

18A:56-16

LEGISLATIVE HISTORY CHECKLIST

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LAWS OF: 2003 **CHAPTER:** 118
NJSA: 18A:56-16 (Reserve requirement for school bonds)
BILL NO: A3721 (Substituted for S2671)
SPONSOR(S): Diegnan

DATE INTRODUCED: June 12, 2003

COMMITTEE: **ASSEMBLY:** Budget

SENATE: ----

AMENDED DURING PASSAGE: No

DATE OF PASSAGE: **ASSEMBLY:** June 23, 2003

SENATE: June 30, 2003

DATE OF APPROVAL: July 1, 2003

FOLLOWING ARE ATTACHED IF AVAILABLE:

[FINAL TEXT OF BILL](#) (Corrected copy enacted)

A3721

[SPONSORS STATEMENT:](#) (Begins on page 5 of original bill) [Yes](#)

COMMITTEE STATEMENT: [ASSEMBLY:](#) [Yes](#)

SENATE: No

FLOOR AMENDMENT STATEMENT: No

[LEGISLATIVE FISCAL ESTIMATE:](#) [Yes](#)

S2671

[SPONSORS STATEMENT:](#) (Begins on page 5 of original bill) [Yes](#)

Bill and Sponsors Statement identical to A3721

COMMITTEE STATEMENT: **ASSEMBLY:** No

[SENATE:](#) [Yes](#)
Identical to Assembly Statement for A3721

FLOOR AMENDMENT STATEMENTS: No

LEGISLATIVE FISCAL ESTIMATE: No

VETO MESSAGE: No

GOVERNOR'S PRESS RELEASE ON SIGNING: No

FOLLOWING WERE PRINTED:

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REPORTS:

No

HEARINGS:

No

NEWSPAPER ARTICLES:

No

P.L. 2003, CHAPTER 118, *approved July 1, 2003*
Assembly, No. 3721
(CORRECTED COPY)

1 AN ACT concerning the fund for the support of free public schools and
2 amending N.J.S.18A:56-16 and P.L.1980, c.72.

3
4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6
7 1. N.J.S.18A:56-16 is amended to read as follows:
8 18A:56-16. In the event that a school district or a county or
9 municipality anticipates that it will be unable to meet the payment of
10 principal or interest on any of its bonds issued for school purposes
11 after December 4, 1958, it shall certify such liability to the
12 commissioner and the Director of the Division of Local Finance at
13 least 10 days prior to the date any such payment is due. If the
14 commissioner and director shall approve said certification, they shall
15 immediately certify the same to the trustees of the fund for the support
16 of public schools. Upon the receipt thereof, or in the event any such
17 district, county or municipality fails to certify its anticipated inability
18 to meet any such payments, upon notice and verification of such
19 inability, the trustees shall, within the limits of the school bond
20 guaranty reserve established within the fund purchase any such bonds
21 at a price equivalent to the face amount thereof or pay to the holder
22 of any such bond the interest due or to become due thereon, as the
23 case may be, and such purchases and payments of interest may
24 continue so long as the district, county or municipality remains unable
25 to make such payments. Upon making any such payment of interest,
26 the trustees of the fund shall be subrogated to all rights of the
27 bondholder against the issuer in respect to the collection of such
28 interest and if such interest is represented by a coupon such coupon
29 shall be delivered to the trustees of the fund.

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

34 The amount of any payment of interest or purchase price pursuant
35 to this section shall be deducted from the appropriation or
36 apportionment of State aid, other than any State aid which may be
37 otherwise restricted pursuant to the provisions of P.L.1996, c.138
38 (C.18A:7F-1 et seq.), payable to the district, county or municipality
39 and shall not obligate the State to make, nor entitle the district, county
40 or municipality to receive, any additional appropriation or

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

Matter underlined thus is new matter.

1 apportionment. Any amount so deducted shall be applied by the State
2 Treasurer to satisfy the obligation of the district, county or
3 municipality arising as a result of the payment of interest or purchase
4 price pursuant to this section.

