	750,000	100,000
Rahway	1	3.3	40	40	135,000	4,050
Trenton	2	25.	1,100	1,100	7,000,000	150,000
Vineland	1	17	150	100	3,500,000	55,000
West New York	1	7	684	270	1,000,000	6,000
TOTAL	37	426.02	15,036	10,911	$87,443,342	$ 5,432,713

Data compiled in this report were collected through mail-out survey forms followed up by telephone contact. Out of 58 forms mailed out, 21 reported proposed plans for subsidized housing, 29 reported no plans for subsidized housing and 8 agencies had either closed out their urban renewal projects or no longer served as the LPA of the municipality. Agencies reporting no plans for subsidized housing are: Bayonne, Belmar, Bordentown, Bridgeton, Cape May, Clementon, Clifton, Dover, Elizabeth, Keansburg, Lakewood, Lodi, Millville, Morristown, Mount Holly, New Brunswick, Paulsboro, Perth Amboy, Pleasantville, Scotch Plains, Sea Isle City, Somerville, South Plainfield, Teaneck, Toms River, Wayne, West Orange, Wildwood and Woodbridge.

SENATOR MERLINO: Thank you, Mr. Mayor. You are also active in the New Jersey Conference of Mayors, are you not?

MAYOR HOLLAND: Yes sir.

SENATOR MERLINO: Has the New Jersey Conference of Mayors discussed this bond proposal?

MAYOR HOLLAND: We supported the bond issue. I do not think we have taken formal action on this particular bill, but I can bring it before the Legislative Committee.

SENATOR MERLINO: As Mayor of one of the urban cities, don't you think that the support from the Mayors of this State would be of some influence in passing such a bond issue?

MAYOR HOLLAND: Yes, and we have consistently been in support of such measures. So, I would be pleased to bring this particular bill before the committee. As with you, we have been so concerned with seeking comprehensive tax reform, the key to which is an income tax, we have not had the opportunity to give attention to other measures. Assuming support from that committee, which I am quite sure will be forthcoming---

SENATOR MERLINO: There was a similar bond issue on the ballot last year -- the $90 million bond issue for housing.

MAYOR HOLLAND: We supported that.

SENATOR MERLINO: My concern is the public support given by groups such as the Conference of Mayors and other interested groups. It apparently is not too vocal. I do not mean this as a personal criticism of you; we've discussed this before.

MAYOR HOLLAND: Yes.

SENATOR MERLINO: When a group such as the Conference of Mayors supports or endorses something, can't they really let their feelings be known? When a group is in opposition to something, it seems to generate a lot more steam than positive support of issues such as this.

MAYOR HOLLAND: In that instance -- I notice Sister Ryan is here -- we joined with the Bishops of the Catholic Conference of New Jersey. As a matter of fact, I went to the Ramada Inn for a press conference at which pictures were taken in order to promote that particular bond issue.

SENATOR MERLINO: The only place I saw that was in the Diocesan newspapers which do not reach all the readers.

MAYOR HOLLAND: In regard to the environmental bond issue, I called a press conference for the State, which was held here, and joined with Commissioner Bardin, former Commissioner Sullivan, and others. As you know, it is difficult sometimes -- in fact, it is difficult usually -- to get the good news into the press. At least, it is difficult to have it featured as prominently as some of the bad news.

SENATOR MERLINO: Well, I guess bad news sells papers.

MAYOR HOLLAND: If it is appropriate, Senator, I would like to take this opportunity to commend you publicly for---

SENATOR MERLINO: Can you wait until the press comes in? (Laughter)

MAYOR HOLLAND: I assume they are not here.

SENATOR MERLINO: That's why you're saying it. (Laughter)

MAYOR HOLLAND: Seriously, I would like to commend you for not only your support but your advocacy and leadership role in proposing and advancing and securing passage, on some occasions at least, of progressive legislation such as this bill. I refer specifically to probably the most basic of all legislative efforts, and that is the one for comprehensive tax reform. You have been very courageous in your continued leadership to achieve that for this State.

SENATOR MERLINO: Thank you. Do you have any questions, Senator Dwyer?

SENATOR DWYER: No, but I was wondering if there was someone who wanted to be heard from the opposite point of view? (Laughter)

SENATOR MERLINO: I am sure there are many. Thank you, Mr. Mayor. Sister Ryan will be the next speaker.

S I S T E R R E G I N A R Y A N: Mr. Chairman and member of the committee: I am Sister Regina Ryan of the New Jersey Catholic Conference and director of the new Department for Social Concerns. The statement I read today is the second statement that we have made on this crisis in housing:

STATEMENT OF NEW JERSEY CATHOLIC CONFERENCE IN SUPPORT OF S-1537

The New Jersey Catholic Conference fully supports S-1537 which authorizes the issuance of Bonds of the State in the sum of $180 million, thereby providing funds for construction and rehabilitation of housing.

It is submitted that the serious need for safe and sound housing in the State constitutes one of the most pressing social concerns confronting our State today.

S-1537 will also help alleviate the unemployment crisis facing the housing and construction industries by providing meaningful employment for many persons in dire need. This Bill will be most beneficial to our senior citizens and families of low and moderate income who are falling victim to the demoralizing issues of inflation and recession so widespread today.

We, therefore, urge this committee to report this Bill favorably leading to its adoption by the Legislature as soon as possible.

I would like to comment if that is alright--

SENATOR MERLINO: Certainly.

SISTER RYAN: --on some of the questions you posed to Mayor Holland. The statement of the New Jersey Catholic Conference came out in support of the $90 million bond. We also commend Senator Merlino highly for his social justice and social concerns legislation in many areas but specifically--

SENATOR MERLINO: Will somebody please call the press?

SISTER RYAN: --in this area of housing. If Senator Merlino is not able to get the Star Ledger and the Trentonian and the Trenton Times, in which it was reported on October 11, we will make sure, the next time, that he is able to see in print that other papers besides the Catholic press are deeply concerned with his moral leadership. We commend him and his staff for what they have done and hope that the committee will also support this new bond issue.

