

96 5372
1957

PUBLIC HEARING

BEFORE

COMMISSION APPOINTED PURSUANT TO SENATE
CONCURRENT RESOLUTION NO. 2 (1957) to STUDY THE
PRACTICABILITY OF ENACTMENT OF LEGISLATION TO ENABLE
SCHOOL DISTRICTS TO FINANCE SCHOOL PROJECTS THROUGH
BORROWING AT INTEREST RATES LOWER THAN THOSE CURRENT
IN THE PRESENT MARKET.

Held:
Assembly Chamber
State House, Trenton, N.J.
February 28, 1957.

MEMBERS OF COMMISSION PRESENT:

Senator Wesley L. Lance (Chairman)
Senator Robert C. Crane
Senator John A. Lynch

Assemblyman Clifton T. Barkalow
Assemblyman Pierce H. Deamer, Jr.
Assemblyman Joseph M. Thuring

* * * *

New Jersey State Library

MORNING

INDEX OF WITNESSES

	Page
Kenneth F. Woodbury Assistant Commissioner of Education	3
Edward Kilpatrick Director of Business Services, State Department of Education	7 - 41
Ivor R. Watts representing State Federation of District Boards of Education	9
William R. Clark representing School Board, East Brunswick Township	19
John Hagen Secretary, South Plainfield Board of Education	22
Kenneth V. Myers Secretary, Hunterdon County School Boards Association	25
Patrick E. Musto President, Union City Board of Education	34
Rusel T. Wilson Chairman, Tax Study Commission, N. J. State League of Municipalities	37
F. Coleman Green, Esq. Hawkins, Delafield and Wood, New York	43

AFTERNOON

F. Coleman Green, Esq. Hawkins, Delafield and Wood, New York	1A - 8A
S. Herbert Starkey Director of Research, N.J. Education Association	2A - 27A
William P. Watson Secretary, N. J. Farm Bureau	9A
Richard J. Stevenson Vice President, N.J. Ass'n of Township Committeemen	11A
George Skillman Director, Division of Local Government	13A - 54A
Reinhardt V. Metzger Former Assemblyman, Essex County	21A
William Miller, Esq. Princeton Surveys	30A
Robert Ford, Esq. Member Newton Board of Education	52A

SENATOR WESLEY L. LANCE (THE CHAIRMAN): This hearing is on the general subject of what, if anything, the State Legislature can do to assist local school districts in the present period of high interest rates insofar as school construction bonds are concerned.

This hearing is held pursuant to Senate Concurrent Resolution No. 2, passed in 1957, which set up a Legislative Commission of six members, three from each House. The hearing is not restricted to bills already introduced in the 1957 Legislature; in other words, the door is wide open to discuss the whole general subject of interest rates for school district bonds. There are many subjects which would not be of interest today at this particular hearing, such as school construction costs, additional state aid, all of which are interesting topics, but we are trying to restrict ourselves specifically to the interest rate problem.

Notices have been sent to various organizations throughout the State, asking that they present their views on two points: (1) should the Legislature try to do anything, and (2) what are your suggestions? This Commission realizes that this problem is national in scope, that interest rates are not only high in New Jersey but in all of the other states, that they are high in Canada, and perhaps it is an international problem with interest rates being high in England.

The Commission also realizes that all interest rates are high, not merely school bonds, but all types of borrowing. We are all familiar with the story of Canute, the Dane, who

told the sea to stop but, nevertheless, the waves kept right on coming, and this Commission well realizes that we here in New Jersey cannot affect, at the legislative level, the business cycle, which is national or even international. However, it is possible that within our own limited jurisdiction there are some things which the State Legislature might consider, we well realizing that our ability in this line would be of a limited nature.

Before starting the hearing, I would like to say that the Commission recognizes the great service that the bond dealers and the investment bankers have rendered and are rendering to the school districts and taxpayers of this State. Some three hundred or four hundred bond dealers who have their offices in New Jersey and in New York City, and Philadelphia, to a lesser degree, are the purchasers of New Jersey school bonds. These bond dealers, we know, do not create interest rates - rather their bids only reflect current market conditions. These bond dealers and investment bankers render invaluable service to New Jersey school districts in providing an efficient, quick, and satisfactory market for this type of security. If this Commission finds that the New Jersey Legislature can do nothing, it will say so. We certainly are not going to seek, as a substitute for constructive thought, any whipping boy and say, "Well, it's the fault of a certain industry that rates are high." We realize that bond dealers and investment bankers make it possible for the school bonds of even the smallest school district in New Jersey to be marketed as far away as California and

Canada, and that this industry performs a very valuable service.

We will ask all the witnesses to take the chair which is reserved for them in the front. Be sure that you talk into the microphone because we are hooked up to a dictaphone setup. There will be transcripts of this hearing. We have already had requests for some thirty or forty copies of this transcript.

We will call first upon the representative of the Commissioner of Education. Will each of you start your remarks by saying who you are and whom you represent, if you do represent an organization or group.

MR. KENNETH F. WOODBURY: Senator Lance, members of the Commission, ladies and gentlemen: My name is Kenneth F. Woodbury and I am Assistant Commissioner of Education, in charge of the Division of Business and Finance of the Department of Education.

It is my purpose this morning to bring you a certain bit of information which may serve as a backdrop or a background of facts for this hearing.

The school districts in the State of New Jersey continue to face two very serious problems: a shortage of teachers and a shortage of adequate school housing facilities. This shortage of school facilities has recently been further aggravated by the tight money situation which prevails in our country. New Jersey boards of education have made great effort to cope with the acute shortage of school buildings during the years since the close of World War II. In capital outlay, they have spent to June 30, 1956, more than four hundred and twelve million dollars. Nearly one hundred million dollars of this amount was expended in the school

year 1955-56, and we believe that an equal or greater sum will be expended during the current fiscal year and probably for each of the next five fiscal years. More than two school districts out of every five have been forced to exceed their statutory borrowing limits from both the school district and the municipality in order to finance school construction. This, as most of you know, can be done only with the permission of the Commissioner of Education and the State Local Government Board, with the subsequent approval of the electorate.

Since 1947, the Commissioner of Education and the Local Government Board have approved extensions of credit of approximately three hundred and fifteen million dollars, with eighty-six million dollars of such approval occurring in the calendar year of 1956. The net school debt has increased from a post-war low of one hundred and thirteen million dollars on June 30, 1947, to four hundred and forty-seven million dollars on June 30, 1956. Debt service payments, largely financed through local property taxes to amortize bonds and pay interest on bonded debt of the school districts, have increased from twelve and a half million dollars in 1946-47 to twenty-six million dollars in 1955-56.

Enrollments in the public schools of New Jersey are increasing at a rate of approximately forty thousand pupils a year, a rate of growth which will probably continue for at least another decade.

On June 30, 1950, the average daily enrollment was six hundred and twenty-nine thousand and on June 30, 1956, this had increased to eight hundred and thirty-one thousand

and on September 28 of the current school year, when we obtained enrollment statistics for the apportionment of state funds, it had increased to eight hundred and eighty-three thousand. The public school enrollment will exceed one million pupils by 1960.

Live births have increased from 97,414 in 1949 to 120,969 in 1955, and it was estimated at 121,000 in 1956. As birth rates and enrollments continue to mount, the districts will have to face the need for expanded high school facilities. As the population wave begins to reach the secondary schools, we find that many of our school districts have been forced into building new high school facilities and the creation of new regional high school districts because existing high schools are unable to accommodate pupils from our rapidly growing areas.

Five years ago we had eight regional high school districts. Today we have twenty-five. In ten years the secondary schools will need to enroll five pupils for every three now enrolled. With the increase in enrollment and the cost of education, the need for increased state participation was very evident in 1954. There were enacted into law a new state aid program for current expense operation based upon the ability of the school districts to provide a two hundred thousand dollar foundations program supported by a local contribution of five mills per dollar on the full value of real estate, plus 25 per cent of the non-property shared taxes. Prior to the adoption of this new program, the direct state aid for current expense operation amounted

to approximately twenty-seven million dollars, while in 1955-56, under the new statute, the direct aid had increased to sixty-two and one-half million dollars. Our budgetary estimate for 1957-58 is seventy-one million dollars.

Early in 1956, there was enacted into law a new state school building aid program which set up a potential capital foundation program of \$30 per pupil, supported by a local contribution of one-half mill per dollar on the full value of real estate. This capital program may be used to pay debt service, capital outlay, or participate in capital reserve funds. For the year 1956-57, local school budgets were already proposed so that the initial appropriation by the State of approximately ten million six hundred and fifty thousand dollars was applied to the reduction of local school taxes. Our budget estimate for 1957-58 is thirteen million five hundred twenty-four thousand five hundred eighty-eight dollars (\$13,524,588), or nearly eighty-five million dollars direct aid for both current expense and capital aid program. In spite of this increased state participation in the problem of adequately financing the necessary school housing facilities, this problem continued to plague our school districts particularly in the latter part of 1956, as interest charges on school construction funds increased as a result of again what we might call the tight money situation. As credit tightened and we became increasingly concerned about the problem of finding markets for the large number of school bonds which must be sold in the future, Commissioner Frederick M. Raubinger

appointed a committee of prominent lay citizens to help the Department prepare a state brochure setting forth the general advantages of New Jersey school bonds and to recommend other steps which might improve the marketability of such bonds.

It is my hope that this review of some of the problems of our districts in New Jersey may be of some value to you as you review the proposed legislation this morning.

Thank you very much.

SENATOR LANCE: Assistant Commissioner, is it my understanding that school bonds will be authorized at the rate of a hundred million dollars per year for perhaps the next five years, as a prediction?

MR. WOODBURY: I think that's a low prediction. I think it will be beyond that. I think it may go to a hundred and twenty or a hundred and twenty-five million a year.

SENATOR LANCE: Do you have the figures for school bond authorizations for 1946-47 with you?

MR. WOODBURY: 1946-47? I wouldn't try to give those out of my memory. Perhaps Mr. Kilpatrick has the table here.

MR. EDWARD W. KILPATRICK: I think they were, roughly, around five million.

MR. WOODBURY: The last figure I have here was 1950.

SENATOR LANCE: I will ask Mr. Kilpatrick to take the microphone. Mr. Kilpatrick, will you identify yourself?

MR. KILPATRICK: My name is Edward Kilpatrick. I am Director of Business Services in the Department of Education. The capital expenditures which would represent the proceeds of bond issues in 1946-47 were three million.

SENATOR LANCE: Now will you give it to us for 1950-51?

MR. KILPATRICK: About \$31,000,000.

SENATOR LANCE: And 1953-54?

MR. KILPATRICK: Fifty-six million.

SENATOR LANCE: And 1955-56?

MR. KILPATRICK: A hundred million.

SENATOR LANCE: And your contemplated figure for the next school fiscal year?

MR. KILPATRICK: Well, it will be a minimum of a hundred and it could be a hundred and twenty million. The first half of the year, if the extensions of credit are any indication-- we had the most applications for extension of credit that we have ever had and in the period from September to December 31; January and February haven't been as heavy but I believe that is because that's the time that the school districts are interested in budgets and annual elections. Our calendars are picking up again.

SENATOR LANCE: Just one final word on state aid: State aid has multiplied how many times since, let us say, the 1954 programs and subsequent ones have been adopted?

MR. KILPATRICK: Nearly three times.

SENATOR LANCE: Almost triple?

MR. KILPATRICK: Yes.

SENATOR LANCE: Thank you so much.

At this time I would like to introduce some of the members of the Commission: On my extreme right is Assemblyman Thuring of Hudson County, who has been connected with various zoning boards there in an official capacity; next to him is Senator Lynch of Middlesex County, who has served as Mayor of New Brunswick, which is in a Chapter 6 District, and as Mayor

he appointed members of the school board under that form of government during his period as Mayor; next to me is Assemblyman Barkalow of Monmouth County, who has served as attorney for several school boards and several municipalities in Monmouth County and he is Chairman of the Education Committee in the House of Assembly and also Secretary of the Freehold Township Board of Education; on my left is Assemblyman Deamer of Bergen County, who has over the past 20 years served as attorney for various school boards and various municipalities in Bergen County, and he is Chairman of the State, County and Municipal Government Committee in the House of Assembly.

I will ask Mr. Watts to testify next.

I V O R R. W A T T S: Mr. Chairman and members of the Commission: My name is Ivor R. Watts. I am from Nutley, New Jersey and I represent the State Federation of District Boards of Education and am also a member of the Nutley Board of Education.

Mr. Chairman, we had hoped by this date to have assembled certain information and facts which we knew you would be interested in. However, time has not permitted us to complete certain studies which we are making nor to ascertain from the many local district boards of education their views in relation to this proposed legislation or other matters akin to it.. You will recognize, I think, that the boards of education meet all over this State from practically the first Monday to the last Friday and it takes almost a full month to have completed the cycle and to have obtained information from local boards, so we do not as yet have a sufficient sample to certain questions which have been

asked of them to complete our report. Therefore, I would like, with your permission, at a later date to submit additional written information which may be useful.

For present purposes, though, certain comments may be made in relation to these proposed bills. Now, Senate Bill 3 and Senate Bill 4 relate to prospective authority to be granted to local boards of education under which they may issue callable school bonds having a premium feature. Since this is permissive legislation in effect, and generally permissive legislation is not objectionable, there cannot, in my opinion, be objection on that score. There are several problems, however, incidental to the issuance and administration of premium callable bonds which perplex us a great deal. For instance, the crux of the basis of a decision to issue callable school bonds with premium features is a decision based on forecasting, if you will. What will happen in the bond market two years, five years, ten years hence? Also concerned is a correct analysis of the local community. Now, a number of factors enter into this type of crystal-balling over which local boards of education have no control. In a given local board of education you may have an engineer, a housewife or two, members of the community having varied vocational or training backgrounds. Very few will be bankers and fewer still will be economists, and yet the decision to issue premium bonds in an effort to hold off permanent financing until a lower interest rate were available must fall on these people - good, sincere honest people - and there is some question in the minds of some of us that a local district, even with advice, can make a decision which will

prove to be truly beneficial to the community. Under present conditions, present law, I understand, callable bonds may be issued but not with premium features. The premium feature, of course, is a device to cushion the interest rate and assure the investor that, for a period of time specified, he will at least get a premium in the refunding operation.

Another feature which concerns us a little bit is the possibility that local boards of education, faced with a permissive alternative here, may ask for bids on two types of bonds - the normal term bond, which is presently used in the majority of cases, and the callable bond with the premium feature.

SENATOR LANCE: You mean, normal serial bonds?

MR. WATTS: Serial bonds, yes, sir.

SENATOR LANCE: Not term bonds?

MR. WATTS: Not term bonds; I'm sorry.

In order for them to find out and weigh this prospective advantage, this of itself, and most school districts participate in this way and I think normal curiosity in many cases would indicate that they would ask for bids on both bases, would of course require additional effort on the part of the bond dealer in making his bid, for he also must analyze the future in terms of that district and in terms of the economy. When bond dealers under present conditions are offered many opportunities to invest in school district, in municipals, in state, county and in private issues, as is true all over the country, this may have an effect on a serious approach to arriving at a justifiable bid on both bases; in other words, if

they have the opportunity to, in so many hours in the day and so many nights in which they can appear and make their bids-- if there is competition, in effect, and/it is easier and more straightforward to bid on Community A than Community B, Community A may get the nod, so far as their effort to secure that issue is concerned.

Now, we are studying this matter further and, as has been alluded to here, a committee of school board members, bond dealers and investment counselors and state officials is studying this overall problem to see wherein they may conclude that certain improvements in efficiency can be brought about.

Now, Senate Bill 5 relates to the creation or the authorization of the creation of a debt of fifty million dollars of state bonds which, under the provisions, could be used to purchase school district obligations where school districts were unable to buy above funds at a satisfactory interest rate. I would like to go back here for a minute or two and point out that about a year ago the State Federation did support a bill which would do approximately that which Senate 5 will do, but where funds were to be secured in a different manner. Therefore, in principal, we feel that Senate 5 is probably a step in the right direction. The question, however, comes up as to the qualifications of districts to borrow from the state fund and this presumes, I think, a companion bill which would set up these qualifications and the circumstances under which

money would be loaned or applications would be made for money from the State Fund. We would expect that the companion bill would require that serious effort be made on the local level to improve the credit standing of the individual community, and we think this is one area in which communities may, without benefit of further legislation, improve their credit standing. Not all communities, but we think that some are hiding their lights under bushels and that by a proper presentation of their financial picture of the stability of the community they may be able to convince investment rating services that their rating of their community warrants an improvement. We have seen evidence of this in the last year or two and we think other communities could well and may well study this matter to see if they cannot improve the credit standing on a technical basis with these investment rating services. We also presume that after attempts at borrowing from normal private sources, which may result in an unsatisfactory rate, then a local district may apply for a loan of money under this proposed state fund. If these requirements are not embodied in a companion measure, it is conceivable that school districts could take the line of least resistance and apply immediately for money from this fund rather than improve their local credit standing and rather than attempt to secure private buying. This would make the fifty million dollar amount, as large as it may sound, extremely small in the final analysis. So that every effort should be made to require the local districts to do their utmost to improve their rating.

There is also a question which is, I think, germane

here and that is the one which relates to the possibility of having some of the state's surplus funds, now handled by the State Investment Council, used as investment in local school district bonds. This as an alternative to, perhaps, S-5 or perhaps with S-5. There are many ramifications to this and I am sure others may speak of it this morning. But the State does have a stake in the local districts. As a matter of fact, the entire state's credit, not only the state government but other local districts; that stake is seriously affected by any weakness on the part of one or more local communities. We are in a competitive bond buyers' market; we are competing with 47 other states, we are competing with counties, we are competing with school districts all over the country, and anything that tends to degrade in any way the credit standing of our state or our communities puts us in an unfavorable light in competition with other states and other communities.

The effect of what is happening here - well, I might say relative to the credit standing as indicated by Moody's or Standard and Poor's Investment Service, it is interesting to note that among the districts which have Moody's ratings in New Jersey, there are 240 - this includes counties, municipals and school districts and certain other governmental or quasi-governmental authorities - only one district is rated three A or Triple A by Moody's, and this of course is the State of New Jersey. In addition thereto, there is the State Highway Authority bond, which is guaranteed by the

State, which has the same rating as the State. Now, among the other ratings, only 22 school districts have a double A rating. This is not in effect a reflection on the stability or financial integrity of the community but rather on Moody's requirement, for instance, of not rating a community that does not have at least \$600,000 of outstanding bonds, or on Standard and Poor's where assigned ratings are issued to communities on having a million dollars of outstanding bonds, but it is interesting to note that only 22 of the 240 having a rating are double A, and others are A or BAA and B. As of last night, and this I think illustrates the point, a community in this list having a AA rating, in February 1954 issued \$735,000 of bonds at 2-1/4 per cent. In February 1955, they sold \$1,830,000 in bonds at 2.35. Last night, this community opened bids, and these are 30 year issues, these two prior ones - opened bids on a 20-year issue of \$200,000, and the rate was 3 per cent. So here, with a shorter period of 20 years as compared to 30, we have gone up in interest rate three-quarters of a per cent in 3 years and seven-tenths of a per cent in two years, with a double A rating. The community was satisfied with its rating; I am not complaining, and this is not the type of community that this legislation is designed to affect, because it, with a double A rating, can borrow pretty close to what the State's ability would be. But it illustrates the climb even for the double A-rated communities.

