To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on
Tuesday, December 20, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Shay, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Landry, Assistant to the Secretary

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Letter to the Federal Reserve Bank of Chicago approving the payment of certain dividends by Exchange State Bank, Lanark, Illinois.</td>
</tr>
<tr>
<td>2</td>
<td>Letter to the Federal Reserve Bank of Dallas granting permission to the Industrial National Bank of Dallas, Dallas, Texas, to maintain reduced reserves.</td>
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</tbody>
</table>
Year-end closing entries of Federal Reserve Banks (Item No. 3).

Attached to a memorandum from the Division of Bank Operations dated December 19, 1960, which had been distributed to the Board, was a statement showing the estimated earnings and expenses of the Federal Reserve Banks during 1960, along with proposed year-end adjustments. It was expected that about $40.3 million of net earnings would be transferred to surplus to maintain the surplus of each Bank at the level of subscribed capital stock; in anticipation thereof, $38.6 million had been earmarked for surplus over the first eleven months of the year. Estimated net additions of $12.7 million to current net earnings were almost entirely the result of discontinuance of the reserves for registered mail losses, closing entries with respect to which had been postponed until March 1960 due to the necessity of amending the Loss Sharing Agreement following the decision in December 1959 to terminate such reserves. No special charge-offs or other adjustments requiring Board approval were reported to be contemplated, and it was the recommendation of the Division of Bank Operations that the Federal Reserve Banks be advised that the Board had noted without objection the proposed 1960 year-end entries to profit and loss accounts.

The recommendation of the Division of Bank Operations was approved unanimously. A copy of the form of telegram sent to each Federal Reserve Bank pursuant to this action is attached hereto as Item No. 3.
Purchase of property for Jacksonville Branch (Item No. 4). In a letter dated November 4, 1960, the Federal Reserve Bank of Atlanta requested authority to offer $175,000, and to increase the offer to $200,000 if necessary, to acquire certain property to the rear of the Jacksonville Branch building. The letter stated that due to growth of operations the Jacksonville Branch was rapidly approaching a point where expansion of its present building would be required and that provision for a total of 140,000 square feet of usable space would be desirable. The Board of Directors of the Federal Reserve Bank and the individual directors of the Jacksonville Branch recommended purchase of the property concerned, fronting 70 feet on Ashley Street, extending 105 feet along the rear property line of the Branch site, and presently occupied by a two-storey brick and concrete building. It was the proposal of the Reserve Bank that pending construction of a building addition on this property the area would be used for automobile parking.

As brought out in a memorandum from the Division of Bank Operations dated November 21, 1960, which had been circulated to the Board, when the question of acquiring the remaining property along the rear of the Branch was raised by the Board's staff, the Atlanta Bank expressed doubt that the additional property could be acquired at this time because it was under long-term lease. If that property was ultimately unavailable, a satisfactory addition to the Branch building probably could be built on the
Ashley Street property and the Branch's parking lot, although this apparently would not provide the total area of 140,000 square feet of usable space for Branch operations that was thought to be desirable. Independent appraisal of the Ashley Street property indicated a fair market value of $175,000.

In commenting on the proposal of the Atlanta Reserve Bank, Mr. Farrell noted that First Vice President Patterson had expressed the belief that even though an additional branch of the Bank were to be established in Miami, Florida, operations of the Jacksonville Branch would still necessitate expansion of the building. As stated in the Division's memorandum, Claude J. Yates, a Board-appointed member of the Jacksonville Board of Directors, reportedly felt strongly that the Bank should buy the Ashley Street property now, since prices were rising in the entire area, and no director of the head office or the Jacksonville Branch was understood to feel that the proposed purchase would not be a wise move. The Bank's architects were said to believe that a satisfactory addition to the Branch premises could be provided, even though additional property to the rear of the Branch was not available, although this would leave no area for parking.

Following discussion, unanimous approval was given to a letter to the Federal Reserve Bank of Atlanta authorizing an expenditure of $175,000,
or up to $200,000 if necessary, to obtain clear title to the Ashley Street property adjoining the Jacksonville Branch building. A copy of the letter is attached as Item No. 4.

Mr. Fauver, Assistant to the Board, joined the meeting during discussion of the foregoing item, and Mr. Molony, Assistant to the Board, entered the room at its conclusion.