SENATOR MERLINO: Thank you, Sister. Are there any questions, Senator Dwyer?

SENATOR DWYER: I have no questions.

SENATOR MERLINO: The next speaker will be Sidney Willis, Director of the Division of Housing and Urban Renewal of the Department of Community Affairs.

S I D N E Y L. W I L L I S: Senator Merlino, Senator Dwyer, Ladies and Gentlemen: My name is Sidney Willis. I am an assistant commissioner in the Department of Community Affairs responsible for housing and planning.

I want to place the Department of Community Affairs completely in support of and behind the measure, Senate 1537, with respect to housing subsidy and housing bond assistance for the work of our department.

I am accompanied here this morning by Gustav Escher who is representing the director of the Housing Finance Agency and will also have several comments to make.

In this instance, the Senator from Mercer County, as usual, is out ahead of the bureaucracy in terms of introducing the necessary legislation. We are struggling to catch up and welcome the stimulation that he has given us by introducing the bill. I am not in a position at this moment to document and to substantiate the size of the proposed bond issue, but the spirit is there and the need for a bond issue of some dimension, in the area of $100 million or more, is easily documented, and we will hasten to do so in conjunction with the Senator and the staff of the Senate.

As a practical matter, we will need and do seek the support of the Governor's Capital Needs Commission which, at the present time, is looking at a number of different potential capital programs and bond issues. I think that, together with the support of the Legislature and that Commission, we can go to the public more successfully than we did in November of 1974.

By way of background, I would mention that this proposed Senate 1537 and the bill earlier sponsored by Senator Merlino and a number of members of the Senate in 1974 are both expansions of and based on experiences with a housing act of 1968 -- a bond assistance law in 1968 -- which provided for a very limited amount, $12.5 million. Those funds were used very, very effectively by the Housing Finance Agency through the years when it was establishing the extensive program that it now has in terms of providing moderate and lower-income housing for New Jersey citizens. Of the $12.5 million, as we reported in late September of 1974, some $8 million was actually committed and contracted for and made feasible in New Jersey, in the years since 1968, in excess of $100 million of construction based on piggybacking the State's bond assistance with federal subsidies and with the capability to provide financing through the Housing Finance Agency, part of our department. It was possible to project that number to actual construction in excess of $100 million. In addition, out of the funds, an additional $1.7 million has been reserved because in the waning days of the previous federal subsidy program -- the so-called section 236 program -- it was possible for us to project ahead, on certain projects now under development, that there might be a need for additional subsidy because of the increasing operating costs of recent years. The Housing Finance Agency Board has set aside $1.7 million for that purpose, and there are pending commitments to projects which are now in the development stage and awaiting closing -- that was for September, 1974, and I am sure an update would show those have already been closed -- of $2.3 million which effectively means that there are no remaining funds in the earlier bond assistance program and in the earlier bond issues under that program.

In 1974, in support of Senate 1388 for bond assistance, we represented that there were 18,000 dwelling units, in various stages of design and preparation, in the pipeline at the Housing Finance Agency awaiting approval for mortgage commitment and that roughly one-half of those were slated for senior citizen occupancy.

The new federal program, which was becoming apparent at that time in November of 1974, under the proposed federal Section 8, provided a formula under which, when analyses were done as to how those would work in New Jersey, it was apparent to us that, to a large extent, given the approved fair market rents for various market areas in the State of New Jersey, that federal program would have limited utility in the State without a specific state subsidy on top of the local subsidy. It was on that basis that we endorsed and supported and worked very hard for the Senate's measure.

There have been some new federal calculations and some motions at HUD to present a fair market rent as the basis for our programs in New Jersey which might better meet our needs. Calculations, again, have been made by the Housing Finance Agency as to the practicality of using that federal program in New Jersey and what degree of state assistance would be needed if we were going to build those units in New Jersey. Without going into great detail on that study and representing these figures as preliminary, I would indicate that, at the present time, in the Newark area, without state subsidy, the federal program will make it impossible to build any elevator apartments of one or two or more bedrooms and will make it impossible to build any walk-up apartments of three or more bedrooms.

In the Atlantic City area, no units in the semi-row category of three or four bedrooms are presently feasible. No walk-up buildings whatsoever will be feasible for the HFA program in Atlantic City, and elevator apartment buildings will only be feasible if they are no-bedroom type units -- efficiency units.

That is a preliminary analysis of the present federal program, and, once again, we must represent to you that it will be infeasible to provide the very units that we need -- the larger numbers of bedrooms in the urban areas of the State in addition to others. It will be infeasible to provide those units and to use the federal subsidy program in New Jersey unless there is an additional state subsidy as represented in the bond assistance act or unless other contingencies, which the Housing Finance Agency may want to discuss with you, can be made possible.

With regard to the size of the bond issue, I think that we must recognize that the Governor, in his message to the Legislature of a week ago, had a great many very valuable things to say about neighborhood preservation and the need for assistance of a variety of types to preserve the existing sound neighborhoods of the State of New Jersey. From those legislative proposals and from others which are currently in preparation in the Department of Community Affairs and elsewhere in the state government in pursuance of the Governor's legislative program, there are a variety of measures, each of which could require some state seeding or state assistance which might very well be a part of the bond issue proposed for this year.

I will only give a few illustrations of that and promise that the department will provide a great deal more information as we proceed.

The state mortgage insurance program has been suggested which would bypass the cumbersome FHA insurance procedures in the State. That insurance program, or an insurance program of that sort, was introduced and is now utilized in the State of Maryland, and we are looking at that model and attempting to design something that would follow that. In an instance of that sort, it might be necessary to seed that insurance program at the beginning to be sure that there are sufficient dollars to cover any losses, in the event those occur, until the fund is large enough from the payments of the insurees. That could require several million dollars that could usefully be a part of the proposed statute.