5 (cf: P.L.1980, c.72, s.4)

6
7 2. Section 5 of P.L.1980, c.72 (C.18A:56-19) is amended to read
8 as follows:

9 5. a. There is established within the fund for the support of free
10 public schools a school bond reserve. The school bond reserve shall
11 consist of two accounts, the old school bond reserve account and the
12 new school bond reserve account. The old school bond reserve
13 account shall be funded in an amount equal to at least 1 1/2 % of the
14 aggregate issued and outstanding bonded indebtedness of counties,
15 municipalities or school districts for school purposes for all such
16 indebtedness issued prior to the effective date of P.L. , c. (now
17 pending before the Legislature as this bill), exclusive of bonds the debt
18 service for which is provided by State appropriations but not to exceed
19 the moneys available in the [fund] account. The new school bond
20 reserve account shall be funded in an amount equal to at least 1% of
21 the aggregate issued and outstanding bonded indebtedness of counties,
22 municipalities or school districts for school purposes for all such
23 indebtedness issued on and after the effective date of P.L. , c. (now
24 pending before the Legislature as this bill), exclusive of bonds the debt
25 service for which is provided by State appropriations . The school
26 bond reserve shall be composed entirely of direct obligations of the
27 United States Government or obligations guaranteed by the full faith
28 and credit of the United States Government.

29 b. Securities representing at least one-third of the minimum market
30 value to be held in the school bond reserve shall be due to mature
31 within 1 year of the date of issuance or purchase. It shall be the duty
32 of the trustees of the fund to determine that the school bond reserve
33 is established at the proper level, based on the market value of the
34 obligations on the effective date of this act, to ascertain annually on or
35 before September 15 the aggregate amount of bonds issued and
36 outstanding and to maintain the old school bond reserve account and
37 the new school bond reserve account at the appropriate [level] levels
38 for the ensuing year based on annual market valuations of the
39 obligations. The trustees are authorized to retain so much of the
40 income earned by the fund in the preceding year as they may determine
41 to be required to maintain each account in the reserve at the [level]
42 levels herein specified. The amount of the reserve held in the old
43 school bond reserve account so established is pledged as security for
44 prompt payment, in accordance with the provisions of N.J.S.
45 18A:56-16, to holders of bonds issued prior to the effective date of
46 P.L. , c. (now pending before the Legislature as this bill), for school

1 purposes by counties, municipalities or school districts of principal of
2 and interest on the bonds in the event of the inability of the issuer to
3 make payment. The amount of the reserve held in the new school
4 bond reserve account so established is pledged as security for prompt
5 payment, in accordance with the provisions of N.J.S.18A:56-16, to
6 holders of bonds issued on and after the effective date of P.L. , c.
7 (now pending before the Legislature as this bill), for school purposes
8 by counties, municipalities or school districts of principal of and
9 interest on the bonds in the event of the inability of the issuer to make
10 payment. In the event the amount held in the old school bond reserve
11 account exceeds the amount required to be held pursuant to subsection
12 a. of this section, the excess may be transferred by the State Treasurer
13 to the new school bond reserve account. In the event the amounts in
14 either the old school bond reserve account or the new school bond
15 reserve account fall below the amount required to make payments on
16 bonds, the amounts in both the old school and new school bond
17 reserve accounts shall be available to make payments for bonds
18 secured by the reserve.

19 c. Beginning with the fiscal year ending on June 30, 2003 and
20 continuing on each June 30 thereafter, the State Treasurer shall
21 calculate the amount necessary to fully fund the old school bond
22 reserve account and the new school bond reserve account as required
23 pursuant to subsection a. of this section. To the extent moneys
24 available under P.L.1967, c.271 (C.18A:56-1 et seq.) are insufficient
25 to maintain each account in the reserve at the required levels, the State
26 hereby agrees that the State Treasurer shall, no later than September
27 15 of the fiscal year following the June 30 calculation date, pay to the
28 trustees for deposit in the school bond reserve such amounts as may
29 be necessary to maintain the old school bond reserve account and the
30 new school bond reserve account at the levels set forth in subsection
31 a. of this section. No monies may be borrowed from the fund to
32 provide liquidity to the State unless the 1 1/2% and 1% accounts are
33 at the levels certified as full funding on the most recent June 30
34 calculation date.