Now, the National State Bank recently issued a review of New Jersey municipal bond market and in it are some interesting illustrations of this problem. It points out that

in January of 1956, one of our larger cities rated A sold an issue of bonds at 2.7 per cent, and another large city, in comparison, with an A rating, sold an issue late in 1956 at 3.6, so here you have about nine-tenths of a point rise. Subsequently, in late 1956, another larger city with a double A rating sold an issue at 3-1/2 per cent. A school district in the southern part of our State with a BAA rating, in early March of 1956, sold an issue having a coupon rate of 2.95; early in December of 1956, the same district some more bonds at three and seven-eighths. This of course can be repeated in a number of cases. I understand there are some that are close to five per cent now, if not at five. This statement points out that in 1956, as in 1955, the demands and requirements for additional new school facilities accounted for the greater part of the borrowing, which was \$66,000,000 of the \$111,000,000 borrowed for school building purposes. Of this total, \$25,000,000 was borrowed by Chapter 6 Districts and \$26,000,000 by 53 boards operating under Chapter 7, with another thirteen and a half million by seven regional districts under Chapter 8. Of particular interest they note, of the growing volume of regional high school district bond issues, in 1955 there was close to five million by three districts and seven districts in 1956 borrowed this thirteen million dollars, so that that is an area in which the bond investment people are very much interested.

This raises an interesting question: In the organization of a regional high school district or consolidated school

district, many times a name is chosen for the district which obviously has local merit, is pleasant sounding, and yet the name does not appear on the map, and the investor looking into this matter can't find a geographical entity which represents this thing. This is very hard to explain, especially on the telephone by a Newark bond dealer talking to an investor in Wisconsin. What is a regional district? These are some of the things that that committee is trying to work out and help to present a picture to bring the light out from under and expose it for what it is worth.

I would, in conclusion, Mr. Chairman, like to thank you and this Commission and other members of the Legislature for the constructive effort which you are making to help local districts in some of their most perplexing problems. It is genuinely appreciated and we certainly want to offer whatever cooperation we can to meet the end that you are aiming at. Thank you, sir.

SENATOR LANCE: Mr. Watts, your organization represents the great bulk of the school districts?

MR. WATTS: By law, we represent them all - five hundred and fifty odd, or seventy odd, whatever the number is, that's right.

SENATOR LANCE: Thank you very much.

I might say on the pending bills, S-2, S-3 and S-4, that they are bills which permit school districts, counties and municipalities to issue new bonds for future borrowings which would be callable at a premium. The point is that school districts, counties, and I believe municipalities, already

have the right to issue new bonds callable at par, in their discretion. This would give them a third option, callable at a premium. S-5 is the \$50,000,000 bill which needs a companion bill, as already has been pointed out, and the companion bill would have to decide which school districts (1) are permitted to sell their bonds to the State and (2) what interest rate they should pay, which are two problems of considerable difficulty to put in writing, I presume. I might ask the representative of the Commissioner of Education: Has your Department ever made up a list of all the municipalities in New Jersey, stating how much true value per public school pupil of wealth there is in the some 550 municipalities in New Jersey?

MR. WOODBURY: Mr. Chairman, we publish an audit report, a report we call our "Blue Book," each year, and the answer to this particular question appears at the end of or in the statistics for each district; in other words, the wealth per pupil.

SENATOR LANCE: But is that wealth per pupil put on a true value basis or is it put on an assessment basis?

MR. WOODBURY: On a true value basis.

SENATOR LANCE: We have a representative from the School Board of East Brunswick Township.

First, I would like to say that on my extreme left is the sixth member of this Legislative Commission, Senator Crane of Union County. He has been a trustee of a private school, Pingree, and also a trustee of a junior college, Union Junior College. He is editor and publisher of the

Elizabeth Journal.

WILLIAM R. CLARK: Mr. Chairman, my name is William Clark and I am a representative of the School Board of East Brunswick, and we are a rapidly-growing community and we have some of the problems which Mr. Watts mentioned. One of our biggest problems is the marketing of bonds and the prospective interest rates on bonds. We are now well over our bonding capacity as laid down by law and although we have not had a rating by any rating services to date, we will need one shortly. From information we have been able to get from various advisers and banks, people we have been able to contact, probably the best that we can hope for is a BAA rating, with a greatly possibility that our rating will be at a BA level. Our community is growing, as I mentioned; we have taken all steps that are available to us to improve our financial status; however, the growth still keeps ahead of us, and we can see a building program going on for schools for the next five or six years. We now have over two million of bonds to market; we will try to get another million and a half of bonds within the next few months to complete a high school. The most direct effect from the interest rate, again from what we can determine- we can expect a rate better than four per cent on our bonds. We feel that a difference of even one per cent in our interest rate would help us to a great extent and would save us upwards of thirty thousand dollars a year. It is the feeling of our school board that we cannot get a desirable rate on our own, and we would like the Legislature to set up

a state marketing system for school bonds and to guarantee school bonds. We feel that this measure would accomplish two things: It would give economy in marketing these bonds,

As Mr. Watts mentioned,- the normal school board does not have any bonding experts and, therefore, in order to present the bonding issue in a desirable light, we have to hire outside consultants and go to a great deal of extra expense, and still sometimes it is not a hundred per cent satisfactory.

We also feel that with the backing of the state credit ratings our interest rates would be a great deal lower and would save us a considerable amount of money. As I mentioned, at the present time a one per cent change in our rate would save us over thirty thousand dollars a year, which equals practically all of the construction aid we get from the State now.

That's all, Mr. Chairman.

SENATOR LANCE: What is the amount of the new issue that you contemplate?

MR. CLARK: We have now three issues. We have an \$833,000 issue, a million and a half issue, which we have not marketed because of the status of the market at this time; we have that under temporary financing with local banks. The funny thing is that they can take us under temporary financing, but at the time we get a BA rating, if we do come up with such a rating, they will be limited as to the amount of money or the bonds they can take. We are also hoping to finish our high school, which we have authority to start; we haven't authority to finish the last

section of it, and that will be another million and a half dollars of bonding.

SENATOR LANCE: What does that all total?

MR. CLARK: Three million eight hundred and thirty-three thousand dollars (\$3,833,000).

SENATOR LANCE: What maturities do you contemplate? Twenty-five years?

MR. CLARK: Twenty-five years.

SENATOR LANCE: I think this example points up very well what we are talking about here in dollars and cents.

Assuming that this school district has total bonds to sell of approximately four million dollars, and assuming those are serial bonds which run 24 years, and assuming they could cut one per cent, that would be \$40,000 the first year, and since the issue is a serial one running 24 years, if you divide it by two you would get twelve, and multiplying twelve years times forty thousand, you would come to an answer of \$480,000, which is not the correct mathematical way to do it I know, but it is accurate enough for our purposes or to state it in one sentence: If a school district which is going to sell four million dollars worth of bonds could cut the interest rate 1 per cent and those bonds are serial bonds, amortized in equal annual installments over 24 years, the saving would be almost one-half million dollars to the taxpayers of the township during the life of those bonds.

Thank you very much.

Are there any other representatives of local school

boards here?

J O H N H A G E N: My name is John Hagen and I am Secretary of the South Plainfield Board of Education.

I haven't come prepared particularly because we only learned of this meeting yesterday, but I can give you a quick picture of the situation in South Plainfield.

We have at the present time three issues which we are paying on: one goes back 30 years, and the rate on that issue was 4.75. In 1949, we floated \$300,000, on which the interest rate is two and a half per cent, and then in 1953, we planned and have since built a high school on which we floated an issue of \$1,650,000, and the interest rate paid at that time, which precedes my tenure at the school, was four and a half per cent. These are 20-year serial bonds. At the time of that sale, I believe there was just one bidder present. We had a cross-section of the community represented on the board and I don't believe there were any particular financial experts, but the fact remains that we are now paying off on that issue, and we have this year a budget of not quite a million and a half, and eighty thousand dollars or in excess of eighty thousand dollars is being spent in interest, which has been quite a problem so far as raising the taxes is concerned this year. Our budget passed but it did not pass with anything like the overwhelming majority that we had in previous years.

Our situation now is this: We have been authorized to build an elementary school and we need at least two

additional ones, at an estimate cost of \$825,000. Last year we put in the budget in capital outlay \$100,000, with the idea of beginning a system of a little closer to a pay-as-you-go basis; in other words, with this \$825,000, ^{school}/we already have a \$100,000 available. Now we are ready, we think April 1st or thereafter, to market \$725,000 in bonds, and we are in many ways in the same position as the school district about which you just heard testimony. We have a BA rating. From what we can gather, it is going to be very difficult to get it revised to a better rating, and our enrollment is up, we are going to need more schools, and this high rate of interest is just something that is going to cut into our budget and make it very difficult to set up the kind of program that we feel is needed in South Plainfield.

SENATOR LANCE: Your municipality is in Middlesex?

MR. HAGEN: Yes, sir. It is just over the line; we brush Plainfield in Union County.

SENATOR LYNCH: Mr. Chairman,- I received in this morning's mail your letter, Mr. O'Hagen, setting forth recommendations made by your Board of Education meeting by way of a resolution. If I may, I would like to read into the record the suggestions made by your Board of Education.

MR. HAGEN: Yes, sir, thank you very much. And if I can extend on it in any way, I will be very happy to do it.

SENATOR LYNCH: The following suggestions were made to relieve the financial stress: (1) legislation permitting

school districts to market their bonds to the State of New Jersey so that the rate of about 3 per cent interest rather than four to five per cent may be secured;

(2) Legislation permitting or establishing channels for school districts to sell their bonds for the teachers pension and annuity system at a fair rate of interest;

(3) Legislation equalizing financial opportunities of Chapter 7 Districts with Chapter 8 or regional districts.

MR. HAGEN: I believe the first two are more or less self-explanatory.

SENATOR LYNCH: Yes, they are, sir, but I wanted to put into the record the recommendations of your board.

MR. HAGEN: Thank you.

SENATOR LANCE: Are there any other representatives of District Boards, or some counties have their own Federations.

If there are any, will you please come down front and take the microphone, please.

KENNETH V. MYERS:

MY NAME IS KENNETH V. MYERS AND I RESIDE AT QUAKERTOWN, IN HUNTERDON COUNTY. I AM THE SECRETARY OF THE HUNTERDON COUNTY SCHOOL BOARDS ASSOCIATION. I HAVE ALSO BEEN SECRETARY OF THE FRANKLIN TOWNSHIP SCHOOL BOARD IN HUNTERDON COUNTY, AND TREASURER OF THE COUNTY OF HUNTERDON FOR THE PAST SEVERAL YEARS.

THE COMMISSION WHICH IS HOLDING THIS HEARING TODAY, HAS ASKED FOR SUGGESTIONS AS TO WHAT CAN BE DONE TO ASSIST SCHOOL DISTRICTS WHICH ARE FORCED TO SELL BONDS IN THE PRESENT LEVEL OF HIGH INTEREST RATES. THE STATE FEDERATION OF DISTRICT BOARDS OF EDUCATION HAS INVITED INTERESTED BOARDS TO SEND REPRESENTATIVES TO THIS HEARING. I APPEAR AS A RESULT OF THIS SUGGESTION AND ALSO AT THE REQUEST OF THE HUNTERDON COUNTY SCHOOL BOARDS ASSOCIATION.

IT WOULD APPEAR TO ME THAT ONE OF THE THINGS WHICH COULD BE DONE IS SOMETHING WHICH LIES WITHIN THE DISCRETION OF THE LOCAL BOARDS OF EDUCATION THEMSELVES. I REFER TO THE POSSIBILITY OF SELLING SCHOOL BOND ISSUES SO THAT THEY MIGHT BE CALLED IN AT SOME FUTURE TIME AND RESOLD IN AN ECONOMIC PERIOD WHEN INTEREST RATES MIGHT CONCEIVABLY BE LOWER THAN THEIR PRESENT HIGH LEVELS.

IT IS MY INFORMATION THAT SCHOOL BOARDS ALREADY HAVE THE STATUTORY AUTHORITY IN NEW JERSEY TO SELL BONDS, CALLABLE AT PAR. BILLS HAVE BEEN INTRODUCED IN THE STATE LEGISLATURE THIS YEAR (SENATE BILLS 2, 3 AND 4) WHICH WOULD GIVE STATUTORY AUTHORITY TO LOCAL SCHOOL BOARDS TO SELL NEW ISSUES, CALLABLE AT A PREMIUM. THESE BILLS

HAVE ALREADY PASSED THE SENATE AND NOW AWAIT ACTION IN THE HOUSE OF ASSEMBLY WHEN THE LEGISLATURE RETURNS ON MARCH 4TH.

BORROWERS GIVE LITTLE THOUGHT TO THE ISSUANCE OF CALLABLE BONDS IN PERIODS OF LOW OR "NORMAL" INTEREST RATES AND IN FACT MANY ECONOMISTS ADVISE AGAINST THE ISSUANCE OF CALLABLE BONDS WHEN INTEREST RATES ARE LOW OR NORMAL. HOWEVER, IN LEVELS OF HIGH INTEREST RATES, IT IS REASONABLE TO EXPECT THAT SCHOOL BOARDS WILL INQUIRE AS TO THE INSERTION OF THE CALLABLE FEATURE IN ITS NEW ISSUES. ONE OF THE BEST TEXT BOOK TREATMENTS ON THIS SUBJECT WHICH HAS COME TO MY ATTENTION IS "THE CALL FEATURE IN MUNICIPAL BONDS" WHICH WAS PUBLISHED BY THE MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF THE UNITED STATES AND CANADA IN 1938. THIS LITTLE BOOK OF 118 PAGES SUMMARIZES ITS CONCLUSIONS AT THE BEGINNING OF THE TREATISE IN THREE OR FOUR PAGES.

PERMIT ME TO PRESENT TO YOU SUCH OF THE NINETEEN "SUMMARY OF FINDINGS" AS WOULD APPEAR TO BE OF INTEREST IN THE STATE OF NEW JERSEY ALMOST TWENTY YEARS AFTER THIS BOOK ORIGINALLY APPEARED:

1. USE OF THE CALL FEATURE IN GOVERNMENT OBLIGATIONS IS NOT AN EXPERIMENT. THE FEDERAL GOVERNMENT AND MANY STATE AND FOREIGN GOVERNMENTS (NATIONAL, PROVINCIAL, AND MUNICIPAL) HAVE MADE EXTENSIVE USE OF THE CALLABLE BOND.
2. THE EXPERIENCE OF AMERICAN AND CANADIAN MUNICIPALITIES WITH THE CALLABLE BOND HAS BEEN LIMITED. OF ALL AMERICAN MUNICIPAL ISSUES FOR THE 17 YEAR PERIOD FROM 1920 TO 1936 INCLUSIVE, ONLY 5.2 PER CENT CONTAINED THE OPTIONAL FEATURE. IN A FEW

STATES, HOWEVER, MUNICIPALITIES HAVE HAD A SUFFICIENT HISTORY WITH CALLABLES TO FURNISH A BASIS FOR JUDGMENT.

3. THE CALL FEATURE HAS BEEN USED MORE EXTENSIVELY IN PRIVATE CORPORATE BONDS THAN IN MUNICIPALS. ALTHOUGH THE VOLUME OF STATE AND MUNICIPAL BONDS OUTSTANDING IS GREATER THAN ANY ONE CLASS OF PRIVATE CORPORATE BONDS, EACH MAJOR CLASS OF THE LATTER (RAILROAD, INDUSTRIAL, AND PUBLIC UTILITY) HAS EFFECTED MUCH MORE SUBSTANTIAL SAVINGS BY CALLS AND REFUNDINGS. CORPORATE BONDS ARE USUALLY CALLABLE AT A PREMIUM, AND IN THE GREAT MAJORITY OF CASES ARE SINKING FUND OR TERM BONDS. NON-CALLABLE SERIAL ISSUES, ON THE OTHER HAND, ARE THE MOST POPULAR TYPE OF LONG-TERM MUNICIPAL OBLIGATION.
4. CITIES THAT EXERCISED THEIR CALL PRIVILEGES DURING 1934, 1935, 1936 AND 1937, AND REFUNDED WITH BONDS AT LOWER RATES OF INTEREST, HAVE REDUCED THEIR INTEREST CHARGES SUBSTANTIALLY. TO ARRIVE AT NET SAVINGS FROM GROSS SAVINGS (I. E. THE DIFFERENCE IN INTEREST RATES BETWEEN THE BONDS CALLED AND THE NEW REFUNDING BONDS) DEDUCTIONS MUST BE MADE FOR: ANY PREMIUM PAID, COST OF CALL NOTICES, REFUNDING EXPENSES, AND ANY ADDITIONAL INITIAL INTEREST RATE NECESSARY BECAUSE OF THE OPTIONAL CLAUSE.

5. THE TIME ELEMENT MUST BE CONSIDERED IN CALCULATING GROSS SAVINGS AND ADDITIONAL INTEREST COSTS. A CITY MAY HAVE PAID ONE-HALF OF 1 PER CENT HIGHER INTEREST FOR 15 YEARS; WHEREAS ITS ANNUAL SAVINGS OF 1 PER CENT WERE FOR AN UNEXPIRED MATURITY OF ONLY 10 YEARS.
6. A MUNICIPALITY DOES NOT ALWAYS HAVE TO PAY A HIGHER INTEREST RATE ON THE OPTIONAL BOND. GENERALLY, ON CALLABLES ISSUED DURING THE PERIOD FROM 1920 TO 1929 INCLUSIVE, THE ADDITIONAL INTEREST RATE NECESSITATED WAS LESS THAN ONE-EIGHTH OF 1 PER CENT PER ANNUM.
7. INSERTION OF A PREMIUM CALL PRICE IN MUNICIPAL BONDS SHOULD LESSEN, OR PERHAPS SOMETIMES REDUCE TO ZERO, THE HIGHER INTEREST RATE WHICH THE MUNICIPALITY USUALLY HAS TO PAY FOR THE CALL FEATURE. A PREMIUM HAS TO BE PAID ONLY IF THE BONDS ARE CALLED. THIS SHOULD BE CONTRASTED WITH THE CERTAINTY OF PAYMENT OF THE HIGHER INTEREST RATE, WHETHER THE CALL IS EVER EXERCISED OR NOT, WHEN THE BONDS ARE CALLABLE AT PAR.
8. THIS STUDY DOES NOT PROVE THAT A MUNICIPALITY WILL GAIN BY ISSUING CALLABLES AT ANY STAGE OF THE BUSINESS CYCLE, OR BY CALLING FOR REDEMPTION AT ANY STATE. THE DATA ON ADDITIONAL INTEREST COST COVER A PERIOD OF GENERAL HIGH INTEREST RATES; THE DATA ON GROSS SAVINGS BY REFUNDINGS ARE FOR THE PERIOD FROM 1934 TO 1937

INCLUSIVE, YEARS OF ALMOST UNPRECEDENTED LOW INTEREST RATES. HOWEVER, EVEN IN BOND MARKETS LESS FAVORABLE FOR REFUNDING, CITIES MIGHT EFFECT SUFFICIENT SAVINGS TO JUSTIFY AN ADDITIONAL INITIAL INTEREST COST.

