THIRD SECTION

THE WILMINGTON DISPATCH

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Uniform Road Financing

Address of Hon. D. M. Clark, Greenville, N. C., Before Southern Appalachian Good Roads Convention.

Next to preserving self from the wolf of poverty, I am interestd in the improvement of all roads, whether they be highways or byways, of national or township importance. Therefore, it is not only an honor to have been invited by your distinguished president to come out from the old mother state of North Carolina to speak to you in the interest of our common cause, but a distinct pleasure as well.

On this subject "Uniform Road Financing" much of importance might be said, and I am embarrassed by reason of paucity of information, but of such as I have I gladly contribute to the greatest potential factor of progress and prosperity.

The time has now come when everyone, be they progressive or conservative, must admit that good roads are the life arteries of our industrial and social intercourse, but this fact has only been recognized in our country during the last few years.

In fact, until comparatively recently we tolerated mud, ruts, steep hills and practically impassable roads rather than give up the old public road system borrowed from England, but long since discarded by the lender. That system which conscripts labor by legally compelling every male person between the ages of eighteen and forty-five years who resides in the rural districts, to work on the public roads a certain number of days every year, was created by the wealthy landed classes for their own special benefit and convenience and because it taxed only certain individual's labor who belonged to the lower, less fortunate classes. And for practically the same reasons it was adopted in America during our early history and has remained with us ever since, although thanks to progress it is becoming more and more a relic of antiquity.

Injustice of Old System.

The injustice and especially the inefficiency of such a system gradually dawned upon our people as automobiles became a reality and increased marketing demands were made on the public roads. Hence the advent of the bond issue and tax lvy for construction and maintenance. But in the improvement of roads, as in all other public matters necessitating bonds and taxes, progress was slow. And even where there was road building in the wealthier more progressive communities and trade centers, it was done with the view of the development of the immediate section and without regard to the state as a whole. In some instances the states have aided in the construction of certain important highways, and in this endeavor, have received in a measure, the assistance of the United States government. But under this plan there is a lack of unity, and while one section is developed, another is neglected, which is caused of course, by certain inequalities in wealth, personnel and geographical location. Thus under the existing system general development is necessarily slow. Therefore the need of a method of national and state financing whereby a uniform system of connecting roads could be built by every state, county and township, however remote, and at the least possible cost to the individual tax payer.

It was to supply this necessity in North Carolina, that the measure known as the "States Aid Road Bill," which I will discuss, was passed during the last session of our General Assembly.

The act is based upon the fundamental idea that public road improvement is predicated upon the fact that the public road is one of the few great instrumentalities of community life with which the government is directly concerned. That the functions of a government are to secure peace, prosperity and happiness to its citizens, for the hapipness of a people depends primarily on the prosperity of that people; and the prosperity of a people depends directly on its industry; and the industries of a state or nation cannot reap their full reward until the government utilizes all of its instrumentalities for their full and free development. For improvement in no public facility will give returns in dollars and cents more quickly than improvement in roads.

As our public roads involve the transportation problem, affect the cost and pleasure of living, the exchange of commodities, the valuation of properties, the social and educational welfare of citizens, and even the thought of a people, they become the greatest instrumentalities of community or national life. Therefore their development is a governmental duty necessary to the progress and self-preservation of the state or nation, and the peace, prosperity and hapiness of our people.

As the state and nation are the direct beneficiaries whenever public roads are developed in any section, however remote, then state and national governments should ze the agencies through which the uniform development of our entire public road system is financed.

I do not mean that the national government or the state should build the roads or pay for them, although it is only fair that the public road system, as it concerns inter-counties, inter-states and through highways, should receive the same financial assistance as is given to canals, creeks, rivers, harbors, and railroads. But what I do mean, is that the state and national governments should be the agencies through which the money borrowed for construction, is secured. There are several reasons why this should be so, but principally because of the fact that the state has a better borrowing credit than a township or county, and the nation has a better borrowing credit than the states.

