

18A:56-5 et al

LEGISLATIVE HISTORY CHECKLIST

("School Bond Reserve Act"--use of funds as security for payment of school bonds)

WASA 18A:56-5 et al.

LAWS OF 1980

CHAPTER 72

Bill No. A1706

Sponsor(s) Burstein and others

Date Introduced May 19, 1980

Committee: Assembly Education

Senate Revenue, Finance & Appropriations

Amended during passage Yes

~~xx~~ Amendments during passage denoted by asterisks

Date of Passage: Assembly June 9, 1980

Senate June 26, 1980

Date of approval July 16, 1980

Following statements are attached if available:

Sponsor statement Yes ~~xx~~

Committee Statement: Assembly Yes ~~xx~~

Senate Yes ~~xx~~

Fiscal Note ~~Yes~~ No

Veto message ~~Yes~~ No

Message on signing Yes ~~xx~~

Following were printed.

Reports ~~Yes~~ No

Hearings ~~Yes~~ No

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**ASSEMBLY, No. 1706****STATE OF NEW JERSEY**

INTRODUCED MAY 19, 1980

By Assemblyman BURSTEIN, Assemblywoman GARVIN, Assemblymen KARCHER, DOYLE and BENNETT

Referred to Committee on Education

AN ACT to secure the payment of the principal of and interest on bonds issued for school purposes by counties, municipalities or school districts by pledging a portion of the fund for the support of free public schools for that payment in the event of the inability of the issuer to meet payments due, amending N. J. S. 18A:56-5 and 18A:56-16 and supplementing chapter 56 of Title 18A of the New Jersey Statutes.

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

1 1. This act shall be known and may be cited as the "New Jersey  
2 School Bond Reserve Act."

1 2. The Legislature finds and declares that:

2 a. It has the authority pursuant to Article VIII, Section IV,  
3 paragraph 2 of the State Constitution to secure the payment of  
4 principal of and interest on bonds issued for school purposes by  
5 counties, municipalities or school districts by means of a pledge  
6 of a portion of the assets of the fund for the support of free public  
7 schools created by that paragraph of the Constitution;

8 b. It wishes to exercise its authority under that paragraph in  
9 the manner specified in this act to provide a source of funds to  
10 act as a reserve for the prompt payment of principal of and interest  
11 on bonds issued for school purposes, in the event of the inability  
12 of the issuer to make payment, out of that portion of the resources  
13 of the fund for the support of free public schools hereinafter  
14 pledged for that purpose.

1 3. N. J. S. 18A:56-5 is amended to read as follows:

2 18A:56-5. All lands belonging to this State now or formerly  
3 lying under water are dedicated to the support of public schools.

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

4 All moneys hereafter received from the sales of such lands shall  
 5 be paid to the board of trustees, and shall constitute a part of the  
 6 permanent school fund of the State. *To the extent that moneys*  
 7 *received from the sales of these lands may, by law, be made pay-*  
 8 *able to any* **【sources】** *\*purposes\* other than the school fund, these*  
 9 *moneys shall not be paid to other* **【sources】** *\*purposes\* so long as*  
 10 *there is a deficiency in the school bond reserve.*

1 4. N. J. S. 18A:56-16 is amended to read as follows:

2 18A:56-16. In the event that a school district or a *county* or  
 3 municipality anticipates that it will be unable to meet the payment  
 4 of principal or interest on any of its bonds issued for school pur-  
 5 poses after December 4, 1958, it shall certify such inability to the  
 6 commissioner and the Director of the Division of Local Finance  
 7 at least 10 days prior to the date any such payment is due. If the  
 8 commissioner and director shall approve said certification, they  
 9 shall immediately certify the same to the trustees of the fund for  
 10 the support of public schools. Upon the receipt thereof, or in the  
 11 event any such district, *county* or municipality fails to certify its  
 12 anticipated inability to meet any such payments, upon notice and  
 13 verification of such inability, the trustees shall, within the limits  
 14 of **【moneys available in the fund, use said funds including the**  
 15 **income therefrom to】** *the school bond guaranty reserve established*  
 16 *within the fund* purchase any such bonds at a price equivalent to  
 17 the face amount thereof or pay to the holder of any such bond  
 18 the interest due or to become due thereon, as the case may be, and  
 19 such purchases and payments of interest may continue so long as  
 20 the district, *county* or municipality remains unable to make such  
 21 payments. Upon making any such payment of interest, the trustees  
 22 of the fund shall be subrogated to all rights of the bondholder  
 23 against the issuer in respect to the collection of such interest and  
 24 if such interest is represented by a coupon such coupon shall be  
 25 delivered to the trustees of the fund. **【No such purchase or interest**  
 26 **payment herein provided shall be made unless the sums available**  
 27 **to said district as State building aid shall be insufficient for such**  
 28 **purpose.】**