Building programs at Federal Reserve Bank branches (Item No. 5).

There had been distributed before the meeting a memorandum from the Division of Bank Operations dated December 19, 1960, regarding the $30 million statutory limitation on the "building proper" costs of Federal Reserve Bank branch buildings contained in paragraph 9 of section 10 of the Federal Reserve Act. Reference was made to the fact that expenditure of about $28.4 million of this $30 million limitation had been authorized and that the unallocated balance would be insufficient for either the proposed new building for the New Orleans Branch or a new building for the Denver Branch. Three possible approaches for obtaining additional legislation were outlined in the memorandum as follows:

1. Request an amendment to paragraph 9 of section 10 of the Federal Reserve Act removing the $30 million limitation on branch "building proper" costs.

2. Request an amendment to paragraph 9 of section 10 of the Federal Reserve Act raising the present limitation of $30 million to some greater figure (e.g., $40 or $50 million).

3. Request specific Congressional authorization for each major construction project as the need might arise.
Attached to the memorandum was a draft of letter to all Federal Reserve Banks informing them of the above-described situation with respect to the statutory limitation of $30 million on "building proper" costs of Federal Reserve Bank branch buildings and requesting, by January 15, 1961, data from each Bank relating to foreseeable new branch building construction in the next 10 to 15 years, together with rough estimates of total and "building proper" costs.

Following comments by Mr. Farrell, Governor Balderston indicated that he saw no objection to obtaining such facts as seemed necessary in preparation for requesting legislation on this subject. He pointed out, however, that estimates submitted by the Reserve Banks extending beyond the next few years might be rather inaccurate, which raised the question whether any other procedure would be preferable.

In reply, Mr. Farrell brought out that the Board might be embarrassed if it submitted a request for legislation and was not able to support it with projections should questions arise. He also mentioned that the sending of the proposed letter to the Federal Reserve Banks would track the procedure followed several years ago when the statutory limitation was increased from $20 million to $30 million.

Chairman Martin then expressed the view that the Board should develop appropriate information to the best of its ability. He added that the likelihood that the Board would request legislation of this nature had
been made known to the Chairmen of the Senate and House Banking and Currency Committees, with an indication that this would probably be the only legislation that the Board would request in the early stages of the next Congress. In the circumstances, Chairman Martin suggested that the Board should be prepared to follow through on the matter as soon as possible.

Turning to Mr. Hackley, the Chairman said that if there were other items of possible legislation that should be brought to the Board's attention, this should be done early in January.

Mr. Hackley responded by referring to possible amendments to the Bank Holding Company Act and pointing out that the Board is required to suggest any such amendments in its Annual Report. He recalled that there had been discussion by the Board of developments in this area several weeks ago in connection with the issuance of a report by the Association of Registered Bank Holding Companies. In his opinion, however, it seemed unlikely that active consideration would be given by the Congress to such matters, at least at any early date.

After further discussion, Chairman Martin suggested that the proposed request for information regarding possible branch building projects be sent to the Reserve Banks, with the understanding that the Board would determine later the particular form that a request for legislation should take.

No objection to this procedure being indicated, the proposed letter to the Federal Reserve Banks was approved unanimously, subject to a minor
change in wording reflecting a suggestion that had been made by Mr. Shay. A copy of the letter, in the form in which it was sent to the Reserve Banks, is attached as Item No. 5.

Salary structure adjustment at Kansas City Reserve Bank and branches (Item No. 6). In letters dated November 4 and December 8, 1960, the Federal Reserve Bank of Kansas City requested approval, effective January 1, 1961, of upward adjustments in the salary structures applicable (1) to the head office and Denver Branch and (2) to the Oklahoma City and Omaha Branches. It was the recommendation of the Division of Personnel Administration, as expressed in a memorandum of December 16, 1960, which had been distributed to the Board, that the request be approved.

It being indicated that the Board was in agreement with the recommendation of the Division of Personnel Administration, unanimous approval was given to the letter to the Federal Reserve Bank of Kansas City of which a copy is attached as Item No. 6.

Messrs. Johnson and Sprecher then withdrew from the meeting.