9. USUALLY WHEN INTEREST RATES ARE HIGH, THE OPTIONAL FEATURE SHOULD BE CAREFULLY CONSIDERED, BECAUSE OF SAVINGS WHICH MIGHT POSSIBLY BE REALIZED IN THE FUTURE BY REFUNDING WHEN THE GENERAL LEVEL OF RATES IS LOW. AT LEAST WHEN A MUNICIPALITY MUST PAY FOR BORROWED MONEY MORE THAN WHAT IS DEEMED TO BE A "NORMAL" RATE, IT SHOULD CONTEMPLATE USE OF THE CALLABLE BOND.
10. WHEN INTEREST RATES ARE LOW, THE POSSIBILITY OF SAVINGS FROM INSERTION AND LATER USE OF THE OPTIONAL CLAUSE IS SMALL IF NOT NIL. UNDER SPECIAL CIRCUMSTANCES, HOWEVER, A CITY MIGHT PROFITABLY ADD THE OPTIONAL CLAUSE IN ORDER TO OBTAIN GREATER FLEXIBILITY IN ITS DEBT RETIREMENT SCHEDULE.
11. IF A MUNICIPALITY IS IN DOUBT AS TO WHETHER TO INSERT THE CALL FEATURE OR NOT, IT SHOULD ASK FOR ALTERNATIVE BIDS (I.E., ON BOTH A CALLABLE AND A NON-CALLABLE BASIS) IN ORDER TO DETERMINE THE ADDITIONAL INTEREST COST. WHEN THIS IS ASCERTAINED THE GOVERNING BODY CAN THEN DECIDE WHETHER THE POSSIBILITY OF SAVINGS WILL JUSTIFY PAYMENT OF THE EXTRA

INTEREST CHARGE. NOW, IN NEW JERSEY I UNDERSTAND THIS CANNOT TAKE PLACE.

15. THE SMALLER MUNICIPALITIES, HOWEVER, ARE NOT PRECLUDED FROM USING THE OPTIONAL BOND. THE CALL FEATURE CAN BE INSERTED IN SERIAL ISSUES. THE CALLABLE SERIAL HAS NOT BEEN WIDELY USED, BUT THERE ARE GOOD REASONS WHY THE SMALLER MUNICIPALITIES SHOULD SEEK TO ACCOMPLISH THROUGH THIS TYPE OF OBLIGATION WHAT THE LARGER MUNICIPALITIES FIND POSSIBLE WITH THE CALLABLE TERM BOND.
16. OTHER ADVANTAGES BESIDES SAVINGS THROUGH CALLS AND REFUNDINGS, OR CALLS AND RETIREMENTS, WHICH MAY RESULT FROM USE OF THE CALLABLE FEATURE ARE: GREATER CONTROL OVER THE DEBT STRUCTURE; ADJUSTMENT OF DEBT PAYMENTS TO ABILITY TO PAY; A STIMULUS TO IMPROVED ADMINISTRATION; ELIMINATION OF SOME ADMINISTRATIVE DIFFICULTIES AND POSSIBLY A PREVENTION OF DEFAULTS IF DEBT TROUBLES ARISE.
18. MANY INVESTORS AND BOND DEALERS ARE OPPOSED TO THE CALLABLE BOND. MUCH OF THIS OPPOSITION CAN BE OVERCOME BY CITIES ADOPTING ADEQUATE METHODS OF PUBLICIZING CALL NOTICES, BY DETERMINING AT TIME OF ISSUANCE THE ORDER OF REDEMPTION, AND BY MAKING THE BONDS CALLABLE AT A PREMIUM. THE CALL

PRICE SHOULD BE CAREFULLY PLANNED AND SHOULD BEAR A REASONABLE RELATIONSHIP TO THE INTEREST RATE. IT SHOULD PARTLY COMPENSATE THE INVESTOR FOR THE UNCERTAINTY AS TO THE LIFE OF HIS INVESTMENT, BUT MUST NOT BE SO HIGH AS TO PRECLUDE A REASONABLE NET SAVING THROUGH A FUTURE EXERCISE OF THE CALL PRIVILEGE.

19. CITIES ARE URGED TO GIVE CAREFUL THOUGHT TO POSSIBLE SAVINGS THROUGH USE OF THE CALLABLE BOND. IF, WHEN THE NEXT BOOM OR EXPANSION PERIOD COMES, INTEREST RATES ARE HIGH, THERE SHOULD THEN BE A MUCH MORE GENERAL USE BY MUNICIPALITIES OF THE CALL FEATURE.

THIS SAME TEXT AT VARIOUS PLACES COMMENTS AS TO THE TIME IN AN ECONOMIC CYCLE WHEN A SCHOOL BOARD MIGHT TO ITS ADVANTAGE ISSUE CALLABLE BONDS.

FOR EXAMPLE, PAGE 11¹ OF THE TEXT, IT IS STATED:

"TABLE I TELLS CONCISELY THE SIGNIFICANT STORY OF MUNICIPALITIES WHICH FORTUNATELY, DURING A PERIOD WHEN THE BUSINESS CYCLE WAS ON THE UPWARD SWING, INSERTED THE CALL FEATURE EVEN THOUGH AT A SMALL ADDITIONAL INTEREST COST. LATER, DURING THE DEPRESSION WHEN INTEREST RATES FELL, THEY WERE ABLE TO CALL IN THESE BONDS AND REFUND WITH NEW ISSUES AT A LOWER RATE OF INTEREST, THEREBY EFFECTING LARGE REDUCTIONS IN INTEREST CHARGE BURDENS."

AT PAGE 25, AT THE TEXT, IT IS SAID:

"WHEN CITIES BORROW IN BOOM TIMES THEY NOT ONLY HAVE TO INCUR HIGH INTEREST RATE BURDENS, BUT ALSO HAVE TO PAY HIGH BUILDING COSTS. THE CITIES ARE CAUGHT BETWEEN TWO MILLSTONES. NOT TO INSERT THE OPTIONAL FEATURE MAY BE A GREATER RISK THAN TO INSERT IT. THE ISSUE IS NOT WHETHER TO RUN A RISK OR NOT, BUT RATHER, WHAT CONSTITUTES A REASONABLE RISK."

AGAIN AT PAGE 113, IT IS ADVISED:

"CONDITION OF THE BOND MARKET PLACES A LIMIT ON THE USE OF THE OPTIONAL BONDS IT IS PROFITABLE AT ONE TIME, UNPROFITABLE AT ANOTHER. THEORETICALLY THE OPTIONAL FEATURE SHOULD BE INSERTED WHEN INTEREST RATES ARE HIGH, OR AT LEAST ABOVE THE "NORM", AND SHOULD GENERALLY NOT BE INSERTED WHEN INTEREST RATES ARE LOW, OR AT LEAST BELOW THE "NORM"."

IT WOULD APPEAR TO ME THAT THE FUNCTION OF THIS COMMISSION INsofar AS THE ISSUANCE OF CALLABLE BONDS IS CONCERNED, IS TWO-FOLD: FIRST, TO APPRISE THE SCHOOL DISTRICTS THAT THE PRESENT LEVEL OF INTEREST RATES IS SUCH AS TO WARRANT A CONSIDERATION OF THIS POSSIBILITY BY SCHOOL DISTRICTS AND SECOND, TO RECOMMEND WHAT LEGISLATION, IF ANY, NEED BE ADOPTED IN ORDER TO FACILITATE NOT ONLY THE USE OF THE CALL FEATURE, BUT ALSO TO MINI-

MIZE OBJECTIONS FROM INVESTORS AND BOND DEALERS IN FIELDS (SUCH AS INADEQUATE CALL NOTICES) WHICH HAVE CAUSED TEOUBLE IN THE PAST.

THE QUESTION NATURALLY ARISES AS TO WHETHER STATEMENTS IN A TEXT WRITTEN ALMOST 20 YEARS AGO ARE STILL SOUND. IT IS MY UNDERSTANDING THAT JOSEPH F. CLARK, EXECUTIVE DIRECTOR OF THE MUNICIPAL FINANCE OFFICERS ASSOCIATION, 1515 EAST 60TH STREET, CHICAGO 37, ILLINOIS SAID A FEW WEEKS AGO "THE COMMENTS AND DISCUSSION IN THE BOOK THE CALL FEATURES IN MUNICIPAL BONDS ARE AS VALID TODAY AS AT THE TIME OF PUBLICATION IN 1938."

SENATOR LANCE: We have had the School Boards and we have had the State Department. Now, suppose we see who is here from the teachers organizations.

P A T R I C K E. M U S T O: The name happens to be Musto, Patrick E., President of the Union City Board of Education. I have been thirty years there.

I don't know whether this directly affects the question that you are talking about, but it does affect my board. The State of New Jersey gave the school districts state aid. It amounts to, in my district, \$118,000. That program was, as we understood it, for the purpose of rehabilitation. You see, we in Union City don't need new schools, but what we do have are old schools, and a program of rehabilitation is very important in our schools. So when that money did come to us, as we understand it, it was to be used to retire the school debt or for rehabilitation purposes, or petition the Board of Estimate for a bond issue so that we could do the job that was badly needed in the school district. Well, we did prepare those necessary details and when we finally appeared, to make the story short, before the Board of Estimate-- you see, we don't float bonds in our school district; we petition the Board of Estimate and we get consent and then the City Finance Commissioner floats the bonds for us to do the necessary program that we have in mind. And our answer was definitely that due to the fact that the bond market was high, it

wasn't the opportune time for us to rehabilitate at this time.

Now, you can readily see that if that money was earmarked directly for that specific purpose, and the school boards did get that money, we could have done the job or we still could, but it seems that that money goes to the City Treasury and when we have the pressure of the teachers' group constantly looking for more money, when the budget is finally made up it becomes a package deal, they reduce so much from the budget, it means that we then go back to the board of education and work within the framework of the money we have by granting the increments or adjusting salaries accordingly. So that don't leave anything left for us to do the job that is very badly needed. Now, I don't think that that is the responsibility of this Commission but I feel, so long as you are talking about the bond issues, you should realize what really happens on the local level. If we have to rehabilitate our schools and put them in condition, and after all we do have old schools and they do need a lot of work - now, if there was a more favorable bond market, Mr. Senator, I believe we could induce the city government to go along with us on the issue to do the job we need, and I believe that is directly in conjunction to what I have heard here this morning. So if this Commission can do anything to assist the local school districts - I am not speaking of new buildings because other people have those problems; we have adequate buildings, only we need a complete rehabilitation job.

In that direction, I thought I would explain that the moneys that come to us from the State Department of Education do not come directly to us. The money goes to the city commission, to the finance commissioner of the city government, and he in turn utilizes that money whichever way he sees fit, so in the school districts of the type that I represent in Union City, New Jersey, in the county of Hudson, that money doesn't come directly, and I know the State Department can't help that; that's the way the law was written. So what we try to do and what we are trying to do now-- we are again petitioning the city government for permission to utilize the \$118,000 that we are getting, under that state aid bill, that additional bill that was passed- to utilize that amount of money into a bond issue so that we could do the job that is necessary, because you couldn't put that amount of money into a direct budget which would have a direct responsibility on the local taxes.

I do hope that that explanation has been of some help to you in thinking out the problem of my school district.

Thank you very much.

SENATOR LANCE: I might state for the record that we have three classes of school districts in New Jersey: Article 6 is the appointive board; Article 7 is the elective board, usually rural districts, suburban districts perhaps, and Article 8 is the regional board, which is pretty close to the elective board (Article 7).

While the next speaker is speaking, I wonder if the representative of the Commissioner of Education might get together an estimate of what percentage of all of the public school pupils in New Jersey fall within Article 6 districts, Article 7 and Article 8.

At this time, I will read a letter into the record from Mr. Ellenwood of Moody's Investors Service, New York City: He states that New Jersey is one of 12 American states which has a triple A rating, the best that can be given. We haven't had that very long, incidentally. He also states that for the school districts there are no triple A ratings in New Jersey, and I would be surprised if there were. Since New Jersey got the tripe A very recently, we can't expect the school districts to have one. There are 18 AA, 64 A, 55 BAA, 16 BA, and, very fortunately, there are no B, CAA, CA or C districts within the State of New Jersey. And, as a previous speaker has pointed out, Moodys rate only those school districts which are about to float or have floated bonds in excess of \$600,000 by way of total, meaning that many districts have no rating whatsoever, but have bonds outstanding.

Suppose we hear from the League of Municipalities at this time.

R U S S E L T . W I L S O N : Mr. Chairman, members of the Commission, I am Russell T. Wilson, Assessor for the City of Englewood. Before I launch into the reading of my report here, I would like the privilege of making a comment on the point that was brought up a few moments ago concerning

the true valuation or the actual wealth of any given community with respect to its average daily attendance. My point is merely this, that the true wealth, which information is available to the Department of Education, through the sales assessment ratio studies that are now used for the purpose by the Division of Taxation, is very apt to be misleading to some municipalities for two reasons, as I see it: First, many communities that have a large industrial area or enjoy a great development of apartment houses find it very difficult to determine the actual ratio of assessment to sales because sales because sales do not materialize in the normal sense in these classes of properties. There are very few deeds, for example, that serve to convey such properties. They are usually transferred by transferring a stock in the corporation. I realize, of course, that the State Division of Taxation is having some appraisals made, quite appropriately, to help fill in that gap of information. But secondly, the true value is apt to be misleading because personal property assessments are not equalized and, frankly, I don't know of any basis for equalizing them, but it does leave a rather wide gap in the available information that would lead us to a reasonably sound conclusion of actual wealth of any community.

I appear before you today, gentlemen, as Chairman of the Tax Study Committee of the New Jersey State League of Municipalities. The League represents a membership of 512 of the 567 communities in the State.

The Tax Study Committee held a meeting in Trenton recently to discuss local bond interest rates.

Immediately our attention fell to consideration of Senate Bills 2 - 3 - 4 and 5, as introduced on January 14. The actual effect of Senate 2 - 3 and 4 cannot be known at this time since each bond issue would have to be considered in the light of conditions prevailing at the time they are offered for sale, nor is it possible to predict the bond market reaction if these proposals are enacted into law. The committee nevertheless voted unanimous support of Senate Bills 2 - 3 and 4, since they were optional and would probably be beneficial to our municipalities.

The committee discussed Senate 5 at some length, and while the purpose of the bill may be laudable, it voted to oppose the bill because of the following undesirable features:

1. The bill does not indicate how and what school districts may qualify for these loans.

2. The bill does not state any method for repaying the loan which has been made to a school district.

3. On page 8, section 20, the bill provides that all revenues derived from the cigarette tax are appropriated to provide funds for the repayment of these bonds, if the school district repayments of principal and interest do not cover the sinking fund requirements. As a final resort, the bill provides for the levying of a property tax in all municipalities to meet interest and principal requirements if repayment is not forthcoming from districts which borrow the funds.

This would make it possible for the State to tax property owners in all of our municipalities in order to assist a few school districts that may have difficulty in repaying such loans. While we realize that the State Constitution requires that the tax source behind the bonds be spelled out, we must look with caution toward any proposal which could affect the possible allocation of cigarette tax monies and which might result in an additional property tax levied by the State in all of our municipalities.

We realize that this bill is intended only as the initial step in providing loans to school districts by the State; however, we feel that some further legislation should be introduced (if

further consideration of Senate 5 is proposed) which would spell out the administration of this loan program. In that manner municipalities and school districts will know exactly what they are supporting or opposing.

For these reasons, we must oppose Senate 5 at this time, urging also that the members of the Legislature give further consideration to the entire program.

The problem of high interest rates is not peculiar to the State of New Jersey. This is a problem which is facing all of our municipalities, states and Federal Government. Many of the fiscal policies will be set by our National Government and no matter what we desire or plan in New Jersey, we are affected by those policies. Bond interest rates and the bond market will be determined by future financial programs and economic requirements and limitations.

The Federal Government is actually draining off some of the money which could be used to purchase local, municipal and school district bonds. The investor will always seek the market where he can obtain the highest interest rate. These higher interest rates may have some effect in forcing economy on many of our governmental units. Perhaps we will have to learn to live with higher interest rates for it seems they are here and irrespective of what legislation we pass in this State, we cannot operate in a vacuum. If our bonds fail to yield an adequate competitive return, they will go unsold and we will not be able to construct new facilities by this means.

In conclusion, it is realized that by withholding the full faith and credit of the State's tax resources, any State Bond issue would be less attractive to an investor, thus forcing

a higher rate of interest, possibly to the same level at which the poorly rated school district or municipality would have to float its own issue. If these conclusions are accepted, it may well be that the State's entry into the lending field as proposed by Senate Bill 5 would be subject to further careful scrutiny.

The League of Municipalities greatly appreciates the efforts of this Commission to help solve a perplexing problem and we wish you very well, gentlemen.

Thank you.

SENATOR LANCE: Mr. Green?

The representative of the Commissioner of Education, I believe, has some figures. Would you want to take the microphone again?

MR. KILPATRICK: On your question of Chapter 6 and Chapter 7 districts, in numbers of districts the 6's are the least number but they do comprise five of the so-called big 6 districts of the State. The City of Camden voted to go to 7 recently, so, of the big 6, five are Chapter 6 districts. All in Hudson County, for example, are 6's except one. So far as school population is concerned, and these are the estimates at the present time, slightly less than half of the population, the school population, would be in 6's, about 50 per cent in 7's, and perhaps around 2 per cent in the regionals. So far as the problem today, I think this might be of some value to the Commission, that the problem generally is in our Chapter 7 districts rather than 6's, if we take the debt service payments.