In addition, the Legislature has now had introduced an expansion of the mortgage finance agency to make it capable of providing home improvement loans. Those home improvement loans would be based on interest rates that come from the agency's capability to borrow on the open market with revenue bonds. It might be very useful to have the capability to subsidize the interest rates on those loans in order to encourage private, individual home improvement in neighborhoods which are indicated for neighborhood-wide preservation. That could require some seeding from this bond issue.

There are a number of other proposals, and I use those only as illustrations.

Let me conclude by thanking the Senate for its leadership in this bond issue and for moving early, particularly Senator Merlino. Let me promise that the department intends to provide all of the documentation and all of the bases for cost estimating the various programs. We will get them to you in adequate time so that a full public discussion may be held. We will be working with, and presenting this information to, the Capital Needs Commission in the hope that there will be support from that quarter for what we consider in the department a very high priority for state assistance in the area of housing.

Thank you very much.

SENATOR MERLINO: You are not suggesting, or are you suggesting, that the bill in its present form is not acceptable?

MR. WILLIS: No; the bill in its present form is entirely acceptable. I am not in a position to support the dollar amount simply because I would like to give you a full, technical presentation. Certainly, it is in the ballpark. All I would suggest is that it may be possible, within the next several weeks, to suggest some additional modifications to the bill which might give it even more potential impact in housing construction. But, without those, the bill is necessary and is sufficient for consideration without amendment if that be your pleasure.

SENATOR MERLINO: Do you feel that the terms of the bill, as now written on the rehabilitation of existing units, would allow for the funding of neighborhood preservation and code enforcement programs?

MR. WILLIS: Senator, I hope so. I certainly think that that was, in part, the intent.

SENATOR MERLINO: That is what we intended.

MR. WILLIS: I just have not had the opportunity to study that and to compare it with the various measures that the Governor has recommended. Whatever we might suggest would be on the order---

SENATOR MERLINO: I can tell you this: The reason for the quick filing of this bill, right after the defeat of the 1974 bond issue, was for the purpose of getting input from the Department of Community Affairs and the administration. You know that the 1974 bill was a patched-up version of the 1968 bond issue which our staff put together rather quickly in order to meet the deadline to get on the ballot. We will be very happy to await any suggestions to improve the current bill, both from the Department of Community Affairs and from the Governor's office, if they have any.

MR. WILLIS: Insofar as the department is concerned, we will comply with any deadline that you give us. We are presently working on this.

SENATOR MERLINO: The quicker the better. Are there any other questions? (No questions) Thank you Mr. Willis. Please go ahead, Mr. Escher.

GUSTAV E. ESCHER III: Good morning. My name is Gustav Escher and I am the director of research and development for the New Jersey Housing Finance Agency. We are pleased to be here this morning to offer very brief testimony on behalf of the New Jersey Housing Finance Agency. Of course, this bill before us this morning is enormously important to our agency, and our executive director, Mr. William L. Johnston, wanted me to note that he is extremely sorry that, due to pressing reasons, he could not attend this hearing which, I know, he very much wanted to.

I might begin with a few brief sentences on the background of the agency which was established in 1967, became operable in 1969, and has constructed over 8,600 moderate and low-income housing units since that time. We have about 6,000 more presently under construction or ready to go. Our bond and note obligations are presently nearly $400 million.

In terms of the low and moderate-income housing industry in New Jersey, we produce approximately 25 percent of all such units built in the State. In the State's major urban areas in our larger cities, particularly in the north, we construct more than 80 percent of all such low and moderate-income housing. In some of those cities, we estimate that we are the only people in that business in those municipalities.

We have not had the opportunity to make as thorough an investigation of the bill as we would like, so this morning I am going to be brief and confine my remarks to three areas that we see as potential for the agency in this proposed bill.

The first has to do with the kinds of subsidies that Commissioner Willis detailed. I will not go over them again, but I would like to emphasize very, very clearly that the federal programs that we are being asked to utilize are nearly unacceptable. I might note for the record that there was movement among state agencies similar to ours across the country, nearly 30 of us, to boycott, in toto, that federal program -- to refuse to use it -- because we had found it so unworkable.

This has to do with the fair market rentals that Commission Willis touched on. We have there a real, first-class problem, and it is not a matter of negotiation and trying to badger somebody; we have honest-to-God problems in making it work on a day-to-day production level, and that is the level that the HFA is concerned with.

In terms of the relief that can be given by this proposed legislation, if we use the 1968 bond assistance law as a model, the figures that Commissioner Willis pointed out yield about a 1 to 13 leverage ratio. There is the key concept -- leverage. For a very small amount of money, you can put the boulder over the mountain. For just 10 percent or 5 percent assistance, you can make a $10 million or $12 million project work. That is an absolutely fundamental concept, and that is the way the 1968 issue was used. I have a 1 to 13 ratio; it might be more or less; it depends on how you splice the individual numbers. Anyway, that is the range of the impact that we can look for.

Secondly -- and this is a little bit more in the financing end of the picture -- a very important use that these funds can be put to is the bond security reserve. The New Jersey Housing Finance Agency has been fortunate in obtaining some of the lowest prices for its money when we go out on bonds and notes -- obtaining very low interest rates. You all must be familiar with the fiasco that the New York agencies are facing. We have been much more fortunate. In fact, we have used some of the 1968 monies to create a reserve fund behind our bonds, and this, in turn, produces a lower interest rate that we get from the market. So, there is another financing kind of mechanism whereby this money is extremely valuable.

Let me again refer to the federal program, Section 8 of Title II. The security that we receive for our bonds under the old 236 program is infinitely more than what we are going to receive under the new Section 8 program, and the bond underwriters know it. It is a major hurdle. It is a purely fiduciary kind of problem that does not have very much to do with bricks and mortar, but it is very, very real when you look at your final interest rate bids.