Single issue of Federal Reserve notes. Under date of December 16, 1960, copies had been distributed of a revised draft of reply to Congressman Hardy, Chairman of the Foreign Operations and Monetary Affairs Subcommittee of the House Committee on Government Operations, concerning the question of a single issue of Federal Reserve notes which was raised in Mr. Hardy's letter of June 10, 1960. At its meeting on November 3, 1960, the Board
considered a draft of reply to this question prepared in the light of comments received from the Federal Reserve Banks, but it was decided to reconsider the matter following the meeting of the Board with the Federal Advisory Council on November 15. Subsequently, the present draft was submitted by the staff.

The concluding paragraph of the proposed reply stated that the Board, after considering carefully the various factors involved, believed that the benefits of the present 12-Bank series of Federal Reserve notes as a symbol of the decentralized character of the Federal Reserve System outweighed the possible savings that might result from changing to a single series of such notes. The draft further stated that the Board also believed that at this time a change in the procedure for issuing and redeeming Federal Reserve notes might be misconstrued as being related to the gold problem and in this light diminish confidence in the currency.

Governor Mills stated that he would be agreeable to the proposed reply in its present form, following which Governor Robertson said that although he felt the staff had done a good job in preparing the current draft, he could not agree with the position stated in the concluding paragraph. He did not believe that the benefits cited in that paragraph outweighed the savings involved in changing to a single note issue. To him, $1 million was quite a little money, and approximately that amount
would be saved over a three-year period. He saw nothing to be lost in shifting to a single note issue, and he did not think that the decentralized character of the Federal Reserve System would be endangered.

Governor Shepardson recalled that when an earlier draft of reply was before the Board for consideration he had suggested the possibility of phrasing the conclusion in terms that the Board would not favor converting to a single note issue except as part of a general simplification of the currency structure of the United States. If the move was part of a general revision, he felt that he could go along with it, but he questioned whether it would be desirable to try to deal with the problem on a piecemeal basis.

Governor Szymczak indicated that he would favor a conclusion cast in terms that the Board leaned against taking such a step at this time, for that language would not make the Board's position sound as dogmatic as might appear from a reading of the final paragraph of the current draft of reply. In fact, he pointed out, the first part of the proposed reply presented arguments on both sides of the question, and the reader might be rather surprised to find the concluding paragraph stated in such definite terms. In a further comment, Governor Szymczak indicated that he would regard language such as suggested by Governor Shepardson as an improvement on the present wording.

Governor Balderston said he hesitated to take a position that a saving such as mentioned by Governor Robertson was unimportant. In his
personal view, moreover, few people holding Federal Reserve notes understood the significance of the present system. However, if conversion to a single note issue was regarded by some persons in the System, or outside the System, as a step toward breaking down the decentralized character of the System, that would be unfortunate. On balance, he would accept the proposed reply with the exception of the final paragraph, which he would favor modifying along the lines that had been suggested.

Governor Mills then made a statement in which he said that he looked on the whole proposal as a danger signal and that in his opinion any move toward approving the elimination of the twelve issues of Federal Reserve notes would be another step toward eroding the decentralized character of the Federal Reserve System. Even acknowledging that most people did not understand the embellishments on the notes, as he saw it the question was whether the Board should indicate to the Congress that it really did not see that it made a great deal of difference whether there were twelve issues of Federal Reserve notes or a single issue. This might be read to mean that the Board did not think it made much difference whether the Reserve Banks were a homogeneous entity, and that they might just as well be lumped in a single pot. It was the Congress that would make these decisions, and he questioned whether the Board should express views that might be used to advantage by elements in the Congress favoring changes in the structure of the Federal Reserve System.
Governor Szymczak expressed the opinion that there was much to be said for Governor Mills' position. In this connection, he referred to the legislation regarding open market operations and the legislation permitting Reserve Banks to issue notes of other Banks as indications of a trend. That trend conceivably might move further in the direction of centralization, but it was a question of strategy and how far to go in commenting on matters such as that now before the Board.

After further discussion, Chairman Martin stated that he was sympathetic to the point of view expressed by Governor Mills. However, he was also inclined to feel that the question of a single note issue was a rather small point on which to stake the regional character of the System.

At the Chairman's suggestion, it was then agreed that a revision of the final paragraph of the proposed reply to Chairman Hardy would be prepared for the Board's consideration.