This fact is the nucleus of the whole system which bears my name. Every detail has ben worked out to a mathematical certainty, and the law contains complete machinery for the operation of the plan. In brief, the system adopted in North Carolina is this:

The state borrows money at 4 per cent interest, loans the same to counties and townships at 5 per cent interest, payable semi-annually, of which 4 per cent is used to pay the interest on the state bonds, and the extra 1 per cent is carried to a sinking

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fund that retires the state bonds in 41 years. The system costs the state nothing, for the state of North Carolina has an almost unlimited borrowing credit of from 3 1-2 to 4 per cent, and the extra 1 per cent not only pays off the bonds when due, but also provides a surplus sufficient to pay for any extra clerical assistance necessary.

The law in detail provides for the issuing semi-annually, of 4 per cent state bonds, to run for a period of forty one years, the initial issue not to exceed $400,000. The funds provided in this way are made available to such counties and townships as shall evince their public spirit and progressiveness by voting in the usual manner to tax themselves for the purpose of building roads. The act provides of course, the machinery for petitioning the county commissioners and holding the election.

Big Saving to Counties.

When a county or township votes for good roads under this law, the county commissioners issue no bonds to be sold on the market at 5½ or 6 per cent, as is often the case with the less fortunate localities, but merely gives to the state its certificate of indebtedness for the amount loaned to the county itself, or for one or more of its townships, and the county is to collect annually from the whole county if the county has voted for the loan, or from such township or townships as have voted for the loans from the state, the 5 per cent interest, as it collects other taxes, and pay this over to the state. This 5 per cent interest is all any county or township ever had to pay for the loan, as the extra 1 per cent difference in state and county interest provides the principal and retires the state bonds at maturity, and the county's or township's certificates of indebtedness are destroyed or returned to them to be cancelled.

In every particular the state is amply protected from loss by the most stringent safeguards. The bond or certificate of indebtedness given by the state as security for the loan, obligates the county to pay to the state treasurer 5 per cent interest per annum payable semi-annually on the first days of December and June of each year for a period of 41 years. As a penalty for the failure of any county to pay the 5 per cent interest when due, the act provides for the state treasurer to collect in addition thereto one half of one per cent of the amount due, for every day the same remains unpaid. One half of such penalty shall be paid by the county anad the other half by the sheriff of such delinquent county. In addition to this it is also provided that if any county or township obtains a loan from the state under the bill and shall fail or refuse to pay the interest due on such loan for a period of 30 days, the amount due, together with the penalty, shall at once become due and payable, and the state treasurer is authorized to proceed to collect the same from such delinquent county or township.

Commissioners Must Make Levy.

Criminal liability is also imposed in the following language: "If any board of county commissioners whose duty it is to levy any tax or taxes under the provisions of this act, shall fail or refuse to make such levy, or to make such rate of levy as is required by this act, they and each of the members thereof shall be guilty of a misdemeanor, and, upon conviction, shall be fined personally and severally, not less than $200 each, nor more than $1,000 each, or be imprisoned not exceeding one year, in the discretion of the court."

As a safeguard to the state against counties or townships borrowing more money than their responsibilities will justify, thus rendering them insolvent, the act provides "No county shall be allowed to borrow money under the provisions of this act to any amount which, added to other bonded indebtedness, exceeds six per cent of the assessed valuation of the property of the county."

The commissioners of the counties securing loans under the act are required to levy in addition to the five per cent interest, an amount sufficient to cover the cost of collection and disbursement, and the penalty to which the county is subjected, in case such penalty is incurred, and an amount sufficient to provide the maintenance fund which is to run for the duration of the indebtedness. In this way the state is protected against any possible loss, although the money is provided for the construction and maintenance of a statewide system of modern public roads, at a most to the counties or townships of only 5 per cent, plus the maintenance cost, but with no principal to be repair and no debt to be passed on to the future generations.

State Issues Bonds.