In the third area, there are special projects and certain rehabilitation efforts which the agency is interested in becoming more involved in, and it is conceivable that, in ways that we have not yet studied--- We have a feeling -- at this point, it's probably nothing more than a feeling -- and a conviction that we could utilize some of these funds to make certain rehab or special types of projects work, possibly utilizing the money so that we would not be in a bonding position or utilizing the money to pay for certain elements of the project which are not imminently bondable or for which bond-rating houses would give a terrible rating. That is sort of a new angle, and it needs a little more study.

In conclusion, let me say that we are a housing construction agency, and, quite simply, it is essential that this bill be approved if we are to continue the quality and the quantity of our work in the future. We occupy a substantial segment of the industry statewide, and in our urban areas, we are nearly the only one playing the game.

I can only close by saying that a final analysis which we will prepare in conjunction with the department will be forthcoming, and the kinds of concepts we have touched on this morning will be backed up with more analysis and material at that time.

Thank you.

SENATOR MERLINO: You say that you are primarily in the construction of housing. I take it, then, that the Housing Finance Agency has avoided any rehabilitation.

MR. ESCHER: I think we have one or two projects presently under review. It would be fair to say, Senator, that the vast majority of our work is new multi-family construction. This is an area under the new federal regulations which is going to look more interesting because the federal regulations allow you the same kind of cash flow for new construction that they do for substantial rehab. If you can get a rehab project that is less expensive per unit, it is a more feasible project. This is an area into which we have looked in the past but have not really gone after.

SENATOR MERLINO: Is that really the criteria that we should look at -- the feasibility of it? An agency such as yours would be one that would have to undertake those projects which would not be that attractive to private developers or private money.

MR. ESCHER: Clearly, and so we do. It is, in fact, things such as the bill before us this morning that allow us to do our job much better.

SENATOR MERLINO: That is one of the main reasons for the bill.

MR. ESCHER: Clearly.

SENATOR MERLINO: As far as the financing goes, do general obligation bonds of the State, such as those offered in this bill, receive a more favorable interest rate than bonds of the Housing Finance Agency?

MR. ESCHER: I wouldn't know for sure. The underwriters would have to read all the legislative back-up, but I would presume so.

SENATOR MERLINO: There are so many units that can be built. Would the fact that we are calling for $180 million saturate the market right away or stretch out the period of time in which you could do this?

MR. ESCHER: Without having the benefit of an awful lot of analysis, I would say that this is a long-term effort. I don't think the voters would be asked to pass judgment on this kind of bill again in the near future. We have been using $12.5 million for six years.

SENATOR MERLINO: That was, of course, different. We are out of the federal market, so we cannot use that devise, at least not as successfully as it was.

MR. ESCHER: Perhaps. I am just saying that the magnitude of the money--- Like Commissioner Willis, I cannot comment on the exact dollar amount that is appropriate, but if you figure on a 1 to 10 kind of leverage effect -- a very rough and unfair kind of figure -- you are multiplying your $180 million investment by 10 which is an enormously substantial amount of money. It is being used in conjunction with our agency, or parts of it will be, and our bonding limit is unlimited.

SENATOR DWYER: Toward the end of your statement, you left me a little confused. You talked about experimenting in a new area, and you kind of got muddled and I didn't follow you. Were you talking about rehabilitation at that point?

MR. ESCHER: Yes, and some kinds of special projects. If you were muddled, it was probably because I am a little bit myself. Let me say this: We do not want to limit the kinds of uses that this money could be used for to what we have seen before, particularly with the changes in the federal level. We want to keep ourselves as broad and as open to some innovative utilizations as possible. That is merely a thought. There are pieces of certain projects that are difficult to relate your bonding capacity to, and there are non-mortgageable kinds of problems. If this money could be used to help those aspects of those problems---

SENATOR DWYER: Could you just give me an example of what might not be mortgageable?

MR. WILLIS: Perhaps this would serve as an example: In two instances, to my knowledge, the

Housing Finance Agency has provided construction financing for the substantial rehabilitation of apartment buildings in Hoboken. In each of those cases, as in most rehabilitation efforts, it is very difficult to estimate what the actual final cost is going to be because no one knows, until we start tearing off the plaster, what it looks like. In that instance, to provide a mortgage, one must take a chance and present a cost estimate and hope that that will do the job. Then, all the calculations are based on that. What has been suggested by the Housing Finance Agency -- and what we would like to see considered and may, in fact, be enabled in this bill -- is that state funds be used as a back-up in the event that, once we have torn a part of the building down, we find that we must have a larger mortgage than had been anticipated in order to make it possible for us to go ahead, finish the building, put it back together, and get it back on the market. It is that kind of "filling the gap" that would make it possible to take more risks, and in rehabilitation, we do take more risks. It is difficult to pin down exactly what it is going to cost us.

SENATOR DWYER: More risks and much, much greater control.

MR. WILLIS: We do, certainly, have to have control over costs.

SENATOR MERLINO: Apparently the Housing Finance Agency is no longer, and perhaps never was, committed to urban renewal and urban rejuvenation. I say that because of the fact that you have moved your offices out of the City of Trenton and into suburban Mercer County.

MR. ESCHER: I don't think that would be a fair overall characterization, Senator Merlino.

SENATOR MERLINO: I don't pretend to be fair.

MR. ESCHER: On the other hand, the only new moderate-income housing built in Trenton is the Kingsbury, and there are 364 units there that we put ourselves behind. I believe there is some similar bond issue behind that.

SENATOR MERLINO: My statement was directed at your moving your offices out of the city.

MR. ESCHER: I wouldn't be able to comment fairly on that this morning, your honor.

SENATOR MERLINO: I assume it is temporary. Thank you very much. The next speaker will be Mr. Arthur Young of the Building Contractors Association of New Jersey.

A R T H U R   T.   Y O U N G: I am Art Young. I am Director of Legislative Affairs for the Building Contractors Association.

SENATOR MERLINO: What they used to call a lobbyist.

MR. YOUNG: Yes, sir.

We are the commercial and industrial end of construction in the State of New Jersey. I thought it would be remiss if we did not comment on this bill, even though we are not directly related to the home-building industry.