35 (cf: P.L.1980, c.72, s.5)

36

37 3. Section 6 of P.L.1980, c.72 (C.18A:56-20) is amended to read
38 as follows:

39 6. a. Bonds issued for school purposes by counties, municipalities
40 or school districts subsequent to the effective date of [this act]
41 P.L.1980, c.72 (C.18A:56-17 et seq.) and prior to the effective date
42 of P.L. , c. (now pending before the Legislature as this bill), shall
43 bear the following legend: "Payment of this obligation is secured
44 under the provisions of the 'New Jersey School Bond Reserve Act' in
45 accordance with which an amount equal to 1 1/2 % of the aggregate
46 outstanding bonded indebtedness (but not to exceed the moneys

1 available in the fund), of New Jersey counties, municipalities and
2 school districts for school purposes as of September 15 of each year,
3 is held within the State Fund for the Support of Free Public Schools
4 as a school bond reserve pledged by law to secure payments of
5 principal and interest due on such bonds in the event of the inability of
6 the issuer to make payment."

7 b. Bonds issued for school purposes by counties, municipalities or
8 school districts on and after the effective date of P.L. , c. (now
9 pending before the Legislature as this bill), shall bear the following
10 legend: "Payment of this obligation is secured under the provisions of
11 the 'New Jersey School Bond Reserve Act' in accordance with which
12 an amount equal to 1% of the aggregate outstanding bonded
13 indebtedness (but not to exceed the moneys available in the fund), of
14 New Jersey counties, municipalities and school districts for school
15 purposes as of September 15 of each year, is held within the State
16 Fund for the Support of Free Public Schools as a school bond reserve
17 pledged by law to secure payments of principal and interest due on
18 such bonds in the event of the inability of the issuer to make payment."
19 (cf: P.L.1980, c.72, s.6)

20
21 4. This act shall take effect immediately.
22
23

24 STATEMENT 25

26 In recognition of the substantial amount of school construction that
27 is directly backed by State appropriations, the bill changes the reserve
28 requirement for school bonds backed by the fund for the support of
29 free public schools. Historically, local school districts have been able
30 to achieve a better interest rate on school bonds that are backed by the
31 fund, which provides a reserve of 1.5%. In recent years, the State has
32 undertaken direct financing of schools in Abbott districts, reducing the
33 risk to investors in bonds issued for school purposes by counties,
34 municipalities, or school districts, and also reducing the risk of a draw
35 upon the reserve fund. Thus, the 1.5% reserve is not needed to allow
36 school districts to bond at attractive rates. Bonds issued for school
37 purposes by counties, municipalities or school districts prior to the
38 effective date of the bill will continue to be backed by the 1.5%
39 reserve, the old school bond reserve account, while such bonds issued
40 by those entities on or after the effective date of the bill will be backed
41 by a 1% reserve, the new school bond reserve account. In addition,
42 the bill provides that, in the event of a claim on one of the two
43 accounts, the State will intercept State aid for the district that made
44 the claim in amounts sufficient to replenish the reserve. Further, the
45 accounts are cross-pledged in the event that a draw upon one of them
46 exceeds amounts available in the particular account. The bill further

1 provides that the State will maintain the accounts at the required
2 levels, even if the riparian rights and earnings revenues are insufficient
3 to meet required levels, and that the State will not borrow from the
4 fund for liquidity purposes unless the accounts are the level certified
5 as sufficient. The calculation of sufficiency of the reserves will occur
6 on June 30 of each year. If the accounts are not sufficient, the State
7 Treasurer is required to transfer funds from other sources to achieve
8 sufficiency no later than the September 30 following the calculation
9 date.

10

11

12

13

14 Revises the reserve requirement for school bonds backed by the fund
15 for the support of free public schools.

ASSEMBLY, No. 3721

STATE OF NEW JERSEY 210th LEGISLATURE

INTRODUCED JUNE 12, 2003

Sponsored by:

Assemblyman PATRICK DIEGNAN, JR.