As has been stated, to provide the funds for the operation of this system the state treasurer is directed to issue for the first six months period $400,000 in 4 per cent bonds, provided counties and townships have voted to tax themselves for good roads, and have made applications for loans under the plan amounting to the full issue of $400,000. If less than $400,000 has been applied for by the counties and townships, bonds are issued only for such sums as is actually applied for, but if more than that sum has been applied for, the issue does not exceed $400,000 but is apportioned prorata among the applicants, the full amount of the loan applied for to be made out of the issue six months later. In this way the state issues no more bonds than there are applications to take up, but a tthe same time gives to each county and township equal opportunity to receive a part of the money as it becomes available and avoids scrambling as to what counties and townships shall be first benefited. It is left to them to make the move and thus select for themselves, the result of which will be that the most progressive and wideawake counties and townships, those that feel most the need of the good roads system, will be the first to profit by the opportunities thus made possible. It will not be left as in the past, with us in North Carolina, for those communities which have the most influence in the legislature to obtain priority, but successively, each county and township will come in, in the order they themselves create, making eventually a uniform statewide road system.

If the state issued $400,000 in bonds semi-annually for 41 years it would amount to $32,800,000 for the full period, a sum rather large to contemplate, but not as great by any means as the counties and townships in North Carolina would issue their individual bonds for during that period under the old system, the principal of which would have to be paid at maturity, or the bonds refunded by act of the legislature and the interest thereon continue to run until such time as the locality was able to pay off the indebtedness. In proof of which statement I cite the fact that North Carolina has, this year, spent for road improvement alone, the sum of $5,510,000. But under this plan the state does not issue $400,000 in bonds semi-annually, although that sum is always available semi-annually for the stipulated purposes. The reason is, there is a surplus income of one per cent which goes to the sinking fund, and the sinking fund is invested in a loan to other counties and townships as they subsequently come under the system and make applications for loans. So that, after the first $400,000 is taken up, bonds are issued only for an amount added to the semi-annual sinking fund, sufficient to total the next $400,000 semi-annual loan. Thereby each subsequent bond issue is reduced the amount of the sinking fund created by the one per cent difference in 4 per cent state bonds and 5 per cent county or township bonds. In this way compound interest on the sinking fund is secured and semi-annually reinvested.

How the Law Works.

As an example of how the plan works, suppose on the first day of January, 1918, North Carolina should issue $400,000 4 per cent bonds, in exchange for $400,000, 5 per cent county and township bonds. On July 1 of the same year, just six months later, the 5 per cent interest due on the county and township bonds would be $10,000, whereas the 4 per cent interest due on the state bonds would be $8,000, leaving a surplus of $2,000, representing the 1 per cent sinking funds. Then on the next period of the semi-annual issue which would be July 1 the state would issue only $398,000 in bonds which added to the $2,000 surplus would make up the $400,000 semi-annual loan fund. In this way the bond issue is reduced every six months in proportion to the income from the 1 per cent surplus or sinking fund. And on July 1, 1958, the last semi-annual period under the plan, the state would issue only $2,701.48 in bonds, which sum, added to the accumulated 1 per cent sinking fund of $397,298.42 would make up the semi-annual loan fund of $400,000.

If this plan was put in operation on January 1, 1918, the principal of the first $400,000 state bonds would become due and payable on January 1, 1959, at that time, if every semi-annual $400,000 loan fund had been exhausted by applications from the counties and townships, there would be a total income from the 5 per cent interest paid by the counties and townships of $820,000, at the same time 4 per cent interest due on state bonds would amount to $312,755.48, leaving a balance on hand of $407,244.52, out of which the first bond issue of $400,000 would be retired, and still leave on hand the sum of $7,244.52 surplus, with which any extra clerical assistance made necessary in the state treasurer's office could be paid. This surplus of $7,244.52 per year runs through the entire maturing period, so that if the extra clerical assistance did not absorb the entire amount or should not be necessary, the state would be actually earning under the system, $7,244.52 each year after the maturing of the bonds had begun.

Millions Would Be Saved.

The saving feature of the plan, which will amount to millions of dollars, is made very apparent by the following illustration of an actual fact under the present system of putting bonds on the open market:

In 1870 Mecklenburg county, North Carolina, issued $300,000 in 6 per cent bonds to run for a period of 20 years. In 1890 when these bonds matured the county had paid out $360,000 in interest, but did not have the $300,000 with which to retire the bonds, so by act of the legislature the

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