It has, of course, long-range implications for us. Wherever you build houses, commercial and industrial construction is bound to follow. So we view the bill very favorably from that aspect. But of most importance, I think the economic situation in the construction industry can be assisted if this bill is passed. Anything that primes the pump and gets some of our craftsmen back to work, we consider very, very critical at this time.

Our business in commercial and industrial is off 40 percent; we are running as high as 35 percent unemployment. The home builders we know are in worse shape. Residential builders in this State are really under the gun.

I don't know whether anyone is here from the New Jersey Home Builders, but I thought I might comment. I know they are out of the state at a convention. I know they would be very much interested and very much in support of this measure.

I, myself, sit on the Board of Directors of SEED, the Society for Environmental and Economic Development. We did support the last bond issue and we certainly would support this one.

Your comments were very well taken, in that we all have a lot of work to do in promoting this. It is not sufficient to put it on the ballot unless we can get the public sold. We are willing to help. We, as an Association, did work on all four bond issues the last time around.

Those are the only comments I have unless there are any questions. We would like you to act favorably on it. We thank you for giving us the opportunity to speak this morning.

SENATOR MERLINO: Thank you for coming. Are there any questions? (No questions.)

Frank Haines, New Jersey Taxpayers Association.

F R A N K   W.   H A I N E S: Senator Merlino and Members of the Senate Committee on Revenue, Finance and Appropriations: I am Frank Haines, Executive Director of the New Jersey Taxpayers Association, a non-profit, non-partisan, governmental research organization incorporated in 1930, located here in Trenton. We are still in Trenton, Senator, on North Broad Street.

Senate 1537, which would authorize submission of a $180 million housing bond issue to referendum in November 1975, certainly is commendable in its attempt to combate the State's serious unemployment and faltering economy through advancing the cause of housing financing. However, I wish to express the view of the New Jersey Taxpayers Association that any action on this measure at this time in our view would be premature and, accordingly, should be postponed.

The reason for the Association's position is very simple. In mid-December, Governor Byrne announced the appointment of a 19-member Commission to Study the Capital Needs of the State. His action followed November's rather convincing, I guess, voter rejection of three out of four bond issues. Insufficient advanced planning, and an inadequate voter education program resulting from late legislative approval of the bills contributed to defeat of the bond questions in our opinion.

Until the State can demonstrate that it has a comprehensive long-range capital planning program and a balanced financing program with which to implement the capital process, voters should not be asked to consider any bond issues, nor can they be expected to approve any which are hastily conceived or enacted without regard for overall State capital priorities.

The Governor has requested the new study commission to report by April 15. That is a rather tremendous task which he has assigned to them in view of the scope of the project, and I say that from watching the Governor Hughes Commission in its efforts back in 1967, I think it was. That report should become the sole basis for any bond issues to be presented to the voters this year, if in fact bond issues for any purposes are recommended. Moreover, any action on major capital projects should be held in abeyance until the Capital Needs Study has been completed and the report issued.

In view of the significant lack of supporting information about last year's bond proposals, we respectfully suggest that hereafter the statement on any proposed bond issue bill contain the following basic information:

1. Details of what the bond issue would accomplish.

2. Relative importance of the proposed bond issue compared with other pending capital needs, that is, the priority and the justification therefor.

3. Immediate and extended State budget cost implications, particularly the impact on current operations and debt service, and how those costs would be financed.

I have a technical question I would like to put forth, Senator. This came up in consideration of the bill last year and I don't recall that it was ever answered, and it might be something to which you have an answer. At least it should be explored.

On page 3 of the bill, Section 4 b, there is created a housing assistance fund. In that fund would go the proceeds of the bonds, moneys from repayment of loans and advances, income from the investment of bond funds and any other funds that might be available.

There is one thing that I just wonder about - and maybe this is the intent - and that is whether that fund would in effect and by intent become a revolving fund. Therefore, it would be almost a perpetual fund. As money is repaid, it would then be reloaned. I wonder whether that is the intent of the issue. I raise this question because the bill provides the debt service for the bonds to be paid from the General Treasury, with sales tax money being the first pledge, etc., which is part of the constitutional requirement that some revenues be allocated to bond issues.

I don't know whether the bond issue of 1968, the $12.5 million, has been, in effect, a perpetual fund or whether this would do that. But in many cases where you are providing moneys strictly for capital outlay, then, of course, once the building is built, you have utilized the fund. But this is not a straight capital project financing type bond issue. So I think it would help the general public in understanding this, if they knew whether this would become a type of perpetual fund, which would in turn be reloaned, etc., for continuation of housing purposes.

I don't know the answer and I think it would certainly be helpful for us who are looking at this thing and in terms of ultimate understanding and education on a similar bond issue to have an answer to that question.

SENATOR MERLINO: I think it is a very good question. Rather than give you an off-the-top-of-my-head answer, I think we should give a rather detailed answer to you and the general public.

There is nothing wrong in having a revolving fund in an operation such as this. It is not like a highway bond issue where you float the bonds to build the highways. This was not intended to be that kind of an issue.

Mr. Haines, I note you have made three recommendations and two of them are answered in the statement attached to the bill. Perhaps number three wasn't answered in the statement attached to the bill.

MR. HAINES: I think, Senator, if I may respond, in terms of details, certainly there is a rather adequate financial statement.

SENATOR MERLINO: More than usual.

MR. HAINES: True, yes, sir. However, it still would not meet, I think, the criteria we would like to see in terms of some specifics. I think only someone from the Housing Agency who is involved in this might be able to develop some overall concept.

The priority question, of course, is one that can only come if there is a comprehensive capital program with some allocation by some agency, not necessarily, let's say, that which the Legislative Branch assumes, but that which the Executive Branch, presumably having the first responsibility for a comprehensive capital program, would allocate as a result of its overall evaluation of all of the capital needs of the State government.