In 1951-52, the debt service payment in Chapter 7 districts was about eight and a half million, and in Chapter 6 districts, it was approximately seven and a half million. In 1955-56, the Chapter 7 debt service has practically doubled and it is about 17 million, while the Chapter 6 debt service is slightly over nine million, so that in 6's we had an increase of about two million dollars in debt service in that five-year period, whereas, under the 7's we have almost doubled, and I think that the Committee can see because generally the 6's are the built-up cities where the main problem is one of renovation, of which Mr. Musto spoke, rather than new construction. The shift to the suburbs has greatly increase our population in the Chapter 7 districts.

SENATOR LANCE: I might draw the conclusion from your testimony, Mr. Kilpatrick, that what is happening in this State is an expansion of population on the periphery of our metropolitan northeast Jersey area, with the result that people are going into the suburbs and that is where you are getting expansion for new schools.

MR. KILPATRICK: That is correct.

SENATOR LANCE: Whereas, in your older counties, Hudson, etc., the need for new classrooms would be a shifting population rather than a great increase in population.

MR. KILPATRICK: That is entirely correct.

SENATOR LANCE: Your testimony was very interesting.

Mr. Green?

F. C O L E M A N G R E E N: My name is F. Coleman Green, of the firm of Hawkins, Delafield and Wood, of New York.

Senator Lance and members of your Committee, I have not prepared myself to talk today ~~but~~ rather I had intended to come down and listen and learn, and by listening I am learning.

The problem which seems to be presented generally in New Jersey and elsewhere is that the municipal bond, while you and I look upon it as an obligation or an evidence of indebtedness, is really nothing more than a commodity, and as a commodity it must take its place in the marketplace and compete for price. When the supply of municipal bonds is scarce, bidders are willing to pay a high price for them. So far as issuers are concerned, that of course means lower rates of interest. When the supply increases, the attractiveness of the municipal bonds must stand out in order for them to secure a good price in preference to their competitors. To the issuer, this means a higher cost of interest. In essence, the whole problem presented is the necessity for making the municipal bond attractive or more attractive in the present marketplace.

Coming down, I was looking to see what other States or issuers have been doing in this respect. In Rhode Island, legislation has been introduced to increase the rate of interest for municipal securities to six per cent. In New Jersey the rate is already at six per cent.

SENATOR LANCE: So we won't need any legislation on that?

MR. GREEN: No, not on that one, sir.

In Dallas, there is talk of raising the limit for issuance of school bonds. C. Canby Balderston, Vice Chairman of the Reserve Board, recommends an increase on the limitations so far as municipal financing is concerned, preferably postponing demands if they can be at this time. In New York, legislation, I believe, has already been introduced for the purpose of extending the period for temporary financing. In New Jersey, under the local bond law, this period for temporary financing is now at two years. For school districts, it's at three years. In New York also now under consideration is the matter of regional marketing of school bonds.

In reporting, the Investment Banking Association finds that the quality of the issue, not the size of it, affects its cost, going again to the matter of commodities. New York State, or the State Comptroller, has just recently published a booklet entitled, "Our Public Schools - a Sound Investment."

Doctor Ratchford of Duke University, talking at the recent hearings in Washington, calls attention to the fact that more economy in construction might assist in present financing. He speaks also of standardization to a degree of types of structures; also of an overall program by an investment officer in the community, the municipality or the school district, to take over management of the cash and investment of the agencies; a sale of the degree of holdings in United States obligations, making the money so freed available for investment in local securities. He speaks also as his sixth proposal of favoring bonds which are callable.

He has stated that the feature is universal in private finance and even in household mortgages. General revenue bonds are callable. He continues to say that the present high level of interest rates suggests that this feature might now be used advantageously.

I am pleased to say that New Jersey is recorded in the Daily Bond Buyer of February 27 as considering the matter actively and having appointed a New Jersey Bond Study group to seek ways and means of improving the credit of the districts. New Jersey is indeed very fortunate in that they have a Department of Education which is very much aware of the problems faced by the school districts, the Chapter 6's and Chapter 7's and the regional school districts and, likewise, the municipalities and counties are fortunate to have a local government board which is so keenly aware of their problems. These two agencies working together have approved an untold number of extensions of credit in the past. I understand that there are many more still to come.

The bond market of recent weeks has improved, with the result that many bond issues which were held out of the market in the past year or 18 months are now entering it. In January, better than four million bonds were authorized and were sold in the closing days of that month. In March alone, I believe there was a sale, at least one sale, every business day except Friday in that month. At this time, from New Jersey alone, better than twenty-two million bonds are scheduled for sale. That's better than a million bonds per day.

Consideration of other matters are being discussed in New York by lawyers and bankers and others which I am sure have been before this Committee or are before you right now. Among them is the consideration of the extension of the temporary period for financing. In effect, this would be to put off for another two or three years the problem now faced by school districts in selling bonds. If the temporary period is extended from the present two or three years by an additional two years to four and five years, the question presented is: what solution will be available at that time for school districts and municipalities if the bond market should move in an adverse direction and be worse than it is today. If consideration is to be given to that, a thought which might be further presented would be that of requiring a four or a five per cent retirement of the authorized issue before extension beyond the present financing period. Briefly, a school district today can finance on temporary obligations for a period of three years. If the school district is to go into the fourth year, they should by that time have retired four per cent or five per cent of the total authorized amount of the issue.

Another matter of considerable discussion is that of regional sales of issues. It is talked about and not too clearly. It is not clear as to whether by regional sale it is meant to pick a particular week or a particular time for the sale of all bonds in Bergen County, or all school districts in the south of the State. Some criticism of that has been voiced to the effect that the good credit school districts suffer.

Also, there is a feeling that the plan might not produce the benefits that some see in it. There is much discussion of the issuance of bonds, with a portion thereof callable, with the idea of allowing those bonds to be redeemed at future dates if the market changes. The present legislation, which is permissive, allows the issuance of bonds which would be callable at a future time upon payment of premium.

Other suggestions go to the possibility of upholding state aid to school districts in the event of a default. If the default ensues for 60 days, the state aid would be diverted and held for the school district. I believe Virginia now has such a provision, which was enacted back in the early 30's. All of these points all go to the basic problem of endeavoring to make the bonds which are offered for sale more attractive. Part of this might be a publicity campaign. I understand that the State Department of Education is now working on a brochure or booklet to explain to investors just why New Jersey bonds are the good investment they are.

Also to be considered, all again with a view to making bonds more salable, might be the matter of some sort of a mutual insurance fund. By this, you, I don't know how, might have an appropriation of a certain amount of money into a fund. Issuers, counties, school districts and municipalities, would, say, pay one-eighth of one per centum, and I am taking figures out of the air, into this fund, which would be built up over the years as an insurance fund for defaulting municipalities. The amount of the money available to meet potential defaults would be a

fractional part of the bond, which would be covered by the fund itself.

It was mentioned before that Moody's Investment Service classifies or rates only those districts or issuers which have debt in excess of \$600,000. The absence of a rating on an issue is no indication at all of the quality of the issue. New Jersey bankers and New Jersey dealers do rate, in their own terms, these bond issues which circulate and which are sold without a Moody's ratings. There has been some talk of a possibility of working out a rating system for state purposes by the Department of Education or the Local Government Board, possibly as to classification of municipalities based on the Department of Education's and the Local Government Board's feeling in the matter. Now, I just put that out for thinking; I don't expect any opinion on it, because there are many times when a bond can sell better because it is not rated.

Finally, I think that the local units, the issuers, can do much to help themselves. When you come into the bond market, particularly a bond market today, they have to sell the issue, sell the district, and convince prospective bidders on the bond that the bond is a good investment. In this respect, Henry Russell and I, I think back in 1954, established what we call a bond calendar. In New York City, we have other bonding attorneys who have agreed to schedule sales on it. As sales come up, we endeavor to see what days they have bond sales or at least competitive bond sales. We try to work the sales so that no bond sale adversely affects another. It is many times very difficult. In this respect, if local units are in a position

to be flexible as to the date of sale, where the recommended date may not coincide with the regular meeting date but may make available a better market for it, it certainly does help.

Of great importance, and this has been raised before at many meetings in this State, is the matter of the brochure. That cannot be overemphasized. The brochure which is put out before the bond sale usually has the notice of the sale in it, and also has a proposal for bidders, and has background information about the community. In the days of the good bond market, we were able to talk no more than about tax rates, about the net debt of the school district, and about the net debt of the municipality. Those times have changed. There is no reason why the issuer should not come out and give some general information about himself, as to why it's a good community, what industry is there, how it is zoned, what its plans are ^{for} the future, what, if it's a municipal issue, the school plans are; repair of the physical plants in the school district; likewise, on the school side, what the municipal needs are. It's impossible to conceal these from the bond market and an honest, forward statement, worked out intelligently, is a great help. Of course, the final point would be to endeavor, if by operation of the municipal or the school budget some part of the proposed bond issue can be retired, then of course to so retire it and thus result in the sale of lesser bonds.

I would like to mention one point that was mentioned earlier in connection with the callable bond bills. The callable bond bills or premium bond bills are not of themselves the answer to the whole problem here because it's the

problem of the sale of a commodity. Almost all states that I can recall right now do have provisions in law which allow school districts, municipalities and counties to issue bonds, which are callable at a premium. New Jersey, too, has it in its refunding law. The matter of the application of the premium to a particular bond issue or the decision before a Board of Education as to whether the call feature should be used or should not be used is a question which is many times beyond the ability of the Board of Education to decide on its own or a municipal body and in that respect they should call upon the able corps of auditors throughout the State, of bankers, the local banker, the local trust officer, who, while he may not be actively engaged in the municipal market, can call upon his correspondent banks which are engaged in the market and they can recommend to him the use or the non-use of the call feature.

The legislation, I believe, makes provision for the fact that bonds and temporary obligations cannot be issued with a premium call feature unless the Local Government Board shall have made a finding that the call is reasonable, I believe, and warranted.

In talking recently with bankers in New York who are actively engaged in the New Jersey market and the New York market, the Virginia market and others, they say that it is easy today - or hard as it is to sell bonds, it is much more difficult to sell bonds which are callable closer than ten years from date of issue, that a call feature inserted in a bond issue which is operative and gives the issuer the right, at his option and on the terms spelled out in the bond, to

call the bond for payment in advance of maturity, does not directly affect the marketability of the bond because of the fact that you may be able, by using the call premium, to offset the disadvantage which is normally incurred upon putting a call provision in. It appears that an initial call is probably or should be equal to about one year's interest. Then it seems that it decreases as the issue goes out to maturity. The guideposts of the use of premium call features in bonds are something that should be, I believe, reviewed carefully with municipal bankers in New Jersey, with the Commissioner of Education's Office, and with the Local Government Board so that we can determine or the issuer can determine within what limits he, at a particular time, can safely use the call premium. A schedule which can be used today may be a very useless schedule six months hence.

SENATOR LANCE: Mr. Green, you are with Hawkins, Delafield and Wood, and they are a New York City law firm which specializes in the legal work of school bonds.

MR. GREEN: Yes, sir.

SENATOR LANCE: And you work through many New Jersey local bond counsel?

MR. GREEN: Yes, sir. If I may say so, we're a full-blooded law firm and we have various sections - corporate tax, estates, and so on, and among them the municipal bond section.

SENATOR LANCE: There will be a small extra charge for that.

Is it true that the New Jersey school districts now have

two options: (1) non-callable and (2) callable at par?

MR. GREEN: Yes, sir. Under present law the school district can issue serial bonds which would come to so-many thousands of dollars in each year. There is no provision now in the law which says that you can issue bonds which are callable at par, but it must be reasoned that it is permissible and our firm has so reasoned, because all that you are doing is paying back to the borrower, but you have to pay it - maybe ten years sooner; you are paying him his principal due and you are also paying him such interest as he is entitled to up to that time, so that when you do sell a bond so termed, it is adverse at present to the best interests of the district because you can't give him a premium.

SENATOR LANCE: Are you in a position to estimate what percentage of school bonds sold initially in 1956 had a call provision in them in the State of New Jersey, dollarwise?

MR. GREEN: No, sir, I am not. I must meet that by saying this, that we normally recommend against it unless there be a good reason for it, because of the lack of premium. At this very time, the Borough of Riverton is offering approximately 230,000 bonds which are to be callable at par. The bonds had to be sold and the Borough found that it was unable to await the passage of the proposed legislation.

SENATOR LANCE: Wouldn't it be reasonable to conclude that of the \$100,000,000 of bonds our school districts sold in 1956 that probably not more than one per cent in volume, dollarwise, had a callable feature, and maybe it would be

one-half of one per cent volume?

MR. GREEN: I don't think it would be more than that, if that high.

SENATOR LANCE: Is it possible for a school district to split a single issue into two sales, with the longer maturities sold at one time and the shorter maturities sold on a different date?

MR. GREEN: I think, by an amendment in 1955, Chapter 159, I believe, the installment sale was granted to school districts under Chapter 7 and which would also affect regional school districts. You mean, a horizontal split?

SENATOR LANCE: Yes.

MR. GREEN: I believe so, sir, but I would like to take a reservation on that because I would want to check them off. Vertical split, yes.

SENATOR LANCE: Now, we are not talking desirability or feasibility, but we are talking legality and statutory authority: Do you feel that, second, a school district has the right to issue bonds in two series by what you call a vertical split, meaning that on the first sale you would sell some of the bonds in each maturity, and on your subsequent second sale, days, weeks or months later, you would sell the balance of the issue which again represents all maturities?

MR. GREEN: Yes, sir.

SENATOR LANCE: Did anybody do it that way in 1956 that you know of?

MR. GREEN: No, but I believe it is being done right

today in one of the school districts in the north of the State, an old issue that was partially sold about two years ago.

SENATOR LANCE: Now, a school district today dares not sell its bonds for less than face; is that correct?

MR. GREEN: Yes, sir.

SENATOR LANCE: On some of those recommendations of Professor Ratchford of Duke University, you rushed through them pretty fast: No. 1 went to economies in school construction,--

MR. GREEN: Yes, sir. Then the second was--

SENATOR LANCE: -- which is an interesting field, but one which this Commission is not authorized to go into and will not go into; we are merely on the interest rates.

MR. GREEN: I mentioned that in passing. I think there has been some talk of standardization of construction, of endeavoring to arrive at five or six types of school buildings. There is a great disadvantage, as you know, to that. The New York State Department of Education, having looked at the matter thoroughly, I believe is opposed to it, and that, I think, is what he had some reference to.

SENATOR LANCE: I believe there is another legislative committee worrying about that, and we have our own headaches on this. That's why I say that we are not going to consider that.

Second, is the mobilization of cash reserves of all governmental units.

MR. GREEN: Yes, sir.

SENATOR LANCE: By that, I suppose you mean that each municipality, county and school district has year-end surpluses and surpluses at other times during the year and, query, whether

that couldn't be mobilized under state direction for re-lending-something like that?

MR. GREEN: He didn't go that far, but I think it could be carried to that extent, perhaps investment of municipal surpluses in obligations of school districts, and things of that nature, under proper legislation.

SENATOR LANCE: Now, the third suggestion was that the States themselves hold a lot of U.S. Government securities in pension funds and all other sorts of trust funds and, query, whether the States couldn't use a larger percentage of their assets as investments in school bonds through a sale of their U.S. Governments. Was that the third--

MR. GREEN: That's what he said, yes.

SENATOR LANCE: The fourth suggestion was that the States do more to supervise and control local borrowing. On that, what is your opinion of our system here in New Jersey on control over school districts in issuance of bonds exercised by the State Department of Local Government and the Commissioner of Education?

MR. GREEN: Excellent, and it is so recognized up and down the street.

SENATOR LANCE: And actually it is probably one of the best systems in the United States?

MR. GREEN: I would say it certainly is, yes. Not being familiar with all other systems, I would say yes, and I have heard bankers in New York be most warm in their praise of the system here in New Jersey, particularly in the day of emergency financing and the operation by the Department of

Education and by the Local Government Board.

SENATOR LANCE: Now, the fifth suggestion of Professor Ratchford was that the state local governments develop a system for the mutual insurance or guarantee of their bonds. Was that a suggestion that would be more or less like the Federal Deposit Insurance Corporation has for national banks?

MR. GREEN: Yes, it would.

SENATOR LANCE: Whereby everybody would pay a fraction of a per cent into a general fund which would build up an insurance reserve or something?

MR. GREEN: Yes, if you were a member of the fund.

SENATOR LANCE: And the sixth suggestion of Professor Ratchford was that more state and local bonds be issued with callable provisions?

MR. GREEN: Yes, sir.

SENATOR LANCE: And his seventh and final suggestion was that the unemployment trust fund have the opportunity to purchase school district bonds.

MR. GREEN: Yes, sir.

SENATOR LANCE: Thank you very much.

ASSEMBLYMAN BARKALOW: Excuse me just a minute; I would like to ask Mr. Green just one question: Have there been any situations in New Jersey whereby a school board, offering for sale an issue of bonds and the bid received, in the thinking of the board, was too high, took a bold stand and rejected that bid and then resubmitted the sale of bonds again?

MR. GREEN: Yes, sir. I believe down in Camden County, the Township of Delaware offered its bonds and received a bid of about 4.35, which the board felt was too high, and they then advertised for bids again and the bid came in at 4.90. There was one bid, and that had to be rejected. Now, Delaware Township is facing what a great many of the large school districts are facing in New Jersey, the country type, the Chapter 7's, here in the Delaware Valley - need for schools, need for sewers, need for road improvements, and general raising of money for school and municipal purposes, and their only recourse at the present time seems to be from the bond market. The district is, I think, about out of the difficulty; they are reworking maturities of bonds and trying to get the bonds into the market in installment sales.

MR. BARKALOW: May I ask, have there been any situations to your knowledge where, at the public sale of an issue of bonds, as was recited here previously, only one bidder appeared? Of course, the one bidder may also be bidding for several and, upon determining on arriving at the hour of 38 that there are no other individuals there, that could result in a higher interest rate possibly.

MR. GREEN: There have been a number of sales at which there was only one bid submitted. I believe there was only one bid submitted at the sale of the City of Long Branch bonds. I read nothing too much into that at all. As bonds are offered, and in New Jersey there are certain houses which specialize in the New Jersey market or have a New Jersey

section of the post office sections, and they are each trying to put a bid in for the bond. Sometimes the bonds are un^{at} attractive and it is impossible for any one particular bidder to fathom out a market which will give him good reason to feel that he can dispose of his bonds if he is successful, so that they will withdraw and not bid. Then he may find that two or three - he may find that they have enough customers to dispose of the bonds and that may result in a single bidder.

SENATOR LANCE: Thank you, Mr. Green.

MR. GREEN: Thank you, sir.

SENATOR LANCE: Is there a representative of the PTA here?

I might say that at the conclusion of this lady's testimony, we will adjourn for lunch. We will be back at two o'clock. This afternoon, we expect to have Mr. Skillman of the State Department of Local Government here, who couldn't attend this morning because the Board of Local Government regularly meets on Thursdays; also Professor William Miller of Princeton, who will discuss certain constitutional aspects, and we hope to have Mr. Voorhees. Is he here?