29 The State Treasurer shall act as agent of the trustees of the fund  
 30 in making any such payments or purchases, and he shall prescribe,  
 31 in consultation with the commissioner, such rules and regulations  
 32 as may be necessary and proper to effectuate the purposes of this  
 33 **【chapter】** *section.*

1 5. (New section) There is established within the fund for the  
 2 support of free public schools a school bond reserve in an amount

3 equal to *\*at least\** 1½% of the aggregate issued and outstanding  
 4 bonded indebtedness of counties, municipalities or school districts  
 5 for school purposes, *\*exclusive of bonds the debt service for which*  
 6 *is provided by State appropriations\** but not to exceed the moneys  
 7 available in the fund. The school bond reserve shall be composed  
 8 entirely of direct obligations of the United States Government or  
 9 obligations guaranteed by the full faith and credit of the United  
 10 States Government.

11 *\*[At]\** *\*Securities representing at\** least one-third of the *\*[obli-*  
 12 *gations]\** *\*minimum market value to be\** held in the school bond  
 13 reserve shall be due to mature within 1 year of the date of issuance  
 14 *\*or purchase\**. It shall be the duty of the trustees of the fund to  
 15 determine that the school bond reserve is established at the proper  
 16 level, based on the market value of the obligations on the effective  
 17 date of this act, to ascertain annually on or before September 15 the  
 18 aggregate amount of bonds issued and outstanding and to maintain  
 19 the school bond reserve at the appropriate level for the ensuing year  
 20 based on annual market valuations of the obligations. The trustees  
 21 are authorized to retain so much of the income earned by the fund  
 22 in the preceding year as they may determine to be required to main-  
 23 tain the reserve at the level herein specified. The amount of the  
 24 reserve so established is pledged as security for prompt payment,  
 25 in accordance with the provisions of N. J. S. 18A:56-16, to holders  
 26 of bonds issued for school purposes by counties, municipalities or  
 27 school districts of principal of and interest on the bonds in the  
 28 event of the inability of the issuer to make payment.

1 6. (New section) Bonds issued for school purposes by counties,  
 2 municipalities or school districts subsequent to the effective date  
 3 of this act shall bear the following legend: "Payment of this  
 4 obligation is secured under the provisions of the 'New Jersey  
 5 School Bond Reserve Act' in accordance with which an amount  
 6 equal to 1½% of the aggregate outstanding bonded indebtedness  
 7 (but not to exceed the moneys available in the fund), of New  
 8 Jersey counties, municipalities and school districts for school pur-  
 9 poses as of September 15 of each year, is held within the State  
 10 Fund for the Support of Free Public Schools as a school bond  
 11 reserve pledged by law to secure payments of principal and in-  
 12 terest due on such bonds in the event of the inability of the issuer  
 13 to make payment."

1 7. This act shall take effect immediately.

3 equal to 1½% of the aggregate issued and outstanding bonded  
 4 indebtedness of counties, municipalities or school districts for  
 5 school purposes, but not to exceed the moneys available in the  
 6 fund. The school bond reserve shall be composed entirely of direct  
 7 obligations of the United States Government or obligations guar-  
 8 anteed by the full faith and credit of the United States Govern-  
 9 ment.

10 At least one-third of the obligations held in the school bond  
 11 reserve shall be due to mature within 1 year of the date of issuance.  
 12 It shall be the duty of the trustees of the fund to determine that  
 13 the school bond reserve is established at the proper level, based  
 14 on the market value of the obligations on the effective date of this  
 15 act, to ascertain annually on or before September 15 the aggregate  
 16 amount of bonds issued and outstanding and to maintain the school  
 17 bond reserve at the appropriate level for the ensuing year based  
 18 on annual market valuations of the obligations. The trustees are  
 19 authorized to retain so much of the income earned by the fund in  
 20 the preceding year as they may determine to be required to main-  
 21 tain the reserve at the level herein specified. The amount of the  
 22 reserve so established is pledged as security for prompt payment,  
 23 in accordance with the provisions of N. J. S. 18A :56-16, to holders  
 24 of bonds issued for school purposes by counties, municipalities or  
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 11 reserve pledged by law to secure payments of principal and in-  
 12 terest due on such bonds in the event of the inability of the issuer  
 13 to make payment."