Mr. Noyes, Director, Division of Research and Statistics, entered the room during the foregoing discussion and Messrs. Farrell, Hexter, and Daniels withdrew from the meeting at this point.

Eligibility of proposed director of Houston Branch. Mr. Hackley reported a telephone call from the Federal Reserve Bank of Dallas regarding the eligibility of Mr. Max Levine, a proposed Board appointee to the Board of Directors of the Houston Branch. The Dallas Bank had noted that Mr. Levine was an advisory director of a commercial bank.
In discussion, reference was made to distinctions between the functions of directors and advisory directors of commercial banks, and to questions regarding the status of advisory directors that had arisen in connection with the administration of certain statutes. It was pointed out that the Board's regulations relating to branches of Federal Reserve Banks state that directors appointed by the Board preferably shall not be directors of banks, and that when the question of the wording of the branch regulations came before the Board a few weeks ago the Board decided to leave the language in the form in which it had stood for many years. Since it had been the Board's practice not to appoint commercial bank directors as Reserve Bank branch directors, the fundamental question was whether the appointment of a person serving as advisory director of a commercial bank would be consistent with the Board's general approach, particularly since the language of the Board's branch regulations seemed to reflect a view that Board-appointed directors of Reserve Bank branches preferably should not be identified with the lending segment of the business community.

At the conclusion of the discussion, it was agreed that the suggestion be made to the Dallas Reserve Bank that it determine whether Mr. Levine would be agreeable to giving up his position as advisory director of a commercial bank if he became a director of the Houston Branch.
Secretary's Note: It was subsequently ascertained by the Dallas Bank that Mr. Levine would be willing to resign as advisory director of the commercial bank in question.

All of the members of the staff except Messrs. Sherman and Fauver then withdrew from the meeting.

Appointment of directors and related matters. It was agreed to request the Chairman of the Atlanta Reserve Bank to ascertain whether Mr. Franklin G. Russell, President of the Florida Machine and Foundry Company, Jacksonville, Florida, would accept appointment, if tendered, as director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta for the three-year term ending December 31, 1963, with the understanding that the appointment would be made if it were ascertained that he would accept.

Secretary's Note: Mr. Russell subsequently indicated that he would not be able to accept this appointment.

It was agreed to request the Chairman of the San Francisco Reserve Bank to ascertain whether Mr. Graham John Barbey, President of Barbey Meat Packing Corporation, Astoria, Oregon, would accept appointment, if tendered, as director of the Portland Branch of the Federal Reserve Bank of San Francisco, effective January 1, 1961, for the unexpired portion of the two-year term ending December 31, 1961, with the understanding that the appointment would be made if it were ascertained that he would accept. Mr. Barbey's appointment would fill the vacancy created by the resignation of Mr. Paul De Koning.
Secretary's Note: It having been ascertained that Mr. Barbey would accept the appointment, if tendered, a telegram notifying him of his appointment was sent on December 22, 1960.

After consideration of a report by Chairman Martin on discussion with Chairman Reed of the Federal Reserve Bank of New York, which discussion had previously been authorized by the Board, Mr. James DeCamp Wise, New York, New York, was appointed Deputy Chairman of the New York Reserve Bank for the year 1961.

It was agreed that if Mr. Lamar Fleming, Jr., could not accept designation as Chairman and Federal Reserve Agent of the Federal Reserve Bank of Dallas for the year 1961, Mr. Robert O. Anderson of Roswell, New Mexico, would be designated Chairman and Federal Reserve Agent and Mr. Fleming would be reappointed as Deputy Chairman.

Secretary's Note: It was ascertained subsequently that Mr. Fleming could not accept the designation as Chairman for personal reasons. Accordingly, Mr. Anderson was designated as Chairman and Federal Reserve Agent of the Dallas Bank for the year 1961 and Mr. Fleming was appointed Deputy Chairman. Mr. Anderson's compensation was fixed on the uniform basis for the same position at all Federal Reserve Banks, i.e., the same amount as the aggregate of fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors.

The meeting then adjourned.
Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

Reference is made to your letter of November 29, 1960, recommending approval by the Board of Governors of a dividend of $14,000 paid in 1959; and approval of a similar dividend of $14,000 to be paid in 1960 by Exchange State Bank, Lanark, Illinois, under the provisions of Section 5199 U.S.R.S.