District 18 (Middlesex)

SYNOPSIS

Revises the reserve requirement for school bonds backed by the fund for the support of free public schools.

CURRENT VERSION OF TEXT

As introduced.



A3721 DIEGNAN

2

1 AN ACT concerning the fund for the support of free public schools and
2 amending N.J.S.18A:56-16 and P.L.1980, c.72.

3
4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6
7 1. N.J.S.18A:56-16 is amended to read as follows:

8 18A:56-16. In the event that a school district or a county or
9 municipality anticipates that it will be unable to meet the payment of
10 principal or interest on any of its bonds issued for school purposes
11 after December 4, 1958, it shall certify such liability to the
12 commissioner and the Director of the Division of Local Finance at
13 least 10 days prior to the date any such payment is due. If the
14 commissioner and director shall approve said certification, they shall
15 immediately certify the same to the trustees of the fund for the support
16 of public schools. Upon the receipt thereof, or in the event any such
17 district, county or municipality fails to certify its anticipated inability
18 to meet any such payments, upon notice and verification of such
19 inability, the trustees shall, within the limits of the school bond
20 guaranty reserve established within the fund purchase any such bonds
21 at a price equivalent to the face amount thereof or pay to the holder
22 of any such bond the interest due or to become due thereon, as the
23 case may be, and such purchases and payments of interest may
24 continue so long as the district, county or municipality remains unable
25 to make such payments. Upon making any such payment of interest,
26 the trustees of the fund shall be subrogated to all rights of the
27 bondholder against the issuer in respect to the collection of such
28 interest and if such interest is represented by a coupon such coupon
29 shall be delivered to the trustees of the fund.

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

34 The amount of any payment of interest or purchase price pursuant
35 to this section shall be deducted from the appropriation or
36 apportionment of State aid, other than any State aid which may be
37 otherwise restricted pursuant to the provisions of P.L.1996, c.138
38 (C.18A:7F-1 et seq.), payable to the district, county or municipality
39 and shall not obligate the State to make, nor entitle the district, county
40 or municipality to receive, any additional appropriation or
41 apportionment. Any amount so deducted shall be applied by the State
42 Treasurer to satisfy the obligation of the district, county or
43 municipality arising as a result of the payment of interest or purchase

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Matter underlined thus is new matter.

1 price pursuant to this section.

2 (cf: P.L.1980, c.72, s.4)

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4 2. Section 5 of P.L.1980, c.72 (C.18A:56-19) is amended to read
5 as follows:

6 5. a. There is established within the fund for the support of free
7 public schools a school bond reserve. The school bond reserve shall
8 consist of two accounts, the old school bond reserve account and the
9 new school bond reserve account. The old school bond reserve
10 account shall be funded in an amount equal to at least 1 1/2 % of the
11 aggregate issued and outstanding bonded indebtedness of counties,
12 municipalities or school districts for school purposes for all such
13 indebtedness issued prior to the effective date of P.L. , c. (now
14 pending before the Legislature as this bill), exclusive of bonds the debt
15 service for which is provided by State appropriations but not to exceed
16 the moneys available in the [fund] account. The new school bond
17 reserve account shall be funded in an amount equal to at least 1% of
18 the aggregate issued and outstanding bonded indebtedness of counties,
19 municipalities or school districts for school purposes for all such
20 indebtedness issued on and after the effective date of P.L. , c. (now
21 pending before the Legislature as this bill), exclusive of bonds the debt
22 service for which is provided by State appropriations . The school
23 bond reserve shall be composed entirely of direct obligations of the
24 United States Government or obligations guaranteed by the full faith
25 and credit of the United States Government.