Mr. Voorhees, you can be here this afternoon?

MR. VOORHEES: Yes.

SENATOR LANCE: Mr. Voorhees represents the State Investment Council, and we will also have a representative of the State Education Association, which represents the great percentage of the teachers in the State.

M R S . W I L L I A M M E Y E R : B E F O R E I R E A D T H E
O F F I C I A L S T A T E M E N T O F T H E N E W J E R S E Y C O N G R E S S , I C A N ' T H E L P B U T
F O L L O W M R . M U S T O ' S E X A M P L E O N T H E C H A P T E R 6 D I S T R I C T T O W H I C H I
B E L O N G , I N H U D S O N C O U N T Y - N O R T H B E R G E N . T H E B O A R D O F S C H O O L
E S T I M A T E , I N S P I T E O F T H E F A C T T H A T \$ 1 0 0 , 0 0 0 I N S T A T E S C H O O L
B U I L D I N G A I D W I L L C O M E I N T O T H E T O W N S H I P F O R 1 9 5 7 - 5 8 , C U T T H E
S C H O O L B U D G E T \$ 4 0 0 , 0 0 0 O N A \$ 2 , 0 0 0 , 0 0 0 S C H O O L B U D G E T ; T H I S , I N
S P I T E O F T H E F A C T A S W E L L T H A T O U R A V E R A G E T E A C H E R S ' S A L A R Y I S
B E L O W T H E A V E R A G E F O R T H E S T A T E O F N E W J E R S E Y I N A M E T R O P O L I T A N
U R B A N C O M M U N I T Y A N D T H A T T W O O F O U R S C H O O L S A T L E A S T -- T H E Y A R E
A L L O L D A N D D E T E R I O R A T E D , B U T T W O A T L E A S T A R E S O H A Z A R D O U S , O R
S O S U B - S T A N D A R D , L E T M E P U T I T T H A T W A Y , T H A T ^{they} / A R E A C T U A L L Y
H A Z A R D O U S T O T H E C H I L D R E N I N T H E M ; A D D T O T H I S T H E F A C T T H A T ,
A C C O R D I N G T O A C O L U M B I A U N I V E R S I T Y S U R V E Y , W E A R E T H E O N L Y C O M -
M U N I T Y I N T H E E A S T E R N U N I T E D S T A T E S W I T H 4 0 , 0 0 0 P E O P L E T H A T H A S N O
H I G H S C H O O L . W E S E N D M O R E T H A N 1 3 0 0 H I G H S C H O O L S T U D E N T S O U T T O
S E V E N D I F F E R E N T R E C E I V I N G D I S T R I C T S , A N D Y O U K N O W W H A T T H E A N S W E R
O N T H E R E C E I V I N G D I S T R I C T S I S G O I N G T O B E V E R Y S H O R T L Y . Y O U C A N
U N D E R S T A N D T H A T I P E R S O N A L L Y , A N D T H E P T A P E O P L E I N N O R T H B E R G E N ,
A S W E L L A S T H E B O A R D O F E D U C A T I O N , W I L L B E M O S T G R A T E F U L F O R
A N Y T H I N G T H I S C O M M I S S I O N C A N D O . N O W T O M Y S T A T E M E N T :

I A M M R S . W I L L I A M M E Y E R , L E G I S L A T I O N C H A I R M A N O F T H E N E W
J E R S E Y C O N G R E S S O F P A R E N T S A N D T E A C H E R S .

D U E T O T H E N A T U R E O F M Y O R G A N I Z A T I O N O U R O B S E R V A T I O N S
H E R E A R E N E C E S S A R I L Y N O T T E C H N I C A L B U T W E F E L T W E D I D W A N T T O
E M P H A S I Z E T H E N E E D F O R L E G I S L A T I O N I N T H I S A R E A .

I N R E S P O N S E T O Q U E S T I O N N O . 1 T O B E D I S C U S S E D T O D A Y , " S H O U L D

THE STATE LEGISLATURE ATTEMPT TO RENDER ASSISTANCE TO SCHOOL BOARDS, MUNICIPAL GOVERNING BODIES, AND BOARDS OF FREEHOLDERS IN THIS SITUATION (THAT IS, REGARDING HIGH INTEREST RATES)?", I SHOULD LIKE TO POINT OUT THAT THE NEW JERSEY CONGRESS OF PARENTS AND TEACHERS, FOLLOWING THE RECOMMENDATIONS OF THE STATE TAX POLICY COMMISSION TO MEET THE NEED, SUPPORTED S-361 IN 1955 AND S-3 IN 1956, BOTH OF WHICH PROVIDED FOR A FUND FROM WHICH SCHOOL DISTRICTS WHICH HAD TRIED TO SELL THEIR BONDS ON THE OPEN MARKET AT A REASONABLE RATE OF INTEREST AND HAD FAILED TO DO SO, COULD BORROW AT 1¹/₂ MORE THAN IT COST THE STATE.

IT WAS EVIDENT BY THE LAST HALF OF 1956 THAT THE AMOUNT OF MONEY PROVIDED BY S-3 WAS ENTIRELY INSUFFICIENT TO MEET THE NEED. INCREASES IN ENROLLMENT WHICH MEAN MORE SCHOOL HOUSING FOR CHILDREN ARE NOT THE ONLY REASON, ALTHOUGH THOSE INCREASES ARE NOW BEGINNING TO BE FELT IN THE HIGH SCHOOLS. NOT ONLY ARE MORE CHILDREN ENTERING HIGH SCHOOLS, BUT BECAUSE OF THE HIGHER QUALIFICATION DEMANDED BY BUSINESS AND INDUSTRY, MORE ARE STAYING IN HIGH SCHOOLS. AS A RESULT, VOCATIONAL SCHOOLS ARE NEEDED MORE THAN EVER ON THIS LEVEL. FURTHERMORE, THE SENDING-RECEIVING RELATIONSHIP IS BREAKING DOWN BECAUSE IT IS EXTREMELY DIFFICULT AS WELL TO CUT COSTS IN THE HIGH SCHOOL AREA. SCHOOL DISTRICTS, THEREFORE, ARE BUILDING THEIR OWN OR ARE GETTING TOGETHER IN BUILDING REGIONAL HIGH SCHOOLS TO EDUCATE THEIR HIGH SCHOOL YOUTH.

THESE INCREASED BUILDING NEEDS ON BOTH THE ELEMENTARY

AND THE SECONDARY LEVELS ADDED TO THE TIGHTENING OF CREDIT THROUGHOUT THE NATION, WHICH IS RESPONSIBLE FOR THE FACT THAT RIGHT NOW IN NEW JERSEY BETWEEN \$130,000,000 AND \$140,000,000 IN BONDS FOR APPROVED SCHOOL CONSTRUCTION HAVE NOT BEEN SOLD, CERTAINLY POINT UP THE NEED FOR A FAR LARGER FUND THAN WAS NECESSARY AT THE TIME THE STATE TAX POLICY COMMISSION MADE ITS REPORT.

IN ANSWER TO QUESTION NO. 2 OF THE SCHOOL BOND INTEREST RATE COMMISSION, THE NEW JERSEY CONGRESS OF PARENTS AND TEACHERS FEELS ITSELF UNQUALIFIED TO MAKE SPECIFIC RECOMMENDATIONS. IT IS SECURE IN THE BELIEF THAT THE COMMITTEE OF EXPERTS SET UP BY THE COMMISSIONER OF EDUCATION WILL, AS A RESULT OF ITS BEST THINKING, RECOMMEND TO THE LEGISLATIVE COMMISSION A PRACTICAL MEANS TO MEET THE NEED, AND THAT FROM THE COMBINED THINKING OF BOTH GROUPS WILL RESULT LEGISLATION WHICH WILL SOLVE THE PROBLEM TO THE GREATEST BENEFIT OF NEW JERSEY CITIZENS AND PARTICULARLY OF ITS CHILDREN.

SINCE THE SITUATION WITH WHICH WE ARE FACED IS ONE WHICH BECOMES MORE ACUTE DAILY, WE MOST RESPECTFULLY RECOMMEND THAT THE STUDY BE THOROUGH, BUT RAPID, AND THAT IT BE FOLLOWED BY AS QUICK ACTION AS POSSIBLE ON THE PART OF THE LEGISLATURE, WITH THE THOUGHT IN MIND THAT WE QUICKLY DISPOSE OF THIS MOST PRESENT PROBLEM, IN THE VAST MOUNTAIN OF EDUCATIONAL PROBLEMS BEFORE US.

I THANK YOU FOR THE PRIVILEGE OF ADDRESSING YOU.

SENATOR LANCE: How many members are there in the State organization?

MRS. MEYER: Approximately 400,000 members now.

SENATOR LANCE: And your organization is what we laymen refer to as the PTA?

MRS. MEYER: Yes, sir.

SENATOR LANCE: Thank you.

We will recess at this time until two o'clock.

I wouldn't think the hearing would last this afternoon much more than an hour.

(R E C E S S)

AFTERNOON SESSION.

SENATOR WESLEY L. LANCE (THE CHAIRMAN): Will all the people who want to speak this afternoon who were not registered this morning, kindly sign their names?

At the start of the afternoon hearing, I would like to say that the Commissioner of Education has appointed a committee which has recommended that a brochure be prepared which will tell, I suppose, what kind of State New Jersey is in general, tell something about state aid, as we have it in New Jersey, tell something about school bonds and, most important of all, what is behind school bonds from the standpoint of the investor, and I think that will be very helpful and will be an excellent thing that will be done under the direction of the State Commissioner of Education, Dr. Raubinger.

Mr. Green, one more question for you. Will you take the microphone?

F. C O L E M A N G R E E N, of Hawkins, Delafield and Wood, resumes the stand.

SENATOR LANCE: There is a bill that has been introduced in the New York State Legislature which extends the period for temporary financing up to five years and, without going into the pros and cons or the feasibility of that, I think you said this morning that the period in New Jersey is two years.

MR. GREEN: For municipalities and counties, and three years for school districts.

SENATOR LANCE: Three years for all classes of school districts?

MR. GREEN: Chapter 7's and Chapter 8's.

SENATOR LANCE: Now, when do you start to measure that period? What is the beginning point of the three year period for Chapter 7's and 8's?

MR. GREEN: We have interpreted the period as beginning at the date of first issuance of a temporary obligation, so if a note goes out under date of February 1, 1957, the three-year period expires February 1, 1960.

SENATOR LANCE: Thank you.

Do we have a representative from the New Jersey Education Association here?

S. H E R B E R T S T A R K E Y: Senator Lance, members of the Commission, my name is S. Herbert Starkey, Director of Research for the New Jersey Education Association. Our association is composed of about 37,000 members, made up of teachers, supervisors and school administrators.

Our organization has supported and will continue to work for state legislation which will help provide adequate facilities for our New Jersey children. We want to see these facilities financed soundly but at the lowest possible cost to our citizens. We endorse the purpose of the School Bond Interest Rate Commission and sincerely hope the Legislature will find ways to render assistance to school

boards, municipal governing bodies, and boards of freeholders who are faced with the problem of high interest rates.

Almost two years ago, the Commission on State Tax Policy brought to the Legislature and the Governor its Eighth Report on the subject of financing school buildings in New Jersey. It contained two recommendations for legislative action: The first part of the proposed plan was enacted into law in March 1956 and in the current year over \$10,000,000 is being distributed to local school districts as grants-in-aid for debt service and capital outlay expenditure. In 1957-58 a sum of \$13,500,000 will be available to assist hard-pressed local school districts. This was a major step forward in sound financing of education and our Association endorsed and supported this proposal. We believe the Legislature and the Governor should be congratulated on this forward move which has been taken so recently.

The second recommendation of the Commission on State Tax Policy was to the effect that the Legislature should set up a State fund from which local school districts can borrow for capital needs at interest rates slightly in excess of the rate at which the State can borrow money, provided that the districts cannot borrow publicly at or below this rate. The size of the loan fund suggested two years ago was \$15,000,000, and a bill was introduced and passed to provide this amount in a state school fund. However, because of a question concerning legality of using a state school fund for this purpose, this part of the Tax Commission's plan has not become law.

Our first suggestion for alleviating the problem of high interest rates is to enact into law as quickly as possible the second recommendation made by the Commission on State Tax Policy two years ago. The idea of a state loan fund gained general acceptance two years ago and was approved by the Legislature. A new source of funds must be found and a state bond issue is one obvious method. Two years ago the State Commission on Tax Policy suggested that the State shall provide for loans at rates of interest equal to the bond interest rate paid by the State upon its own bonds, plus an additional one per cent. We do not hold that there is any magic in that one per cent. We recognize to deviate from it means a great deal upon the amount or the number of districts that could qualify for such aid under the proposal. The Commission apparently believed that all the districts that would qualify for loans could be assisted if a \$15,000,000 fund were established. We believe that this figure is totally inadequate now, and I would like to summarize a few developments within the last two years to substantiate the statement.

Capital expenditures in New Jersey schools increased \$14,000,000 between 1952 and 1954 when the report came out. In the following two years the increase was \$50,000,000, and this is double the amount spent just three years ago. Local school debt service reached a low point of twelve and a half million in the period from 1947 to 1949, followed by small increases until it reached nineteen and a half million in 1954, the date when the Eighth Report came out.

By 1956, the debt service increased sharply to twenty-six million per year, and by 1958 it is expected to reach thirty-six million.

Extensions of credit beyond statutory debt limits were granted 83 times in 1954, in amounts totaling \$57,000,000. By 1956 this had increased to 115 extensions of credit in amounts totaling \$86,000,000. During the latter half of 1956, there was a sharp rise in school bond interest rates with an ever-growing list of issues being sold at rates between four per cent and five per cent. This means that many more districts would qualify for assistance under the state loan fund as proposed by the Commission on State Tax Policy.

In view of the growing seriousness of the problem of financing capital expenditures, the New Jersey Education Association suggests that current needs for a state bond purchase fund should be at least fifty million dollars. The adequacy of this amount might easily be determined by officials of the State Department of Education or by the New Jersey School Bond Committee, a study group appointed by the State Commissioner of Education. Whatever the final amount agreed upon, the Legislature should be prepared to provide additional funds in future years if qualified districts are denied assistance merely because available funds are exhausted.

Since the problem of high interest rates exists in all our States, this Commission should be aware that other states have set up constructive programs or are currently studying

the problem. We have made no complete survey of how other states are meeting the problem. There is a plan now being considered in New York and a program in California, which dates back to 1949. Governor Harriman of New York appointed a committee headed by State Comptroller Arthur Levitt to study the high cost of school bond issues. This committee is proposing the creation of a New York School Bond Authority to help local districts market their construction bonds. The plan calls for the State appropriating five million dollars to the Authority to be used in the reserve. The Authority would then purchase school district bonds at the lowest interest rate practical and hold them. To provide funds for these purchases, the Authority would issue its own tax-exempt bonds. In addition to providing lower interest rates, the plan is expected to help those districts whose credit ratings are poor. The California School Building Loan Fund was established in 1949 and made available \$250,000,000 over a period of approximately three years. Additional amounts have been made available in subsequent years. These funds were made available only to those districts whose capital requirements could not be met within the normal framework. Their approach was a little bit different, however. Such loans to school districts entailed acceptance by the borrowing district of a minimum effort toward debt service. If a district exerts such effort through a local tax levy and still cannot raise sufficient money to repay the loan within a specified period, the loan is cancelled.

The New Jersey Education Association will support any fiscally sound plan which will enable local districts to obtain lower interest rates on their bonds. WE believe that the proposal made by the Commission on State Tax Policy almost two years ago is a workable solution if the amount of the fund is increased to meet current conditions. Unless the hearing today or the deliberations of the Commission proves a better solution to the problem, we hope this Commission will propose legislation implementing the recommendation of the Commission on State Tax Policy to establish a state loan fund from which needy districts may borrow at interest rates slightly in excess of the rate at which the State can borrow money. We recognize that Senate Bill 5, which would be in effect implementing this, is not in itself complete. We have no opposition or any criticism of that bill, realizing that it is nothing more than a bond issue bill, and that there needs to be a companion measure, similar to the one which was introduced last year, to implement the mechanics of the loan fund. That bill, of course, when it is introduced will be the one that determines the organization and procedure of such a loan fund. We do think, however, that the needed state bond issue should be placed before the voters of New Jersey in November 1957.

SENATOR LANCE: Thank you. You mentioned the name of Arthur Levitt, who is the State Comptroller of New York. I have a letter from him dated February 13, in which he

says that his Committee has reached substantial agreement on the creation of a new state agency to assist school districts in the marketing of their bonds, and he enclosed a copy of his Buffalo speech outlining the details of that agency. He also says that his committee has agreed to recommend approval of President Eisenhower's program to encourage regulated investment companies to invest in municipal securities. I don't know whether anyone has mentioned that here today or not, but I believe in one of the President's economic reports he pointed out that there is a drying up of funds which used to go into school and municipal bonds, for various reasons, and he suggested that Congress might consider the changing of the federal income tax law whereby regulated investment companies would be able to pass along the interest they receive on school bonds to the stockholders in the investment companies, so that these stockholders would receive the interest also in tax exempt form. It would be the extension of what is sometimes called the "conduit" theory of income tax exemption or the "pass-it-along" theory as I have heard it referred to sometimes.

Mr. Green, will you come back, please? You wish to be heard?

MR. GREEN: May I clarify or confirm the answer to the question you asked of me; that is, the three-year temporary financing is possible by Chapter 6, Chapter 7, and Chapter 8 schools districts. Thank you.

SENATOR LANCE: Mr. Watson?

W I L L I A M P. W A T S O N: MR. CHAIRMAN, I AM SECRETARY OF THE NEW JERSEY FARM BUREAU, A VOLUNTARY DUES-PAYING ORGANIZATION OF APPROXIMATELY 8000 FARM FAMILIES IN NEW JERSEY. I AM APPEARING FOR THE NEW JERSEY FARM BUREAU. AT THE REQUEST OF THE LEGISLATIVE COMMITTEE OF THE NEW JERSEY STATE GRANGE, I AM AUTHORIZED TO SAY THAT THIS STATEMENT ALSO IS A STATEMENT OF THAT LEGISLATIVE COMMITTEE AND THE STATE GRANGE.

THE NEW JERSEY FARM BUREAU TOOK THE POSITION AT ITS LAST ANNUAL MEETING IN NOVEMBER, 1956, AS FOLLOWS:

"WE FEEL THAT THE EDUCATION OF OUR CHILDREN IS A LOCAL AND STATE PROBLEM WITH LOCAL AND STATE CONTROL. WE FEEL THAT UNDER A FEDERAL PROGRAM OF AID TO EDUCATION, NEW JERSEY TAXPAYERS WOULD BE PAYING A LOT MORE IN TAXES TO THE FEDERAL GOVERNMENT THAN THEY WOULD RECEIVE IN BENEFITS. WE URGE THAT THE STATE ASSUME A GREATER FINANCIAL RESPONSIBILITY FOR THE EDUCATIONAL PROGRAM IN NEW JERSEY."