Finally, in point three, cost implications, certainly again that would involve some estimate of annual debt service costs, based on current prices in the bond market, as well as how and how much administrative cost of such an issue would be provided, whether it would come from these moneys or whether it would have to come from a separate appropriation in the budget, etc. I think the clarification of those points, although I didn't get into detail, is the type of thing that we think we would like to see. It would be extremely helpful in evaluating and educating on bond issue questions.

SENATOR MERLINO: On the other point that you have raised about postponing the movement of this bond, you have been operating in the bureaucratic sphere for a long time; and I have been frustrated in the bureaucratic sphere for a short time. I have found that it was because of the bureaucratic operation that the 1974 bill was gotten together at the last minute, so to say, and put on the ballot. I am not about to let that happen again. You will find within a month after the 1974 election, this new bill was introduced and it was for that reason. If the bill serves no other purpose, it has stimulated the interest which is apparent and obvious here today. It is not my intent as the sponsor of this bill to circumvent the administration in its study of capital needs and capital planning. But I am not about to wait, as sponsor of this bill, until some report is filed by a group. I want to get the thing started now.

By the same token, it is not my intention that this bill just go ahead full steam without input from anyone else - any other group or any other division of government. My way of thinking is that someone has to start the ball rolling, and this is my way of getting the ball rolling. Hopefully there are people like yourself representing groups that will get a little fire going in the areas where it is needed.

MR. HAINES: May I comment, sir?

SENATOR MERLINO: Surely.

MR. HAINES: To go back in history a little bit to the first capital needs study commission in the late '60's, that commission which Governor Hughes created came as a result, I think, of an experience that it was becoming difficult to get voter approval of bond issues and there was an extensive development of backlogs in the capital area.

I would only point, in terms of experience, that following that report which recommended actually about $2 billion of capital needs, the first series of bond issues having had significant documentation, which was considered accurate by many of the groups who were interested in various functions -- that report provided the basis for broad-spread public support for the various capital needs that were recommended. There was an extensive evaluation, of course, of all the needs at the time. There had been developed in the Hughes administration and before, a rather comprehensive capital program. Mr. Willis who testified earlier is well familiar with it and had a great deal to do with it.

Regrettably for a period of time between administrations, this overall process sort of either slowed down or failed to develop. Therefore, we got what we'd had through the '50's; we can only term it sort of crisis bond financing. That is, I think, one of the basic reasons that part of the package last year -- I say "package" but it ended up being a significant number -- failed. Maybe the economic situation had something to do with it.

But unless there are detailed evidence and significant documentation of capital needs by an executive agency combined with legislative review, I would forecast a black day in terms of future bond issues that may be coming.

I think the essentials of public support are in an overall capital planning process which looks at priorities and tries to evaluate priorities for the citizen initially.

I am citing the history with the hope that again with a comprehensive report which will touch all these needs, it will give a much more extensive documentation than we have had in recent years to support bond issues, and that some recommendations will be forthcoming for an integrated financial program, not necessarily that these things have to all be done by bond issues. At some point, the cost of debt service is going to catch up with us and it is beginning to in the budget, as you know, being Chairman of the Appropriations Committee.

That was our view. We have been a long-time proponent of organized capital planning and programming. That was the view of the Association which was determined at a meeting of our Executive Committee last night when we reviewed this whole process.

Thank you very much, sir.

SENATOR MERLINO: Senator Dwyer, do you have any questions?

SENATOR DWYER: The only thing on which I am a little confused is that perpetuity concept. The use of the moneys can't be perpetual because the bonds have to be paid off. At some point the money as it comes back to the State agency has to go back out to the bondholders. You start at point zero and you have to arrive at point zero, I think.

MR. HAINES: Well, if you were building a building, Senator ---

SENATOR DWYER: It is not a revolving fund in perpetuity.

MR. HAINES: If you were building a building, once you have paid the construction costs of the building, you have used your bond moneys and subsequently there must be a General Treasury appropriation for both principal and interest to pay off the bonds. What I really questioned was that inasmuch as you are in a process here where much of this money will be loaned - at least the way I read it - and would be subsequently repaid, some proportion of it, the repayments then go into a fund. And unless there was say an understanding or an arrangement or maybe the discretion is there with the State financial officials, then there would be a transfer from that housing fund into the General Treasury in an amount to pay off the annual principal and interest payments.

This happens, let's say, in a general obligation bond issue now where the bond moneys are not necessarily needed once the bonds are sold initially for construction. So they are immediately reinvested and interest is raised and that interest goes into the General Treasury, and for the first year or so provides an offset to the General Treasury's appropriation. But once the money has been spent, there is nothing further to be reinvested. So it must come then strictly from the General Treasury appropriation.

I merely raise the question whether since this is a type of loan to some extent which should be repaid, those repayments would then be transferred to General Treasury to pay off debt service or whether they would in effect become a sort of perpetual revolving fund which could in turn be reloaned for further housing needs. As I see it in my first reading, there is no basic provision for reducing the amount of the loans outstanding at any point.

SENATOR MERLINO: Mr. Willis.

MR. WILLIS: If I may, I think that there are three concepts that might be helpful to point out. The principal intent of this legislation as the prior legislation would be that these would be general obligation bonds that would be repaid from each year's appropriation and that these would not be confused with the revenue bonds of the Housing Finance Agency which repays from its own mortgage payments its own bonds and does not look to the Legislature for repayment.

These bonds are general obligation bonds to be repaid by the Legislature.

Now prudence on the part of the department and the Housing Finance Agency has led us to use the funds wherever possible in a situation where we could hope to have them recovered over a long period of time. Most of the prior bond assistance funds were used for a second mortgage, the repayments for which would not become available to us until after 40 years or perhaps in some instances 48 years. So it is not practical to tie those repayments to the payments of the bonds themselves which would begin to run the moment we begin to use the funds.

Our thought was that in so far as possible as repayment became available to us that fund could then be used again for housing purposes. But up to now the experience has been that we won't be getting any of this back for 40 years.