1 7. This act shall take effect immediately.

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#### STATEMENT

This bill is intended to exercise the full extent of the Legisla-  
 ture's authority under Article VIII, Section IV, paragraph 2 of

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the State Constitution to devote a portion of the fund for the support of free public schools as security for payment of school bonds issued by local government. It enacts a formal pledge of an amount equal to  $1\frac{1}{2}\%$  of the aggregate outstanding local bonded indebtedness for school purposes, to be determined annually, but not to exceed the moneys available in the fund from the assets of the fund as a school bond guaranty reserve for this purpose and amends N. J. S. 18A :56-5 and 18A :56-16 and supplements chapter 56 of Title 18A of the New Jersey Statutes to specify the procedures by which payments from the reserve are to be made.

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ASSEMBLY EDUCATION COMMITTEE

STATEMENT TO

**ASSEMBLY, No. 1706**

with Assembly committee amendments

—•—  
**STATE OF NEW JERSEY**  
—•—

DATED: MAY 19, 1980

PURPOSE:

The Assembly Education Committee favorably reports Assembly No. 1706 with Assembly committee amendments which improves the credit and reduces the borrowing costs of New Jersey school districts.

BACKGROUND:

In order to improve the credit and reduce the borrowing costs of New Jersey school districts, Assembly No. 1706 with Assembly committee amendments proposes to set aside a reserve from the school fund to serve local school districts. The school fund is constitutionally dedicated to securing school indebtedness and receives its revenues (currently \$33 million) from the sale and lease of riparian rights.

With current school indebtedness at \$1.6 billion the initial reserve would be \$24 million.

Currently, school districts receive bond ratings from rating agencies such as Standard and Poors' and Moody's. Ratings range from "AAA" to "B". It is predicted that Assembly No. 1706 will cause all school district bonds to achieve at least a "AA" rating. Currently, only eight local districts enjoy a Standard and Poors' rating of "AA" while 100 districts have received an "A" rating, 100 districts have received a "BBB" rating, and ten districts have been given a "BB" rating. If Assembly No. 1706 were to be enacted and districts were to receive at least a "AA" rating it is estimated that local schools would realize interest savings of \$10 million.

The committee amendments were technical changes suggested by the Division of Insurance.

SENATE REVENUE, FINANCE AND APPROPRIATIONS  
COMMITTEE

STATEMENT TO  
**ASSEMBLY, No. 1706**

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**STATE OF NEW JERSEY**

DATED: JUNE 26, 1980

Assembly Bill No. 1706 establishes a school bond reserve account in the fund for the support of the free public schools. The reserve account is to be at least equal to 1½% of the aggregate issued and outstanding school purpose bonded indebtedness of municipalities, counties, and school districts except for local school purpose bonds, whose debt service is provided for by State appropriations. The school bond reserve account can in no case exceed the amount of money in the fund for the support of the free public schools.

The fund for the support of the free public schools has a \$33.6 million balance. If needed, the money could provide a reserve fund for up to \$2.2 billion in school purpose bonds.



FROM THE OFFICE OF THE GOVERNOR

FOR IMMEDIATE RELEASE

FOR FURTHER INFORMATION

JULY 17, 1980

KATHRYN FORSYTH

Governor Brendan Byrne today signed A-1706, sponsored by Assemblyman Albert Einstein (D-Bergen), which will improve the credit ratings and reduce the borrowing costs of New Jersey School Districts by setting aside a reserve from the school fund in the amount of 1 1/2 percent of the current total school indebtedness.

The total New Jersey school debt is currently \$1.6 billion and the initial reserve from the school fund will be \$24 million. The school fund is constitutionally dedicated to securing school indebtedness and receives its revenues from the sale and lease of State riparian rights. Currently, school fund revenues stand at \$33 million.

The reserve from the school fund will effectively upgrade school bond ratings and thus lower bond interest rates.

School districts receive bond ratings from rating agencies such as Standard and Poors' and Moody's. Rating range from "AAA" to "B". Only eight school districts currently enjoy a rating of "AA" while 100 districts have received an "A" rating, 100 districts have received a "BBB" rating and ten districts have been given a "BB" rating.

It is estimated that the bill will cause all school district bonds to achieve at least a "AA" rating and if they do, local schools would realize an estimated interest savings of \$10 million.

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