THIS POLICY WAS DEVELOPED THROUGH THE PROCESS OF RECOMMENDATIONS FROM THE COUNTY UNITS OF THE NEW JERSEY FARM BUREAU AND CONSIDERED BY THE DELEGATES REPRESENTING THE COUNTIES AT THE ANNUAL MEETING.

THEREFORE, THE NEW JERSEY FARM BUREAU FAVORS ACTION BY THE STATE LEGISLATURE TO RENDER ASSISTANCE TO MUNICIPALITIES IN ANY PROGRAM TO REDUCE COSTS OF SCHOOL FINANCING IN NEW JERSEY.

REAL ESTATE TAXES IN NEW JERSEY, ON AN AVERAGE BASIS, ARE AMONG THE HIGHEST OF ANY STATE. THE GREATEST PORTION OF

THE TAX WHICH IS COLLECTED BY THE MUNICIPALITY GOES TOWARDS THE COST OF SUPPORTING OUR PUBLIC SCHOOLS. HIGH INTEREST RATES ON SCHOOL BONDS CAN DRIVE UP SCHOOL BUDGETS FOR MANY YEARS TO COME. WE FAVOR ALL REASONABLE MEANS OF REDUCING THE BURDEN OF GOVERNMENT IN NEW JERSEY NOW BORNE BY REAL ESTATE.

THE SMALL RURAL SCHOOL DISTRICT, WHOSE BOND ISSUE IS NOT LARGE ENOUGH TO BE RATED BY ONE OF THE PROMINENT INVESTMENT SERVICES, IS AT A DISADVANTAGE IN MARKETING ITS BONDS AT A REASONABLE RATE, DESPITE THE FACT THAT THESE BONDS RANK HIGH IN SAFETY. IT IS POSSIBLE THAT BANKS IN RURAL AREAS MIGHT CONSIDER INCREASED PURCHASE OF SCHOOL BONDS OF DISTRICTS WITHIN THEIR AREA. THESE BONDS ARE ATTRACTIVE INVESTMENTS AS THE INVESTOR PAYS NO INCOME TAX ON THE INTEREST.

VARIOUS PENSION FUNDS IN OUR STATE, BOTH PUBLIC AND PRIVATE, MIGHT WELL CONSIDER INCREASED PURCHASE OF THESE INVESTMENTS AT THIS PARTICULAR TIME.

IT WOULD ALSO SEEM TO BE GOOD BUSINESS FOR LOCAL SCHOOL DISTRICTS TO STUDY THE POSSIBILITY OF ISSUING CALLABLE BONDS WHICH, UP TO THIS POINT AT LEAST, IN THIS STATE, HAVE BEEN RARELY SOLD. THE PASSAGE OF SENATE BILLS 2, 3 AND 4 WOULD BE A STEP WHICH WOULD GRANT AN ADDITIONAL OPTION TO SCHOOL BOARDS IN THIS DIRECTION. IT WOULD BE REGRETTABLE TO SEE OUR SCHOOL DISTRICTS PAYING INTEREST RATES APPROXIMATING FIVE PER CENT FOR A LONG PERIOD OF TIME, WHEN AT SOME FUTURE PERIOD IT MIGHT BE POSSIBLE TO CALL IN OUTSTANDING BONDS AND RESELL THEM AT THE THEN CURRENT LOWER RATES.

IN THOSE MUNICIPALITIES WHERE THERE HAS BEEN A RAPID

EXPANSION OF POPULATION, SCHOOL ENROLLMENTS INCREASED TO SUCH AN EXTENT THAT THE COST OF BUILDING NEW SCHOOLS HAS BECOME A SERIOUS PROBLEM TO OWNERS OF LOCAL REAL ESTATE. IF OUR SCHOOL POPULATION IS TO INCREASE AT THE RATE OF AT LEAST 10,000 PUPILS PER YEAR FOR THE NEXT DECADE IT WOULD APPEAR THAT THIS PROBLEM WILL BE WITH US FOR SOME TIME.

THE NEW JERSEY FARM BUREAU STANDS READY TO SUPPORT ALL REASONABLE AND EFFECTIVE PROGRAMS WHICH WILL ACHIEVE THE OBJECTIVE OF LOWERING THIS PARTICULAR TYPE OF SCHOOL COST.

SENATOR LANCE: THANK YOU, MR. WATSON.

R I C H A R D J. S T E V E N S O N: MR. CHAIRMAN AND MEMBERS OF THE COMMISSION, I AM VICE-PRESIDENT OF THE NEW JERSEY ASSOCIATION OF TOWNSHIP COMMITTEEMEN AND AM PRESENTING THIS STATEMENT ON BEHALF OF THE ASSOCIATION, WHICH INCLUDES IN ITS MEMBERSHIP A MAJORITY OF THE TOWNSHIPS IN THE STATE.

TOWNSHIP GOVERNMENTS HAVE MANY PROBLEMS, BUT THE GREATEST PROBLEM IS HOW TO FINANCE SCHOOLS. THIS IS AN EVER-INCREASING PROBLEM THROUGHOUT THE STATE BUT IS ACCELERATED AND AMPLIFIED IN THE EXPLOSION OF RURAL AREAS INTO HOMES AND INDUSTRIES CREATING A NEED FOR SCHOOLS. IT IS ESTIMATED THAT SCHOOL COSTS IN A GREAT MANY TOWNSHIPS AMOUNT TO 80% OF THE TOTAL COST OF LOCAL GOVERNMENT.

FOR EXAMPLE, IN MY TOWNSHIP OF LEBANON IN HUNTERDON COUNTY OUR TAX RATE IS ABOUT \$12.80 PER HUNDRED. OF THIS AMOUNT ONLY \$.60 GOES FOR TOWNSHIP EXPENSES SUCH AS ROADS, SALARIES, EQUIPMENT AND MATERIALS. COUNTY TAX AMOUNTS TO

ABOUT \$1.30. THIS LEAVES ABOUT \$8.90 WHICH IS COLLECTED FOR SCHOOL COSTS.

OUR TOWNSHIP IS ALSO ONLY AN EXAMPLE OF WHAT IS GOING ON IN ALMOST EVERY TOWNSHIP TO MEET SCHOOL NEEDS. WE ARE BUILDING A TOWNSHIP SCHOOL PLANT HALF AGAIN AS LARGE AS OUR PRESENT FACILITIES. ALSO OUR REGIONAL DISTRICT, IN WHICH WE ARE ONE OF ELEVEN MUNICIPALITIES, IS BUILDING NEW FACILITIES WHICH WILL NEARLY DOUBLE THE SIZE OF THE REGIONAL HIGH SCHOOL. INCIDENTALLY, THE COST OF THIS NEW UNIT WILL BE MORE THAN TWICE THE COST OF THE ORIGINAL BUILDING.

OUR TOWNSHIPS KNOW WE NEED THESE FACILITIES ALL OVER THE STATE. WE CAN'T AVOID SPENDING THE MONEY, BUT WE DO FEEL WE SHOULD DO EVERYTHING TO REDUCE COSTS WHEREVER POSSIBLE.

ONE OF THESE COSTS WHICH IT APPEARS COULD BE REDUCED IS THE INTEREST RATE ON SCHOOL BONDS. OUR ASSOCIATION AT ITS JANUARY 1957 MEETING VOTED UNANIMOUSLY TO PURSUE THE PRINCIPLES PROVIDED IN LEGISLATION WHICH WOULD MAKE POSSIBLE LOWER RATES OF INTEREST FOR SCHOOL BONDS. THIS MIGHT BE DONE THROUGH SALES OF BONDS TO PUBLIC AND PRIVATE PENSION FUNDS, THE STATE INVESTMENT COUNCIL FUNDS, BANKS WHICH PAY HIGH RATES OF INCOME TAX AND ANY BUYER INTERESTED IN TAX-FREE INVESTMENTS.

THEREFORE, THE NEW JERSEY ASSOCIATION OF TOWNSHIP COMMITTEEMEN BELIEVES THE STATE LEGISLATURE SHOULD INTEREST ITSELF IN LOCAL SCHOOL FINANCING AND SHOULD SUPPORT LEGISLATION WHICH WOULD PROVIDE SOME MEANS OF REDUCING THIS PARTICULAR TYPE OF SCHOOL COST.

SENATOR LANCE: Mr. Stevenson, I see that in your municipality, you say that of the four components which go to make your tax rate - local school, regional school, municipal and county - that the municipality gets only 60¢ out of the \$10.80.

MR. STEVENSON: Just about that. I said "about" because we are holding our budget meeting Friday and there may be a cent or two one way or the other.

SENATOR LANCE: Which is about or a little over - only about five per cent of your tax rate in your municipality goes for municipal purposes.

MR. STEVENSON: That's right.

SENATOR LANCE: Thank you.

Mr. Skillman?

G E O R G E S K I L L M A N: My name is George C. Skillman, Director of the Division of Local Government, State of New Jersey, Treasury Department.

SENATOR LANCE: Will you talk a little louder, Mr. Skillman, because we all know who you are and we all want to know what you have to say.

MR. SKILLMAN: I did not come with any prepared speech or prepared statement. About all I can say is this, that we are, in the Division of Local Government and in the Local Government Board, quite familiar with the problems of the school districts of the State. We are quite familiar with the effect that the needs of the school districts are having on the tax levies. I do have a statement here which

I would like to file with you, indicating tax collection experiences over the past five years. Of course, we hear some discussion that we have no new taxes but, for example, the tax levy overall for all purposes, including schools, for the year 1952 was 433,000. The cash collections of that year four hundred and thirteen.

SENATOR LANCE: You mean, \$433,000,000.

MR. SKILLMAN: Yes, \$433,000,000, I should say. And the cash collections \$413,000,000. For 1953, the levy was \$464,000,000 and the cash collection \$444,000,000, or \$11,000,000 more than the total levy of the preceding year. That pattern holds fairly constant right through; in other words, in 1954 the levy was \$509,000,000, and the tax collections \$487,000,000, or about twenty million more than the total levy of the preceding year. And in 1955, the levy was \$554,000,000, the collection runs \$512,000,000, or only three million ^{more} than the levy of the preceding year. This year, our best estimate on preliminary figures would be that the collections would be about ten million more than the levy over all other preceding years.

Well, that gives us some idea of the increase on the local tax levy or the local taxpayer. We, of course, as you have probably heard this morning, have approved many extensions of credit. Those are predicated on the use of all the school borrowing power, all the municipal borrowing power, and an excess for new debt beyond those limits. We are required to make a determination as to the taxpaying

ability of the community. We make that with a certain degree of reluctance because it is very difficult to predict or detect the paying ability of a community. We do endeavor to satisfy ourselves that there is some reasonable ability to pay. The cooperation of the Commissioner of Education, who must approve as to the actual needs of the community or the school districts, is of course used as a basis. And I may say in that connection that the actions of the Commissioner of Education in determining the wisdom of these improvements over the past six or seven years has indicated that he does scrutinize every application which comes before him and satisfies himself that the statutory needs do exist, his approval being given on the fact that the facilities will be 80 per cent utilized in five years and a hundred per cent within ten years. Our problem is a little more on the side of estimations, where the statute says we shall estimate.

Now, we have noted, of course, this increase in interest costs, and we realize it has been shocking to many school districts which are borrowing money at very low rates and building schools. Basically, there is nothing particularly wrong in a fair interest rate. I think probably the one thing that confused our thinking a little bit was that in past years some of our school districts would borrow money for capital purposes at a very low rate and turn around and invest those funds in U.S. Government securities and make a profit, so to speak. That doesn't tend to make the borrower very cautious.

A question was asked me, and I can't answer it, by a

broker or a bond man just yesterday: He said, "Has this high cost of borrowing resulted in any decrease in the cost of new projects; in other words, have the projects been tailored to fit the overall cost?" My answer to him was, "I do not know." It's a logical subject to think about. You and I, in going into a project which involves the expenditure of capital funds of our own, would probably tailor the cost of the building or the project to our current income in future periods. But we know the children are there, the rooms must be provided, but whether there has been any tailoring of capital costs to meet this increased debt service, I do not know. I do know that there is a continued demand for new school building, as has undoubtedly been pointed out to you before, and I do know that so far I have no official information to the effect that any district has offered its bonds and received no bids. We, of course, have been somewhat fearful of that, having lived through, I think you call it a depression, in the middle 30's and 40's, and having just released the last of our defaulted municipalities from the actual default - they are not yet released from the administration of the Municipal Finance Commission - but they were released from actual default less than ten years ago. We did have at one time practically 90 municipalities in the default list, and those defaults largely came about through unwise developments, some of which are being cured by zoning and planning, and came about through the fact that our original bond laws did allow certain weaknesses, which have been corrected in that now the school debt is subject

to definite limitations without qualification, assessment debt is no longer deductible, and our short-term or temporary borrowings were reduced from five years to two years, municipally, and that I say without qualification was one of the most beneficial features of the most recent bond law of 1935. I think that the school temporary borrowing limit of three years is absolutely long enough. I think that our municipal bond law which requires a down payment as a preliminary to every bond issue is an excellent feature and will, I believe, prevent some of our capital troubles municipally in the future.

The present record indicates that of our 567 municipalities, there are more than a majority that have not exceeded their debt limit. I was rather surprised, because we have had some three hundred odd school hearings on extension of credit, but of course they have been repeat hearings in many instances. So then I find the record indicates that, at the end of 1956, about 62 per cent of our municipalities have some borrowing power; I don't know how much school borrowing power they have but they are still under the 7 per cent municipal. And then we go on to about 14 per cent which have a net debt of between 7 and 10 per cent, 10 per cent between 11 and 15 per cent, and 5 per cent between 16 and 20. Again, about 6 per cent have incurred indebtedness between 21 and 30 per cent net, and close to 2 per cent over 30 or over 31. That indicates that there are still municipalities that have not used up all of their borrowing margin. On the other hand, there are more than enough that have gone well

beyond the 7 per cent provided for in the statutes.

Senator, I think that about covers all that I have to say. If there are any questions, I will be very glad to answer them.

ASSEMBLYMAN BARKALOW: Mr. Skillman, I would like to have you state the experience in the school districts of New Jersey with regard to the punctual payments of their principal and interest on their obligations.

MR. SKILLMAN: I believe-- I will put it another way: There is no reason why any school district in the State of New Jersey should not at this time pay its principal and interest on the due date. Now, I will say this, that there are school districts or employees or officers of school districts who do not appreciate the importance of having principal and interest moneys available on the due date, and I understand, and I think Mr. Voorhees here of the Investment Division can tell you more about that, that there are districts which are dilatory in making payments, but that is because of the district officers not being duly impressed with the great importance of meeting your principal and interest on time.

MR. BARKALOW: In other words, there is no financial reason for any default to occur?

MR. SKILLMAN: Sir, I know of none since, say, 1950 or thereabouts.

MR. BARKALOW: And that was after the cash basis--

MR. SKILLMAN: That's right.

SENATOR LANCE: Since what year? Well, let me ask: How long have you been an employee of State Government?

MR. SKILLMAN: Since 1908.

SENATOR LANCE: That was the year I was born.

Have there been any defaults in school bonds in New Jersey on principal or interest in the last 20 years?

MR. SKILLMAN: I can't answer that - meaning this, that my division did maintain and keep a very complete record of defaults and they spent a lot of time, or my people spent a lot of time analyzing all municipal defaults. Now, at that time, there was not the same coordination between the Department of Education and the Local Government Board that exists today, so it is possible that there were as many school defaults as there were municipal defaults. There have been defaults in the last 20 years, yes, because in looking over some records very recently, to get some information along those lines, I think the defaults were reduced to about three or four by 1945. We had many more than that ten years before that. They were tapered off until the last recorded default went out of existence in, I think, November of 1947. Now, there was no excuse for school districts being in default after the passage of the cash basis laws of 1936 and the so-called Princeton bills of 1938. So that under the terms of those so-called Princeton bills, the Princeton Survey bills, there was a provision made that where a municipality was approaching an unsound fiscal condition, the Local Government Board would take jurisdiction and would call a hearing and find out what claims were unpaid, whether the school district was unpaid, where there were prospective

defaults, whether county taxes were unpaid, and if so, that municipality was frozen, so to speak, in a large or substantial part of their home rule so far as budget making was concerned. So that, while the board did function from 1938 on through to about 1942 or '43 in some 65 or 70 municipalities, checking these places that were in unsound financial position-- I think are the words the statutes use-- there are today none in that condition and, to the best of my knowledge, there should be no school defaults because on a cash basis there is a requirement you must have enough cash to pay all your bills, including the county and the school district.

SENATOR LANCE: One final question from me: What percentage of the total tax levy imposed by the municipality finds its way into the payment of school costs?

MR. SKILLMAN: Of the total tax levy? I can't tell you offhand. But --

MR. KILPATRICK: Slightly over half.

SENATOR LANCE: On a state-wide basis it would be over half. We had today a representative of the Township Committeemen of New Jersey here who said that in his municipality, I think, well over 80 per cent--

MR. KILPATRICK: It decreases proportionately as the size of the community increases, so the smaller township would have a greater share of school costs, whereas in larger cities the school costs would be well below half.

MR. SKILLMAN: I think if you took it numerically, particularly with the smaller units, Mr. Stevenson's figures are probably not too far off, but dollarwise, Mr. Kilpatrick's

figures are about right.

SENATOR LANCE: I see a former Assemblyman in the room, Mr. Metzger.

REINHARDT V. METZGER: Senator, and gentlemen of the Legislature, I am very happy to have the privilege of appearing here today on this resolution because I have had, since before I was in the Assembly, considerable interest in school activities, particularly as they affect the tax situation. I have been interested as a private citizen and taxpayer, I have been interested as a member of the Board of Education in my own community, and I was interested as a member of the Legislature. I believe there is urgent need in certain areas for definite assistance for school aid construction. I do believe in certain areas it is a very important factor. I do not believe it is general, and my observations lead me to the belief that any form of assistance in this respect should be carefully screened and limited to those districts where the aid is a real need, both from the standpoint of facilities that they cannot get and from the standpoint of financing their necessary capital borrowing, if they cannot do it with reasonable economy on the open market.

Now, one of the conditions which I think is involved in that as a condition affecting their interest rate is that involving those municipal areas or tax districts where the percentage of assessed valuation is so extremely low, compared to true value, running in some cases, at the last time I made a check, as low as something under 15 per cent.