In view of the circumstances outlined in your letter, the Board concurs in your favorable recommendation and approves the above-mentioned dividends.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Station K,
Dallas 2, Texas.

Dear Mr. Pondrom:

This refers to your letter of November 30, 1960, regarding the reserve status of the Industrial National Bank of Dallas.

It is noted that, when the bank was organized in 1954, it was permitted to maintain country bank reserves because it was outside the city limits, but in mid-1957 its surrounding area was annexed by the city of Dallas; since that time the bank has continued to carry reduced reserves without authority from the Board, and the question of its reserve status has just recently come to the attention of your Bank. The Board concurs that it would have granted permission to carry reduced reserves on the basis of its being in the outlying area of the city of Dallas, the type of business conducted, and its relatively small size (present total deposits of $12 million) if application had been filed in 1957, or if the bank were to file a current application.

In the circumstances, the formal filing of a new application at this time seems unnecessary but in order that there may be no question in the future, the Board of Governors, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the Industrial National Bank of Dallas, Dallas, Texas, to maintain the same reserves against deposits as are required to be maintained by banks outside of central reserve and reserve cities, effective as of the date its area was annexed to the city of Dallas.

If the occasion should arise that the bank is advised of the Board's action, it should also be advised that such permission is subject to revocation by the Board of Governors of the Federal Reserve System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
December 23, 1960

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Board has considered and notes without objection proposed year-end closing entries of your Bank as shown by statement accompanying (a).

(Signed) Merritt Sherman
Sherman

(a)

Boston
December 13 letter from Mr. Latham

New York
December 2 letter from Mr. Kimball

Philadelphia
December 2 letter from Mr. Wilgus

Cleveland
December 9 letter from Mr. Flinkers

Richmond
December 12 letter from Mr. Wayne

Atlanta
December 9 letter from Mr. Patterson

Chicago
December 9 letter from Mr. Hodge

St. Louis
December 5 letter from Mr. Wotawa

Minneapolis
December 6 letter from Mr. Sather

Kansas City
December 6 letter from Mr. Boysen

Dallas
December 8 letter from Mr. Murff

San Francisco
November 7 letter from Mr. Hemmings
Mr. Malcolm Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

This refers to the proposed purchase of property adjoining the Jacksonville Branch property, as described in Mr. Patterson's letter of November 4, 1960.

The Board will interpose no objection to the purchase of this property, and authorizes an expenditure of $175,000 for clear title to the property, or up to $200,000, if necessary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
December 20, 1960.

Dear Sir:

About $28.4 million of the statutory limitation of $30 million on "building proper" costs of Federal Reserve Bank branch buildings, contained in Section 10 of the Federal Reserve Act, has been authorized by the Board. The remaining unallocated balance of $1.6 million is not sufficient for either of the two major projects under current consideration--viz., new buildings at New Orleans and Denver. Consequently, the Board contemplates taking up with the Congress at an early date the question of obtaining legislation to repeal or increase the present limitation on costs of branch building construction.

In this connection, the Board would appreciate being informed by January 15, 1961, what your Bank foresees in the way of new branch building construction in the next 10 to 15 years, together with rough estimates of total and "building proper" costs. The data submitted should include new construction listed in the five-year forecasts of major bank premises projects received with the 1961 expense budgets. If there is any reasonable possibility of the establishment of new branches, estimated amounts for construction of buildings for such branches should be mentioned.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
December 20, 1960

Mr. Henry O. Koppang,
First Vice President,
Federal Reserve Bank of Kansas City,
Kansas City 6, Missouri.

Dear Mr. Koppang:

In accordance with your letters of November 4 and December 8, 1960, the Board of Governors approves the following minimum and maximum salaries for the respective grades at the Federal Reserve Bank of Kansas City, including Branches, effective January 1, 1961:

<table>
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<th>Grade</th>
<th>Kansas City-Denver Minimum</th>
<th>Kansas City-Denver Maximum</th>
<th>Oklahoma City-Omaha Minimum</th>
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<td>10,140</td>
<td>14,040</td>
<td>9,960</td>
<td>13,380</td>
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The Board understands that provision has been made in the 1961 budget to cover the costs arising from these changes in salary structure.
Mr. Henry O. Koppang

The Board approves the payment of salaries to employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. It is understood that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than April 1, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.