In addition, there is the whole concept of the management of the money, which is primarily a matter for the Treasurer. Now fast moneys are borrowed and made available for use would be a fiscal management concept rather than any concern about the repayment of the bonds.

The bill does propose that where the moneys are borrowed in accordance with an approved bond authorization, where the moneys are borrowed and they are not immediately drawn down by the Housing Finance Agency for any specific project, those moneys do earn interest. And we suggest that that interest should go back into the fund itself. But that is a fiscal management thing and pretty largely irrelevant to the repayment of the bonds or to the use of the dollars by the Housing Finance Agency.

I don't know whether that has helped to clear things up; perhaps it hasn't.

SENATOR MERLINO: Thank you.

SENATOR VREELAND: I am just interested in the three points here - the questions that are raised. It seems to me with regard to number two, priorities, that housing is one of the top priorities in the State of New Jersey. I don't think there is any question about that.

I think you have made a good point in number three and, as Senator Merlino has said, that will be answered. I think the question of how much money we really will be talking about when we talk about $180 million and the interest over a period of years is important. It is going to be important to the voters. I don't think there is any question about that.

I think that the priority, to my way of thinking, is already established. Maybe you don't think so.

MR. HAINES: No. The only thing, sir, is that it is difficult to determine, very honestly, unless you see a list of all the needs at one time and then make some measure to weigh them. It is a difficult process even when you have the figures in front of you. But there are some ways being developed in order to establish some relationships.

Frankly, at this time, I wouldn't attempt in my own mind, knowing what I know at this point, to say how you evaluate housing versus needs in institutions or versus transportation or versus higher education or versus needs in many other areas in which at some point there will be some documentation. You may have your own basis for evaluation and you can defend it. But I think again for the general public, they have to have it in relation to something in order to be convinced themselves. Somebody has to suggest something. After seeing it all, it then may become quite subjective. But at some point they have to see what the comparisons are. And that is merely what we suggest ought to be done.

SENATOR VREELAND: I think you are right. I said I think it is already established that housing is one of the top priorities. Now, of course, you bring up institutions, etc., with which I have to agree. I guess it is a matter of evaluating which in your opinion or the voters' opinion gets top priority.

You mentioned higher education. Of course, I would rate these priorities in a different sequence maybe than you would.

MR. HAINES: Thank you very much.

SENATOR MERLINO: Thank you.

William Beren, League for Conservation Legislation.

WILLIAM BEREN: Thank you, Mr. Chairman.

Good morning to the Committee. My name is William Beren. I represent the League for Conservation Legislation. And today my remarks have also been endorsed by the New Jersey Public Interest Research Group.

As I am sure the committee is aware, LCL is primarily a conservation group ---

SENATOR MERLINO: They didn't want to come in here on their own?

MR. BEREN: The short notice of the hearing kind of left us a bit understaffed.

LCL is primarily interested in preserving New Jersey's natural resources. However, one of those resources that we are concerned with is people, and the social needs they have.

I am not speaking today as an expert in housing. I pretend no knowledge of the need for housing in the State, nor whether or not the bond issue is too little or too much to meet that need. And I certainly don't know anything about the technical side of funding new housing starts.

But the League does realize that the housing industry in the State is in need of assistance today. Tight money, high interest rates, and a confused federal policy have combined to put the screws on this particular industry - an industry which has always been considered an important bellweather economic indicator. We are also assuming that, as usual, it is the poor, the elderly, and the almost poor who have the most difficulties finding a decent place to live at a price they can afford. It was for these reasons that LCL supported the housing bond issue this fall, and will probably continue to support this one.

Yet housing is but one of some very serious issues facing New Jersey today. Unemployment, economic stagnation, energy shortages, and a crazy-quilt pattern of land development hang heavy over our heads. New Jersey can no longer afford the piecemeal approach to reform that solves one problem only to create another one somewhere else. It is time for the Legislature to reach for innovative and comprehensive solutions that will resolve the conflicts, and which will allow us to have jobs, a healthy economy, social equality, and a clean environment all together, at the same time.

Specifically, LCL proposes that in order for a developer to qualify for funds in this bond issue, he be required to meet minimum insulation and construction standards, and that the housing be located in or near our urban areas with access to mass transit.

Traditionally, the cheap cost of energy and Americans' preoccupation with purchase price as opposed to operating costs have resulted in poor construction, insufficient insulation, and a general waste of energy. For the poor, who are more likely to live in old, substandard housing, this is particularly important, because it means their fuel bills are that much higher. A recent national survey done for the Ford Foundation's Energy Policy Project indicated that the poor with an average income of $2500 a year spent 15.2 percent of their income for energy, compared to 7.2 percent for the lower middle class, who made $8000 a year; and the well-to-do who earned an average income of $25,000 a year spent only 4.1 percent of their income on energy.

In line with our tradition of the rich getting richer and the poor getting poorer lower income families can't even afford to install insulation and storm windows, which can cost up to $200, and as a result are too poor to save money. As the Ford Foundation found:

> Since poor families usually occupy smaller dwellings, and are the most likely of all the income groups to live in apartments or attached houses, one might reasonably expect their heating fuel consumption to be significantly lower than that of other income groups. But the relatively small difference in consumption of natural gas - the heating fuel used in 60 percent of all American homes - may be traced to the conditions of homes, particularly the presence or absence of insulation and storm windows.

The Ford Foundation's findings are illuminating in this regard. Fifty percent of the poor have no insulation in their homes, while over 90 percent of the well-to-do have some. Seventy percent of the poor lack storm windows, compared to only 38 percent of the well-to-do. I included in the back of my testimony a chart which shows those figures. (See page 42 for chart.)

The problem is not just better insulation standards, but also construction standards. Poorly fitting doors and windows, symptomatic of today's new construction, are significant sources of heat loss. According to a recent Public Service advertisement in the Star Ledger last week, a quarter-inch crack under a three-foot-wide door will result in significant heat loss.