That necessarily, as I know you gentlemen know, reduces the borrowing capacity materially and, as you reduce your borrowing capacity and construct buildings you exceed your borrowing capacity, and as you exceed your borrowing capacity your credit is thereby reduced. Therefore, your interest rate generally is higher. I don't believe it is fair to those municipalities or taxing districts which maintain a relatively equitable or fair percentage of valuation, thereby retaining a fair borrowing capacity, that they in turn should be penalized by a taxing program or an aid program to which they would have to contribute for those districts who, for one reason or another, do not see fit to maintain an equitable ratio themselves. There are some districts, I know, where that situation is not involved and where, due to unforeseeable, perhaps, growth of communities, with large numbers of homes in which there are many children, where the ratio of children may be as high as two per house, there is an urgent need because of their having to pay tremendous rates, which I don't think is quite fair. But it is a condition of the money market. Others face it, but I think from the citizens' standpoint, from the standpoint of the children and the facilities, in many cases it is the children who will be harmed, both educationally and psychologically, by not having adequate school facilities.

Now, there are three bills that I know of in the Senate now pertaining to changes in the issuance of bonds which would add a callable feature. I am not sufficiently

acquainted with the financial market and financial operations to say whether or not that might be an advantage. I do feel this way, that it is something which is used in many investment operations and it would seem only fair and equitable that the privilege be given to taxing districts to either call for bids on the present basis or with a callable feature in them or that some arrangement made where they can take advantage of the market situation so that if they are buying bonds, or rather borrowing money, at a very high interest rate and the market subsequently reduces to a point where they can, by paying a small premium, refinance those at a lower interest rate with a net saving, I see no reason why that should not be available. I believe, again, that it is only equitable that taxing districts and municipalities, governing agencies of the smaller size have the same opportunities that the State has, and I believe they operate these investments on that basis.

I have noticed with interest, too, that the last issue of the State Investment Council shows a total book value of securities in which the state moneys are invested amounting to approximately seven hundred million dollars. First of all, that average return, I believe, is something in the neighborhood of 2.82 per cent. ~~T~~^{Adding} that in with the school district bonds, that is less than half of what some of the districts are paying in interest rates. I realize that is an average and some of their investments run higher. Part of those investments include what is called a static group in which there is a par value of

approximately \$700,000 in surplus revenue funds and in the Trustees for the support of the public schools fourteen million six hundred and some odd thousand dollars, leaving out of course the State Disability Benefits Fund, which I don't want to include in this reference, and their average effective rate of return is under three per cent. Of course, the bulk of those investment funds come from your pension funds, police and firemen, prison officers, and so forth, and particularly this Teachers Pension and Annuity Fund.

Now, in 1954 there was introduced in the Legislature a bill, which originally had the support of both parties, tentatively some of the members of the State Department of Education and other officials, and it was thought that there might be some merit to the bill. Subsequently, it was found that the bill did not specify or limit the funds from which money could be taken to invest in the proposed purchase of school bonds at a limited interest, and that limited interest was not to exceed four per cent. It was rather surprising to me that the chief objectors to that were the school teachers, for whom I have a great deal of respect and with whom I can understand to a degree their interest in the safety of their invested future living. On the other hand, it did seem something of an anomaly that they had so little faith in their employer and their source of current revenue from which their pensions funds were derived that they didn't feel that they wanted to invest or have any of their funds invested in their employer's

liabilities. The amount of money referred to in that bill or recommended as a revolving fund was \$75,000,000 maximum. That would have been a very small percentage, even of the teachers pension fund, and it would have been of course about one-tenth of your total invested fund as it stands today in the last report. That fund of \$75,000,000 suggested was a maximum but would not necessarily have been a required investment and it would have been governed and controlled by a State Building Aid Fund Commission, the representatives of the State Department of Education, the Treasurer, the Investment Council, the Department of Local Government, and so on. I recall at that time it was stated that there was no record of default by any municipal taxing district in the State on their bonds. That, I assume, means total default and perhaps does not include deferment due to economic conditions at certain times.

The bill never did pass and I still feel that these funds of the State would be a proper investment in the obligations of taxing districts in the State with an interest rate which would be guaranteed to be not less than, say, one per cent or thereabouts over the average earned current rate. I also feel that it is - again, I admit I am not a financial expert, but it does seem again somewhat of an anomaly that we have seven hundred odd million of funds which we invest with other corporations in stocks and bonds, at an average return of three per cent or less, and yet the very citizens who either benefit from those returns or who in most cases, I guess, have provided that money must have

their overall state credit again limited by some of the proposals which would authorize the issuance of another bond issue by the State, perhaps seventy-five million or a hundred million, I don't know what all the proposals have been, and which would entail, I would estimate, approximately the same interest. The proposed fund would have been a revolving fund; it would have been well controlled, supervised and governed by state department and would have been limited to those districts which first had basic need, clearly defined, who would borrow it on the same basis that they would borrow upon a commercial bond sale and whose credit, from the standpoint of the Department of Local Government particularly, would be reasonably good; in other words, those who would show all reasonable expectation of being able to meet the obligations both as to principal and interest on due dates. And it would seem to me, gentlemen, that any plan which can be used to aid those really needy school districts can still be controlled and still be of a reasonable interest without handicapping either the investors-- the borrowers I should say-- and still being reasonably fair to the investors, which must be considered as a proposition which could properly be legislated in the interest of both the school districts and the public.

Thank you.

SENATOR LANCE: Mr. Metzger, you were Assemblyman from Essex County?

MR. METZGER: That's correct.

SENATOR LANCE: During what period?

MR. METZGER: 1954 and '55, I think it was.

MR. BARKALOW: Mr. Metzger, may I ask you what type of school district are you from?

MR. METZGER: Chapter 7 District. I might add, if I may at this point, that Senator Lance had asked a question regarding percentage. Our percentage of tax money to school districts runs approximately 70 per cent. I understand from one of the White House Conference which I attended, we are classified as the second wealthiest district in the Essex County area. I don't know whether that's a compliment or not. We have no industry whatever. It is entirely on property and small commercial business- very little commercial business.

SENATOR LANCE: What municipality are you from, Assemblyman?

MR. METZGER: North Caldwell.

MR. S. HERBERT STARKEY: I would like to clarify for Mr. Metzger the position of our Association as I recall it-- three years ago is quite a long while. My recollection is that it was not necessarily the ^{against} intent of the bill to permit funds to be used for school district borrowing, but it was over the matter of the details; for example, we had lost over the investment procedure back in 1951, I believe, when the Investment Council was set up. We feel that when that was taken away from our trustees and goes into an Investment Council, then our funds are submerged into the great group of all pension funds and all funds which come under the

Investment Council. We have no opposition to legislation which permits all investment funds to be used indiscriminately without singling out our particular funds. I can't recall exactly what other opposition there was, but it was purely over the matter of feeling that, so long as there is an Investment Council, the procedure thereby probably was not set up correctly and that it should have been legislation to deal with funds of the Investment Council, not singling out something in our fund alone. That was our only reason. We would be very glad to see something of that kind to help the financing of school systems.

MR. BARKALOW: Senator Lance, may I ask Mr. Starkey whether or not there could be legislation, in his opinion, providing some security to a State Authority in the event a State Authority should purchase school bonds, or to a State Fund, in the event a State Fund invested in school bonds, by reason of the construction aid program and the fact that the State would have, in an account, funds due the district which perhaps could be withheld by statute in the event of a default?

MR. STARKEY: I think two questions are involved. The matter of where you are talking about building authorities similar to the type of thing in Pennsylvania, I don't think we particularly feel that that has been successful in keeping the interest rates

down. I don't feel that that is the answer. From the standpoint of using any authority or any method whereby funds held in a pension fund-- I would say there again, as long as it is going to treat all pension funds alike or all funds within the investment council, as long as adequate provision is made for the soundness of it, I don't see where we would object. The specific proposal would have to be developed based upon, I think, the entire matter in the use of investment council funds.

SENATOR LANCE: I see the New Jersey Education Association very wisely believes in one of the cardinal principles of investment; namely, diversification.

Mr. Miller? The next speaker is Mr. William Miller, an attorney of Princeton, whom I first met when I was a delegate to the Constitutional Convention in 1947 and I found out that I was voting on some of the proposals which he was drafting and, starting with that, I got quite a bit of confidence in his knowledge of constitutional law of the State of New Jersey, and I requested him to come here today and discuss some of the constitutional angles under the New Jersey Constitution.

W I L L I A M M I L L E R: Thank you very much, Senator. I would be glad to do that. I might say that I perhaps am not unprejudiced in that I come by it in some 20 years association with Princeton Surveys and with the Commission on State Tax Policy

since its beginning and with participation in the preparation of the Seventh Report on Public School Financing and the Eighth Report on Financing School Buildings in New Jersey, so I assume that the Commission has had the advantage of having these report and I will take up two questions which you asked me to consider, if I could, in a rather brief time.

The first of them deals with the use of state credit in some form for the support of the school bond market. The particular problem you put is whether or not the State could constitutionally guarantee the bonds of school districts.

SENATOR LANCE: Now, to pinpoint that: Suppose this Legislature should pass a statute that, starting a certain date, all school bonds of all school districts in New Jersey, shall be guaranteed by the State of New Jersey so that if there is default, the holder of the bond could look to the State as the accommodation endorser or as the surety. That is the specific point.

MR. MILLER: On that point we, of course, have had no experience. I might say if there is any experience in any other State, it is very rare. Our own Constitution has two clauses which are very pertinent, however, to that question: one is the clause setting off the State's responsibility for public education, which I am sure has been cited here today, and the other more specifically- Article VIII, Section II, paragraph 1, which is an old clause and now appears in the 1947

Constitution in that place and was formerly Article IV, Section VI, paragraph 3, in the 1844 Constitution, and it states:

"The credit of the State shall not be directly or indirectly loaned in any case."

That particular clause was placed in the Constitution originally in response to a sad experience I believe the State had had and many states had had with lending their credit in aid of canal and railroad developments which they wanted very badly. The kind of experience they had was very much like this kind of proposition would be, although I dare say a much different purpose. There isn't any square decision of our courts under that clause which would say it is or is not a bar. The one case which in recent years has considered it at some length dealt with the New Jersey Highway Authority-- Behnke vs. New Jersey Highway Authority, 13 NJ 14, which was, in my opinion, an entirely different situation. There a state function was being performed through an agency, an administrative agency created by the State, and the guarantee of the bonds that were issued was really in effect to carry out a state purpose. In the case of the guarantee of school bonds, however, while the State is interested in education, the actual policy and determination of educational matters still rest with the school district. And, accordingly, it seems to me that the clause I have quoted would plainly bar the use of state credit to guarantee either future bonds to be issued by school districts or existing bonds. As to

existing bonds, there would be another objection; namely, the creditors who hold those bonds would receive a gift in the form of new security, and gifts by the State to private corporations or individuals are also prohibited by the Constitution.

I might say there is a comparable case in Pennsylvania dealing with special assessment bonds which were special in their obligation, and legislation sought to make them general, and the result was about the way I have just stated.

The problem was-- or beyond the legal problem I might say that the use of state credit in this way, while it could conceivably be accomplished through a constitutional amendment, which would be a long process, considering the present urgency, nevertheless does suggest whether such an amendment or the use of such state credit would be advisable. And I have that as a second question you asked me to consider.

On that score the Commission on State Tax Policy, I might say, has given some considerable thought to the problem, with the benefit of substantial financial advice, and it saw it in this way: The school building and school finance problem really has three sides. It is affected by a large number of school districts that have already issued their bonds and made their sacrifices. Bonds outstanding in fact, to a considerable extent, ~~it may be that~~ ^{is} much of the problem already/covered by those bonds. Then there is a current need - those about to issue their bonds in a market which perhaps is not as favorable as it was when the bonds

were issued in the 1940's or 50's. Then, of course, there are the future school districts to come, which would be entitled to the same treatment. For the State to assume to guarantee schools bonds, therefore, is to issue a blank check which would impose upon it an obligation unforeseeable as to the future, and yet not do anything for the districts that have already issued their bonds. I can't conceive of any way of overcoming that difficulty other than by a program which is already on the books, and I know the members of this Committee, some of the members at least, participated in its enactment, and that is the school building aid program which does deal with all three of those situations effectively, because that program makes cash available to the district that has its bonds outstanding so that it can use that cash for debt service. It makes a reserve available for the district that doesn't yet need a school building and therefore can put the money aside for the time when it does. And, of course, for the district that is currently issuing its bonds, the annual school building aid is made available concurrently with the debt service imposition. Of course, the money that is available you have already heard this morning is perhaps not as large as it should be, but the structure does exist as an alternative to the use of state credit, so long as there are funds to support it.

I might say that the particular program has a built-in feature which reflects the growing need of school districts, because the allowance is on a per-pupil basis, with the

result that growing enrollments produce a larger program, so that the districts that in the past perhaps have not qualified, because their ratio of pupils to wealth was not so low as the program requires, may qualify in the future and such adjustments as are necessary are possible within the framework of the formula.

A third question to which you asked me to address myself was the matter of the State Fund for the support of the free public schools. That is the only fund in our entire financial setup which is established by the Constitution. It appears in Article VIII, section IV, paragraph 2, of the 1947 Constitution, and it has some rather curious language in it, which I will not take your time to read, but in essence it states that this fund may not be used by the Legislature for any other purpose than to apply or to appropriate to the support of the free public schools for the equal benefit of all of the people of the State. So there is no question but that the Legislature, so long as it wishes to appropriate the income of the fund or perhaps its assets for the benefit of the free public schools, is free in its discretion to do that, but it cannot use it for any other purpose.

SENATOR LANCE: Now, let me stop you right there. This fund is about sixteen million dollars?

MR. MILLER: That is its present status, yes.

SENATOR LANCE: In your opinion, not that the Legislature is going to do it, could they constitutionally appropriate all of that money, dissolve the fund, providing

they follow the constitutional language?

MR. MILLER: I'm afraid they couldn't dissolve it because one part of the section, which I did not read, requires that it be securely invested and remain a perpetual fund, and the income thereof, except so much as may be judged expedient to apply to an increase of the capital, shall be annually appropriated to the support of the free public schools. Now, what I had in mind when I said perhaps some of the capital was that it might be argued that that part of the income which is accumulated in the past and is now added to capital is a different kind of capital than the capital acquired by the proceeds of the state's riparian lands and other sources that were put into it - a very narrow point. In any event, the use of that fund, which has been considered by the Legislature and subject to veto by the Governor, I assume could be considered only, or at least should be considered in the light of the possibilities of overcoming such objections as might have been stated in the Governor's veto message.

I haven't had an opportunity to go into the matter with such care as I might as soon as you are ready for it, but I think that it is apparent that this fund can be considered as distinct from all other funds invested by the Investment Council; for example, the other trustees are established by statute, whereas under this particular fund the care and custody of it seem to be something separate and apart. There are cases, or a few of them, decided under that clause which identify the trustees in charge of this

this, called the Trustees for the Support of the Public Schools, as the custodians of the fund and that for the purpose of the administration they are made custodians and of the rights and remedies upon or against the securities in which it is invested, because the trustees are constituted the representatives of the State. The reason I mention that is that the history of the creation of the State Investment Council probably has something in it which would at least strike a note of caution as to looking to that Council and its present total of investment portfolio as a source of investment in school bonds, as a mandatory obligation imposed by the Legislature.

One of the objectives of the creation of the Council was to bring an impartial and professional quality to state investments and to assure that the State which holds those funds as trustee, in effect, for many public purposes would give them the same attention as any other trustee would. Accordingly, to command a trustee to invest in a way that might conceivably be contrary to his trust might bring about some general argument, but I suggest that, in this fund particularly, that couldn't hold, because the use of this fund is already prescribed. That doesn't occur as a constitutional matter in the case of other funds.

Now, one other matter connected with it: The legislative proposal you have had was to use the fund to buy the school bonds of those districts which could not market their own bonds at a rate equal to or less than one per cent more

than the going rate that the State could borrow at. In other words, the margin between what the going rate for state obligations was with a comparable maturity and what the school district would have to pay was limited to one per cent. If it went over that, this fund was to purchase those bonds upon request. That is a different thing from the general use of state credit or state guarantee because it defines the class very closely to a very specific needy group. Whether in the long run that would be a sound thing to do is not of much interest to school districts who need to have their capital at a reasonable price. On the other hand, it does protect the school district against an exceptionally high rate of interest, which automatically is adjusted to the general cost of money that everyone must pay, and it also protects the fund in the sense that a substantial return is offered for the slightly additional risk. In that connection, it may well be noted, if it hasn't already, that these school bonds which sell at a higher rate are not necessarily bad credit risks. They are not as desirable as other securities available at the time they seek the market but they may very well be sound credit risks for one who can hold on to them long enough. That's a matter for more exploration, but I don't think the point has been made often enough that the mere fact that they bear a higher interest rate always denotes a poor risk.

I would be glad to look into the history of the fund and consider its possibilities further if the Committee should wish, of course, and--

SENATOR LANCE: Directing your attention to the fund which has \$16,000,000 in it - what name do you give it?

MR. MILLER: It has the nice constitutional name, "The Perpetual Fund for the Support of Free Public Schools."

SENATOR LANCE: Now, that fund is part of the \$700,000,000 fund which Mr. Metzger was talking about, or at least--

MR. MILLER: It is. I don't believe Mr. Metzger meant to imply that there is a \$700,000,000 fund. The total assets committed to investment by the Investment Council apparently is that.

SENATOR LANCE: Where, or in what year did this fund start?

MR. MILLER: I couldn't say immediately what year. I think it was in the middle of the nineteenth century, but I will give you a more detailed study on it.

SENATOR LANCE: It's almost a hundred years old.

MR. MILLER: It might be.

SENATOR LANCE: Where does the money come from originally?

MR. MILLER: The largest part of the money now in the fund are the proceeds of the state's riparian interests, which are let out to grant.

SENATOR LANCE: What do you mean by that?

MR. MILLER: The waters of the State bordering between, I have forgotten the particular name of the area, but along navigable streams particularly and along the waters of which the State has jurisdiction - from time to time the State has made grants of rights to use and in

some cases to convey the benefits of those water rights, not to take water but to use it, use the waterfront areas, and there have been proceeds available from such sales and leases which go into the fund.

SENATOR LANCE: Am I correct that that was established on a per foot basis in different areas throughout the State?

MR. MILLER: That is certainly one of the ways it has been done, but the history of the grants is a large subject in itself and I am not sure but what there may be other ways.

SENATOR LANCE: There is also income on a rental basis?

MR. MILLER: Yes, a lease-type arrangement.

There are other assets in this fund but the largest share of them has been acquired in that way, and I think there is a record of what the assets are, which could be inspected by the Committee.

ASSEMBLYMAN THURING: I have one question: If I am correct - I wrote down what you said relative to the use of this fund - it must be used for the equal benefit of all of the citizens of this State. Is that correct?