26 b. Securities representing at least one-third of the minimum market
27 value to be held in the school bond reserve shall be due to mature
28 within 1 year of the date of issuance or purchase. It shall be the duty
29 of the trustees of the fund to determine that the school bond reserve
30 is established at the proper level, based on the market value of the
31 obligations on the effective date of this act, to ascertain annually on or
32 before September 15 the aggregate amount of bonds issued and
33 outstanding and to maintain the old school bond reserve account and
34 the new school bond reserve account at the appropriate [level] levels
35 for the ensuing year based on annual market valuations of the
36 obligations. The trustees are authorized to retain so much of the
37 income earned by the fund in the preceding year as they may determine
38 to be required to maintain each account in the reserve at the [level]
39 levels herein specified. The amount of the reserve held in the old
40 school bond reserve account so established is pledged as security for
41 prompt payment, in accordance with the provisions of N.J.S.
42 18A:56-16, to holders of bonds issued prior to the effective date of
43 P.L. , c. (now pending before the Legislature as this bill), for school
44 purposes by counties, municipalities or school districts of principal of
45 and interest on the bonds in the event of the inability of the issuer to
46 make payment. The amount of the reserve held in the new school

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2 payment, in accordance with the provisions of N.J.S.18A:56-16, to
3 holders of bonds issued on and after the effective date of P.L. , c.
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5 by counties, municipalities or school districts of principal of and
6 interest on the bonds in the event of the inability of the issuer to make
7 payment. In the event the amount held in the old school bond reserve
8 account exceeds the amount required to be held pursuant to subsection
9 a. of this section, the excess may be transferred by the State Treasurer
10 to the new school bond reserve account. In the event the amounts in
11 either the old school bond reserve account or the new school bond
12 reserve account fall below the amount required to make payments on
13 bonds, the amounts in both the old school and new school bond
14 reserve accounts shall be available to make payments for bonds
15 secured by the reserve.

16 c. Beginning with the fiscal year ending on June 30, 2003 and
17 continuing on each June 30 thereafter, the State Treasurer shall
18 calculate the amount necessary to fully fund the old school bond
19 reserve account and the new school bond reserve account as required
20 pursuant to subsection a. of this section. To the extent moneys
21 available under P.L.1967, c.271 (C.18A:56-1 et seq.) are insufficient
22 to maintain each account in the reserve at the required levels, the State
23 hereby agrees that the State Treasurer shall, no later than September
24 15 of the fiscal year following the June 30 calculation date, pay to the
25 trustees for deposit in the school bond reserve such amounts as may
26 be necessary to maintain the old school bond reserve account and the
27 new school bond reserve account at the levels set forth in subsection
28 a. of this section. No monies may be borrowed from the fund to
29 provide liquidity to the State unless the 1 1/2% and 1% accounts are
30 at the levels certified as full funding on the most recent June 30
31 calculation date.

32 (cf: P.L.1980, c.72, s.5)

33

34 3. Section 6 of P.L.1980, c.72 (C.18A:56-20) is amended to read
35 as follows:

36 6. a. Bonds issued for school purposes by counties, municipalities
37 or school districts subsequent to the effective date of [this act]
38 P.L.1980, c.72 (C.18A:56-17 et seq.) and prior to the effective date
39 of P.L. , c. (now pending before the Legislature as this bill), shall
40 bear the following legend: "Payment of this obligation is secured
41 under the provisions of the 'New Jersey School Bond Reserve Act' in
42 accordance with which an amount equal to 1 1/2 % of the aggregate
43 outstanding bonded indebtedness (but not to exceed the moneys
44 available in the fund), of New Jersey counties, municipalities and
45 school districts for school purposes as of September 15 of each year,
46 is held within the State Fund for the Support of Free Public Schools

1 as a school bond reserve pledged by law to secure payments of
2 principal and interest due on such bonds in the event of the inability of
3 the issuer to make payment."

4 b. Bonds issued for school purposes by counties, municipalities or
5 school districts on and after the effective date of P.L. , c. (now
6 pending before the Legislature as this bill), shall bear the following
7 legend: "Payment of this obligation is secured under the provisions of
8 the 'New Jersey School Bond Reserve Act' in accordance with which
9 an amount equal to 1% of the aggregate outstanding bonded
10 indebtedness (but not to exceed the moneys available in the fund), of
11 New Jersey counties, municipalities and school districts for school
12 purposes as of September 15 of each year, is held within the State
13 Fund for the Support of Free Public Schools as a school bond reserve
14 pledged by law to secure payments of principal and interest due on
15 such bonds in the event of the inability of the issuer to make payment."
16 (cf: P.L.1980, c.72, s.6)

17
18 4. This act shall take effect immediately.