It is incumbent on the State to insist on high building standards and proper insulation for buildings that are built with State funds. Newspaper articles in the past few weeks have documented the high numbers of elderly poor and others who are going without heat this winter because they can't pay their fuel bills. While the housing may cost a little more for the State to construct at these high standards, they will be better built, save tenants and operating authorities money in the long term, and will conserve valuable fossil fuels.

LCL, along with the State Energy Office, is supporting the inclusion of a mandatory energy conservation code in the proposed statewide building code legislation now before the Senate and the Assembly. We feel that by insisting on similar requirements from publicly assisted housing, this bond issue can demonstrate to private industry and the public the gains that are possible in energy conservation.

Over and beyond the mandating of minimal standards, the bond can also be used to stimulate development of innovative energy systems. Builders should be encouraged to install solar energy panels, fuel cells, and other energy conserving devices, such as is being done in the housing projects that are now going up in Jersey City. If the project is to be a Planned Unit Development or other form of large scale development, then a Total Energy System might be appropriate for inclusion in those plans.

Access to mass transit for work and shopping are of prime concern to the public. Residents of the public housing can be expected to rely even more heavily on mass transit than other sectors of the population. LCL believes that from all points of view, it makes sense to locate housing along existing transit corridors, making use of presently underutilized mass transit routes, both rail and bus. In this way, we can arrest suburban sprawl, make a commitment to rebuild our cities, preserve open space, and reduce dependence on the automobile and gasoline in one fell swoop.

Thank you very much for your time and consideration. We hope to follow through on this and get some more technical information on what specific standards can be included in the bond legislation, which we will be glad to pass along to the Committee.

SENATOR DWYER: That was a good statement.

MR. BEREN: Thank you.

SENATOR MARTINDELL: That was a very good statement. Do you have figures on the relative costs of putting solar energy and those types of things that you mentioned in buildings?

MR. BEREN: No, I don't. I will try to get that information. As I said at the beginning, I was not in Trenton last week. I got notice of this hearing on Monday and I quickly put this together.

I have spoken to some architects who are working principally on office buildings, trying to refit existing office buildings to conserve up to 50 percent of the energy they use. I am not quite sure whether his findings are relevant to residential construction. But he is not certain at all that increased insulation and energy-conserving systems would actually increase the total cost of buildings because of the tradeoffs that happen. It may cost a little more for insulation, but you cut down on lighting or your ventilating system or something like that. For residential construction, I really have no figures available and will try to get you those.

SENATOR MERLINO: Is there anyone else who wishes to be heard. We will take a five-minute break to give the stenographer a rest, and see if anyone else comes in.

(Short recess)

SENATOR MERLINO: Since no other people have come in to speak, the hearing is adjourned.

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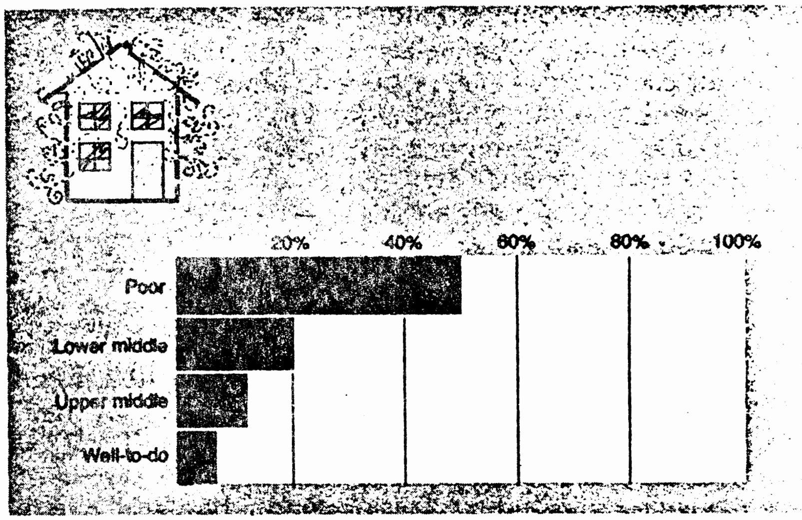
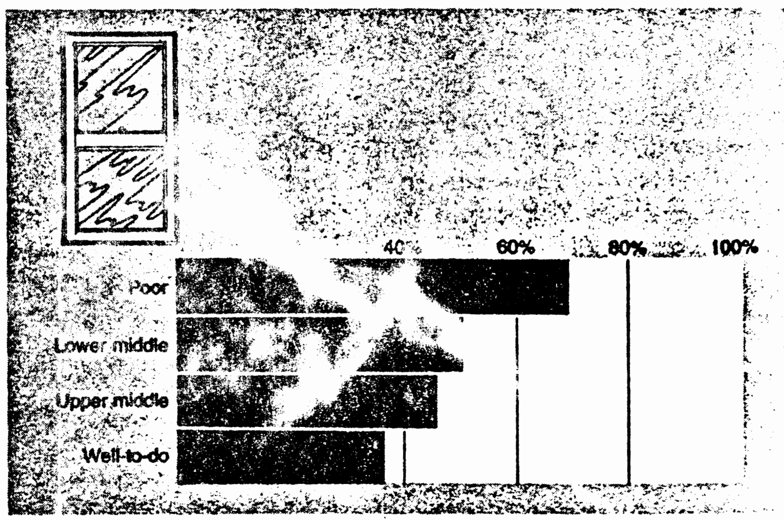
(Hearing Concluded)

Figure 24–Percent of households with no insulation



Note: Single family houses only
Source: Washington Center for Metropolitan Studies

Figure 25–Percent of households with no storm windows



Source: Washington Center for Metropolitan Studies

Almost three-quarters of all American single family homes have some insulation.[d] However, over half the single family houses of the poor have no insulation at all, compared to a mere 5 percent of the houses of the well-to-do.

[d] This discussion is based upon information given by survey respondents who stated that they knew whether or not their homes were insulated. The "don't know" category (9 percent of respondents) was excluded.

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