MR. MILLER: I read that, and I have pondered over its meaning, and can't derive anything from it except that it is one of those generalizations that government is for the equal benefit of all the people of the State. It is a philosophical rather than a legal requirement.

MR. THURING: You don't feel that that in any way would be a prohibition against the use of this fund, particularly since this would go to special districts and not inure to the benefit of the entire State?

MR. MILLER: I don't foresee any difficulty, because the entire state interest would be protected, in that the entire state has a very real interest in assuring that no district, in fact no pupil, according to legislative definition, be deprived of an adequate education for lack of funds, and we have many statutes, the foundation program itself, which guarantee every pupil at least a minimum education. I think the phrase would be meaningless if it required all the people to gain from it, because there would be no gain for any if you distributed it so thinly.

SENATOR LANCE: At any rate, it's your conclusion on the first point that this Legislature, if it passed a statute guaranteeing all school bonds, would be acting unconstitutionally at the present time?

MR. MILLER: I think so.

SENATOR LANCE: And the only way this Legislature could pass a statute guaranteeing all school bonds as a surety, or accommodation endorser, or the like, would be a change in our Constitution.

MR. MILLER: That is so.

SENATOR LANCE: Which would take one or two years at the general election.

MR. MILLER: Well, you know the rule. If you had enough votes in the Legislature, it wouldn't take two years. But I would add that the implications would be very far reaching on the State's own credit, as well as on the wisdom of establishing such policy, because having done that, there are other avenues you lead into.

SENATOR LANCE: This morning I read into the record a letter from Mr. Ellenwood of Moody's Investors Service saying that New Jersey is now one of 12 states with a triple A rating, and you fear that if the State of New Jersey should suddenly become an accommodation endorser at the rate of one hundred million dollars per year for the next seven years, Mr. Ellenwood might change his good mind?

MR. MILLER: I couldn't believe otherwise. I might add that it wouldn't be that simple, because we have another section of the Constitution, a debt-incurring section, which would be involved, in that we can incur no debt without a referendum, and when we do incur debt we must provide the ways and means of paying therefor. Now, a contingent obligation of the State would be just as much a debt as would a direct obligation, in my opinion, and it wouldn't be possible to comply with all of those clauses merely by an amendment to this section.

MR. BARKALOW: Mr. Miller, have you had an opportunity to determine if there are other states pledging the full faith and credit of the State on school obligations?

MR. MILLER: Last year, I think it was, I had a purpose in making such an inquiry for the State of New York and could find no states which had done that. Now, there are states which are heavily in the business of financing school buildings, but not in that particular manner. Now, for example, I believe it is Florida which has a large-scale effort to finance school buildings by pledging, by a constitutional provision I might add, certain revenues which

indirectly are used to feed a fund out of which the school bonds will be paid, and there are a variety of devices like that where, in effect, you have the State taking on the obligation for providing school buildings, and in effect you may have a state system of schools rather than a locally-administered and financed system. Now, to that extent the states are and have assumed a wider obligation than my statement might have implied, but the specific idea in a state which still holds the notion that schools districts are the primary unit of school administration and finance, in any such state, the specific guarantee of outstanding school bonds, I have not found anywhere.

MR. LANCE: Mr. Miller, a small bird told me a couple of weeks ago that you drafted or assisted in drafting the present statute on setting up the State Investment Council.

MR. MILLER: That is correct.

SENATOR LANCE: And the same bird told me that, at the Constitutional Convention in 1947, you worked on the finance clause which drafted this present section that the state's credit cannot be loaned. Is that correct?

MR. MILLER: That is so. Actually, that section was just lifted out of the previous Constitution. It might not have been written that way if we used modern language. But that is correct.

SENATOR LANCE: I didn't think a Professor would say "loaned" when "lent" was proper. Are there any further

questions? "Loaned," I take it, was in the prior Constitution for many years.

MR. MILLER: Yes, it was.

SENATOR LANCE: Thank you very much.

Mr. Voorhees? Are there any further speakers after Mr. Voorhees? If so, I don't have them on my calendar here. Mr. Voorhees, then, will be the final speaker of the hearing.

W I L L I A M F. V O O R H E E S, J R.:

Senator Lance and gentlemen of the Commission, I am here today to speak on behalf of the State Investment Council. My name is William F. Voorhees, Jr. I happen to be Director of the Division of Investment.

Senator, before I do read the Council's statement, I wonder if it would be inappropriate to just make some comment while the Trustees in the Support of Public Schools account is before us.

SENATOR LANCE: Will you tell us what you do with that money, in so far as income is concerned and tell us whether we are getting any more money in it and, if so, where it comes from?

MR. VOORHEES: Well, the money, of course, is used now, presently, for the support of public schools. Where that money actually goes to from the Educational Department or wherever it does finally wind up, I am not clear. My operation is merely investment of it as it becomes available. But what I did want to call to your attention was that actually 53 per cent of this fund is presently invested in

municipal and school district bonds. So that it would mean, if the Legislature should determine to appropriate moneys from this fund, we would be in^{the}/almost ridiculous position, in my opinion, of selling school district and municipal bonds in order to go out and buy more school district and municipal bonds.

Another 25 per cent, roughly, of the fund is now in U.S. Government securities, so that means that about 80 per cent of it is in those two categories.

MR. BARKALOW: May I interrupt you and ask you when was the last investment made in public schools, approximately?

MR. VOORHEES: I couldn't answer that, sir. Sorry. It is not an active account. I can say that. We do have municipals running off in small amounts from time to time and other securities that do mature that we have reinvestments for. But the point is that, as you gentlemen know, even the U.S. Government securities in recent years are down considerably, so that you have in long Government 2-1/2's a present loss of 10 points if you were to sell them. Actually, if this sixteen million dollar fund were to be liquidated, I can quickly see a loss of a million six in principal. I just point that out to you because I think some people don't understand and they may feel that we are sitting here with sixteen million dollars worth of cash that is waiting for a place for investment, and that, sir, is not true. If there is nothing further on that, I would like to read the statement.

SENATOR LANCE: You say, "if you had to liquidate the entire sixteen million dollars fund you would have a loss of---"

MR. VOORHESS: I am guessing a million six.

SENATOR LANCE: A ten per cent loss.

MR. VOORHESS: I am just basing that on the Governments; it would probably be a much greater loss than that, sir.

SENATOR LANCE: Now, you are comparing sales prices with the original cost?

MR. VOORHEES: With our book value.

SENATOR LANCE: Now, in your annual report-- I am a Director of a little bank and I am informed that we can carry U.S. Governments in our portfolio at either book or original cost - book or market value, whichever is the higher. How are your figures? When you carry figures here and you say, "book," are you talking present-day market value for your U.S. Governments, or are you talking face, or original cost, or what?

MR. VOORHEES: Face value would be this par value figure that is generally given. We give in our book, as you will notice, the par value and the book value and we also have, of course, a market value. Now, we only appraise, actually, the market value once a year and you can appreciate that with a portfolio of this size, it is not easily done and, particularly with municipal securities, it is quite a job because most of the quotations come back to us on basis prices and it takes literally weeks to transfer those basis prices into dollar prices.

SENATOR LANCE: One more question on your sixteen million dollar fund: You pay out in the Treasury Department the income on that fund every year?

MR. VOORHEES: That is my understanding, yes, sir.

SENATOR LANCE: But you don't touch the principal?

MR. VOORHEES: That's my understanding.

SENATOR LANCE: But you pay out the 3 per cent, or whatever it is, you earn on sixteen million dollars to somebody who uses it in some form for education in some way?

MR. VOORHEES: That is my understanding, yes, sir.

Now I would like to read this statement of the State Investment Council:

"The Council, at its meeting on February 18, considered very seriously the problems that the 'School Bond Interest Rate Commission' is to discuss at the hearing to be held by this Commission on February 28.

"The Council agrees that there is no question but that the State faces a serious responsibility in providing aid to school districts, but the Council questions whether it can be of any assistance in the light of its legal functions.

"Chapter 270, P.L. 1950, had two major objectives:

"First, to concentrate all investment transactions of certain specified funds and accounts under a Division of Investment headed by a Director, which operations were to be supervised by a Council. Only the Director was empowered to originate an investment transaction within the scope permitted by the Council. However, every recommendation of the Director was subject to a veto by the Trustees of the fund affected. The entire operation was to be conducted on the highest plane of professional administration in this field.

"Second, to provide for a broadening of the investment base for the funds so that higher interest rates might be obtained with equal security, for the benefit of the taxpayers and of the beneficiaries of the funds. Heretofore, investments had been limited to U.S. Government obligations and to tax exempt domestic municipals, which exemption was of no value to the funds and accounts and unnecessarily limited the rate of return.

"The Council, by a continuing study of the enabling acts and amendments relating to these funds and accounts, has determined a grouping of the funds with similar investment characteristics. Particularly, it has given weight to legislative indications as to the life of the funds or the possibilities of withdrawals which might force liquidation of all or part of the accounts. This is very essential information with respect to adopting sound investment policies for each group of accounts and maintaining a proper proportion of liquid investments.

"Some years ago the Council adopted an investment regulation authorizing the director to sponsor the purchase of New Jersey municipal general obligations for any fund in the pension and annuity group, if he chose to do so. Actually, no investments have been made under this regulation because better rates with equal or better quality were available in other fields of permissible investments.

"Generally speaking, school district bonds, which are difficult to place initially, would undoubtedly be a frozen investment in any fund until the bonds mature. In any event, most issues would have very, very small secondary markets. To force the members of our state pension funds or any of the other state funds to invest their funds in low-rated municipal bonds which cannot be sold publicly is undesirable and would seem to the Council to be highly discriminatory and unfair. Furthermore, it would undermine the ideals and objectives of Chapter 270."

That's the end of the statement, sir.

SENATOR LANCE: What percentage of your total assets in the entire \$700,000,000 fund are in New Jersey school bonds?

MR. VOORHEES: I could not answer that.

SENATOR LANCE: Would you send me that ^{so} we can incorporate it in the record?

MR. VOORHEES: I would be happy to do it.

SENATOR LANCE: Do you know what percentage of the New York fund of a similar nature is in New York school bonds?

MR. VOORHEES: I do not, sir.

SENATOR LANCE: What do you earn on your \$700,000,000 at present?

MR. VOORHEES: That is a difficult question to answer, Senator, because we have actually 28 separate funds, we know what our earnings are on a given day on any one of those funds, but to give you an average figure, I just wouldn't want to do it because the minute I said it it would be inaccurate.

MR. BARKALOW: Am I correct in understanding that the \$16,000,000 was yielding at 2.82?

MR. VOORHEES: I think that is about correct, yes, sir. You must remember, gentlemen, that during the war years, many of these funds bought long-term Government two and a halves; those two and a halves are still there; they weight the average. Now, we are investing today in very high-grade securities at better than 4 per cent, but we don't have enough volume of re-investment to offset these low coupons that are still there in the account.

SENATOR LANCE: I was under the impression that your annual report, showing your condition as of June 30, 1956, stated that the effective rate--

MR. VOORHEES: We have on page 6 of that report, Senator, effective rates on each group, I believe.

SENATOR LANCE: I was under the impression the effective rate on the overall fund was 2.82.

MR. VOORHEES: I couldn't confirm or deny it, sir. I don't know. I don't know that the report had that figure in anywhere. I know that we had it by groupings. It wouldn't prove too much anyway, sir, because you have some funds that are long-term investment funds; you have some very short-term investment funds here.

SENATOR LANCE: Could you file with this Commission what your interest rate would be on a weighted basis; in other words, you have \$700,000,000 in assets and you get a certain amount of income and get your percentage that way, we well knowing that, in a portfolio where you have many kinds of investments of varying maturities, you have to interpolate.

MR. VOORHEES: Yes, sir.

SENATOR LANCE: How fast does your \$700,000,000 fund increase a year?

MR. VOORHEES: I don't know that I could give you any figure on that, Senator, because, again, it's subject to action by the Legislature, it's subject to things that happen within the pension funds themselves. As you probably know, the Teachers Pension and Annuity Fund this past year, instead of turning over roughly \$15,000,000 to us, which they normally would do, we had something like a million or a million and a half. It's subject to many indefinite things.

SENATOR LANCE: Will you file with the Commission a statement since the fund started what the assets would be on June 30 each year, so that we could get some sort of a pattern--

MR. VOORHEES: Each year rather than as its shown on the table here. It shows on the table on page 6 what it was in 1950 and what it is in 1956.

SENATOR LANCE: Use your June 30 date, which would be the easiest for you.

MR. VOORHEES: All right.

SENATOR LANCE: So that we get an idea whether it is increasing at the rate of fifty million dollars a year, or

what it is.

SENATOR LANCE: Now, in your annual report, you also suggested that the Legislature give you wider power to invest, as I remember it, so that you could go into industrial bonds.

MR. VOORHEES: Yes, sir. Actually, what we wanted to do was to have the flexibility that the insurance companies now have, sir, in that regard. It brings up the question that has been discussed here pretty freely today of call prices, and that is one of the reasons we want to get into some of these industrial bonds. Ford just recently did a deal where they had the bonds non-callable for ten years. Now, we are limited under the Savings Bank law pretty much to railroad equipment and public utility bonds. The equipments, of course, when we buy them we know what our maturity is. When we buy the utility bonds, we don't know. We think we're buying a 1986 maturity, but if we get a change in interest rates two or three years from now we could lose those bonds. It makes programming difficult, and we hoped that the Legislature would see fit to give us this latitude for the benefit of the fund.

SENATOR LANCE: Without knowing, I would think that your greatest losses in your funds would be on long-maturity U.S. Governments. Has that been your experience?

MR. VOORHEES: When you look, sir, at the percentage depreciation, it's almost identical through the groups, a very fractional deviation from one group to another, whether you go from railroad equipments or whether you take municipals or whether you take Governments. After all, that ebb and flow of the interest rate is there, sir, and you

don't overcome it unless you down-grade quality. We have tried to keep top-flight quality here throughout.

MR. BARKALOW: Mr. Voorhees, do you have any anxiety as to the security of school bonds, or is that too general a question?

MR. VOORHEES: No, sir. One of the problems we had, Senator, if I may say so, is that the Council through the years, as was pointed out in this memorandum, has addressed itself to what the possibilities are in these pension funds and other funds as to when money is going to be needed. We have had actuarial studies made; we know that in certain years we are going to need more money than in others. Therefore, we buy in accordance with that sort of a program. It doesn't carry forward in every fund, but a great many of our funds are already set up and we know the specific maturities that we want to buy, and we buy accordingly.

MR. BARKALOW: And those maturities would not coincide with those which the school board could fix under the law?

MR. VOORHEES: They may or may not, sir.

SENATOR LANCE: What percentage of your assets in your \$700,000,000 funds are pension funds?

MR. VOORHEES: I would guess, roughly, half, Senator. I guess that's about right. On June 30, 1956, the pension and annuity group had \$435,000,000. We are talking now of a total fund of some seven hundred million.

SENATOR LANCE: So, of your seven hundred million in your total funds, four hundred and thirty are pension funds, being the teachers, the state employees, the firemen, policemen, etc.

MR. VOORHEES: That's correct.

SENATOR LANCE: And the actuaries of those funds know pretty well, if they are good actuaries, when you are going to pay out those moneys, don't they?

MR. VOORHEES: Yes, sir. We have developed maturity patterns based on the actuarial studies that have been given us.

SENATOR LANCE: One final question: Several years ago, when I didn't have anything to do, I heard a whole days' session on pension funds in New York, and a pension expert there made a statement that, ordinarily, pension funds shouldn't have too many tax exempts because, when you buy a tax exempt, you are paying for a privilege which you do not need if you run a pension fund, in that a pension fund does not pay federal income tax. However, in the present market, is not the yield from tax exempts pretty much approximating the yield from non-exempts?

MR. VOORHEES: Not for the same quality, no, sir. We bought triple A's the other day at 4.17, and we bought double A's at 4.25.

SENATOR LANCE: Thank you. Are there any further speakers?

R O B E R T F O R D: I had a question and perhaps the answer might help one of the concerns which we have concerning this matter. First, I should identify myself. I am Robert Ford, an attorney from Newton, New Jersey, a member of the Newton board of education, and also attorney for several boards of education in Sussex County.

Has there been any proposal as to the method by which a municipality would be placed in a category where they would be considered eligible for a fund which would buy their bonds if they could not market them in a market less than one per cent above the average received in the funds of the Investment Council?

SENATOR LANCE: What was your question again?

MR. FORD: Whether or not any formula has been established whereby a municipal would have to conform or a school district in order to be in the category where they would be in the group which could not market their bonds for less than one per cent above the state average.

SENATOR LANCE: In this hearing today, there are several things we haven't mentioned because we tried to pace ourselves to finish around four o'clock. We have^{not} mentioned anything whatsoever about the federal program which is interested in financing also. The federal program, whether you have the Kelly bill or the administration bill, has certain formulae in there. This morning I asked a question as to whether in this State there were tables showing the true value of real estate for each pupil in the public school in every municipality, and I find those tables are available in the State Department of Education. The ratables per pupil, we all know don't mean much, because in my county I have municipalities assessing from 11 to 24 per cent. In Hudson County some municipalities assess at 65 per cent. So that the answer to your question is no, that we haven't come

up with any arbitrary formula.

Mr. Skillman?

GEORGE SKILLMAN: As a partial answer to Mr. Ford's question, I will say that this group that Commissioner Raubinger has called together has been broken up into sub-groups and one of the groups, which is made up of Mr. Kilpatrick and certain finance people, and I happen to be on it, is endeavoring to come up with, I think, something which will give you a little background of the very information which you are inquiring about; namely, what would be the formula or what would be the conditions under which a district would or might be entitled to aid. Now, the work is purely in a formative stage and there is nothing definite on it so far as I know.

SENATOR LANCE: We want to thank everyone for--

MR. FORD: I just want to say one more thing: One of the concerns which I had, and which our boards have, is the question of possibly blacklisting the school districts which might be put in that category, unless this Commission or another Commission, or the bill which might ultimately be proposed be framed in such a way that that might not be done; in other words, it might do harm to these districts to be put in a category whereby they would be eligible- while they might benefit in the one issue, they might be put in a position where they would be in a bad light so far as the other credit is concerned in other issues or in other phases of their municipal work, and we feel that that should be guarded against very carefully.

SENATOR LANCE: Mr. Ford, you are connected with the firm of Dolan and Dolan in Newton and have had wide experience in the floatation of school bonds as a school board attorney.

Now I want to thank everyone for sticking with us the entire day on a subject which must be very dry to laymen, but could conceivably cost the local districts a great deal of money for as many as twenty to thirty years to come.

Thank you for attending.

(H E A R I N G C O N C L U D E D)