19
20
21 STATEMENT

22
23 In recognition of the substantial amount of school construction that
24 is directly backed by State appropriations, the bill changes the reserve
25 requirement for school bonds backed by the fund for the support of
26 free public schools. Historically, local school districts have been able
27 to achieve a better interest rate on school bonds that are backed by the
28 fund, which provides a reserve of 1.5%. In recent years, the State has
29 undertaken direct financing of schools in Abbott districts, reducing the
30 risk to investors in bonds issued for school purposes by counties,
31 municipalities, or school districts, and also reducing the risk of a draw
32 upon the reserve fund. Thus, the 1.5% reserve is not needed to allow
33 school districts to bond at attractive rates. Bonds issued for school
34 purposes by counties, municipalities or school districts prior to the
35 effective date of the bill will continue to be backed by the 1.5%
36 reserve, the old school bond reserve account, while such bonds issued
37 by those entities on or after the effective date of the bill will be backed
38 by a 1% reserve, the new school bond reserve account. In addition,
39 the bill provides that, in the event of a claim on one of the two
40 accounts, the State will intercept State aid for the district that made
41 the claim in amounts sufficient to replenish the reserve. Further, the
42 accounts are cross-pledged in the event that a draw upon one of them
43 exceeds amounts available in the particular account. The bill further
44 provides that the State will maintain the accounts at the required
45 levels, even if the riparian rights and earnings revenues are insufficient
46 to meet required levels, and that the State will not borrow from the

A3721 DIEGNAN

6

1 fund for liquidity purposes unless the accounts are the level certified
2 as sufficient. The calculation of sufficiency of the reserves will occur
3 on June 30 of each year. If the accounts are not sufficient, the State
4 Treasurer is required to transfer funds from other sources to achieve
5 sufficiency no later than the September 30 following the calculation
6 date.

ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3721

STATE OF NEW JERSEY

DATED: JUNE 16, 2003

The Assembly Budget Committee reports favorably Assembly Bill No. 3721.

Assembly Bill No. 3721 changes the reserve requirement for school bonds backed by the fund for the support of free public schools. Historically, local school districts have been able to achieve a better interest rate on school bonds that are backed by the fund, which provides a reserve of 1.5%. In recent years, the State has undertaken direct financing of schools in Abbott districts, reducing the risk to investors in bonds issued for school purposes by counties, municipalities, or school districts, and also reducing the risk of a draw upon the reserve fund.

In addition, the bill provides that, in the event of a claim on one of the two accounts, the State will intercept State aid for the district that made the claim in amounts sufficient to replenish the reserve. Further, the accounts are cross-pledged in the event that a draw upon one of them exceeds amounts available in the particular account. The bill further provides that the State will maintain the accounts at the required levels, even if the riparian rights and earnings revenues are insufficient to meet required levels, and that the State will not borrow from the fund for liquidity purposes unless the accounts are the level certified as sufficient. The calculation of sufficiency of the reserves will occur on June 30 of each year. If the accounts are not sufficient, the State Treasurer is required to transfer funds from other sources to achieve sufficiency no later than the September 30 following the calculation date.

FISCAL IMPACT:

The 1.5% reserve is not needed to allow school districts to bond at attractive rates. Bonds issued for school purposes by counties, municipalities or school districts prior to the effective date of the bill will continue to be backed by the 1.5% reserve, the old school bond reserve account, while such bonds issued by those entities on or after the effective date of the bill will be backed by a 1% reserve, the new school bond reserve account.

LEGISLATIVE FISCAL ESTIMATE
[CORRECTED COPY]
ASSEMBLY, No. 3721
STATE OF NEW JERSEY
210th LEGISLATURE

DATED: JUNE 26, 2003

SUMMARY

Synopsis: Revises the reserve requirement for school bonds backed by the fund for the support of free public schools.

Type of Impact: Increased cost for the General Fund.

Agencies Affected: Departments of Education and Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost	\$232,500	\$203,125	none

- ! Assembly Bill No. 3721 of 2003 creates two school bond reserve accounts in the school bond reserve of the fund for the support of free public schools, the old school bond and the new school bond reserve accounts, and requires the State to make up any insufficiencies in the reserve requirement amounts for these accounts.
- ! Assembly Bill No. 3721 of 2003 changes the reserve requirement for certain school bonds backed by the fund for the support of free public schools. Bonds issued prior to the bill's effective date will still require a reserve of at least 1.5 percent (the old school bond reserve account). School bonds issued after the bill's effective date will require a reserve of at least 1 percent (new school bond reserve account).
- ! Based on the assumption that new debt will equal approximately \$1 billion per year and retirement of debt will be at 5 percent per year, the State estimates that the cost to the General Fund from making the changes under the bill will be \$232,500 in year one and \$203,125 in the second year. By the third year, the fund balances will be at a level sufficient to cover the reserve amounts required under the bill.

BILL DESCRIPTION

Corrected Copy of Assembly Bill No. 3721 of 2003 changes the reserve requirement for school bonds backed by the fund for the support of free public schools. Historically, local school districts have been able to achieve a better interest rate on school bonds that are backed by the fund, which provides a reserve of 1.5 percent. In recent years, the State has undertaken direct

financing of schools in Abbott districts, reducing the risk to investors in bonds issued for school purposes by counties, municipalities, or school districts, and also reducing the risk of a draw upon the reserve fund. Therefore, this bill changes the reserve requirement for school bonds issued after the bill's effective date and creates two school bond reserve accounts in the school fund reserve of the fund for the support of free public schools. Bonds issued prior to the bill's effective date will still require a reserve of at least 1.5 percent (the old school bond reserve account). School bonds issued after the bill's effective date will require a reserve of at least 1 percent (new school bond reserve account).

In addition, the bill provides that, in the event of a claim on one of the two accounts, the State will intercept State aid for the district that made the claim in amounts sufficient to replenish the reserve. Further, the accounts are cross-pledged in the event that a draw upon one of them exceeds amounts available in the particular account. The bill further provides that the State will maintain the accounts at the required levels, even if the riparian rights and earnings revenues are insufficient to meet required levels, and that the State will not borrow from the fund for liquidity purposes unless the accounts are at the level certified as sufficient. The calculation of sufficiency of the reserves will occur on June 30 of each year. If the accounts are not sufficient, the State Treasurer is required to transfer funds from other sources to achieve sufficiency no later than the September 30 following the calculation date.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) notes that the amendments to P.L.1980, c.72 (C.18A:56-19) made by this bill change the relation of the State to the fund for the support of free public schools. Under existing law, the State is to maintain an amount in reserve equal to at least 1.5 percent of the aggregate outstanding bonded indebtedness of counties, municipalities or school districts issued for school purposes, exclusive of certain bonds, **but not to exceed the moneys available in the account**. Assembly Bill No. 3721 of 2003 creates two school bond reserve accounts in the school bond reserve of the fund for the support of free public schools, the old school bond and the new school bond reserve accounts, maintains the reserve requirement of 1.5 percent for the old school bond reserve account and a sets a new reserve requirement of 1 percent for the new school bond reserve account, and requires the State to make up any insufficiencies in the reserve requirement amounts for these accounts. Under Assembly Bill No. 3721 of 2003, if the amount in either or both of the reserve accounts is not at the 1.5 or 1 percent levels, as appropriate, the State Treasurer is required, beginning with the fiscal year ending on June 30, 2003 and continuing on each June 30 thereafter, to calculate the amount necessary to fully fund the old school bond reserve account and the new school bond reserve account. If there are insufficient funds in either or both of the reserve accounts, the State Treasurer is to pay to the trustees for deposit in the school bond reserve such amounts as may be necessary to maintain the reserve accounts at the required levels. According to data provided by the State Treasurer, if enacted, Assembly Bill No. 3721 of 2003 would require a

payment by the State Treasurer of \$232,500 in FY 2004 and a payment of \$203,125 in FY 2005.

Information provided by the Department of the Treasury suggests that the reduction of the reserve requirement from 1.5 percent to 1.0 percent for school bonds issued **after enactment of Assembly No. 3721 of 2003 means that the State would avoid costs of \$5.2 million in FY 2004, \$9.95 million in FY 2005, \$14.2 million in FY 2006 and \$17.96 million in FY 2007 which would be necessary to maintain the reserve at 1.5 percent.** The Office of Legislative Services notes however, that under current law, the State is not obligated to fund the reserve account beyond the amount in the fund for the support of free public schools and that under Assembly Bill No. 3721 of 2003, which reduces the reserve requirement for the new school bond reserve account to 1 percent, the cost to the State is \$232,500 in FY 2004.

Section: *Education*

Analyst: *Theodore C. Settle, OLS*
Lead Research Analyst

Approved: *Alan R. Kooney*
Legislative Budget and Finance Officer

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.

SENATE, No. 2671

STATE OF NEW JERSEY
210th LEGISLATURE

INTRODUCED JUNE 12, 2003

Sponsored by:
Senator RICHARD J. CODEY
District 27 (Essex)

SYNOPSIS

Revises the reserve requirement for school bonds backed by the fund for the support of free public schools.

CURRENT VERSION OF TEXT

As introduced.



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2

1 AN ACT concerning the fund for the support of free public schools and
2 amending N.J.S.18A:56-16 and P.L.1980, c.72.

3
4 **BE IT ENACTED** by the Senate and General Assembly of the State
5 of New Jersey:

6
7 1. N.J.S.18A:56-16 is amended to read as follows:

8 18A:56-16. In the event that a school district or a county or
9 municipality anticipates that it will be unable to meet the payment of
10 principal or interest on any of its bonds issued for school purposes
11 after December 4, 1958, it shall certify such liability to the
12 commissioner and the Director of the Division of Local Finance at
13 least 10 days prior to the date any such payment is due. If the
14 commissioner and director shall approve said certification, they shall
15 immediately certify the same to the trustees of the fund for the support
16 of public schools. Upon the receipt thereof, or in the event any such
17 district, county or municipality fails to certify its anticipated inability
18 to meet any such payments, upon notice and verification of such
19 inability, the trustees shall, within the limits of the school bond
20 guaranty reserve established within the fund purchase any such bonds
21 at a price equivalent to the face amount thereof or pay to the holder
22 of any such bond the interest due or to become due thereon, as the
23 case may be, and such purchases and payments of interest may
24 continue so long as the district, county or municipality remains unable
25 to make such payments. Upon making any such payment of interest,
26 the trustees of the fund shall be subrogated to all rights of the
27 bondholder against the issuer in respect to the collection of such
28 interest and if such interest is represented by a coupon such coupon
29 shall be delivered to the trustees of the fund.

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

34 The amount of any payment of interest or purchase price pursuant
35 to this section shall be deducted from the appropriation or
36 apportionment of State aid, other than any State aid which may be
37 otherwise restricted pursuant to the provisions of P.L.1996, c.138
38 (C.18A:7F-1 et seq.), payable to the district, county or municipality
39 and shall not obligate the State to make, nor entitle the district, county
40 or municipality to receive, any additional appropriation or
41 apportionment. Any amount so deducted shall be applied by the State
42 Treasurer to satisfy the obligation of the district, county or

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

Matter underlined thus is new matter.

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1 municipality arising as a result of the payment of interest or purchase
2 price pursuant to this section.

3 (cf: P.L.1980, c. 72, s. 4)

4

5 2. Section 5 of P.L.1980, c.72 (C.18A:56-19) is amended to read
6 as follows:

7 5. a. There is established within the fund for the support of free
8 public schools a school bond reserve. The school bond reserve shall
9 consist of two accounts, the old school bond reserve account and the
10 new school bond reserve account. The old school bond reserve
11 account shall be funded in an amount equal to at least 1 1/2 % of
12 the aggregate issued and outstanding bonded indebtedness of
13 counties, municipalities or school districts for school purposes for all
14 such indebtedness issued prior to the effective date of P.L. , c. (now
15 pending before the Legislature as this bill), exclusive of bonds the debt
16 service for which is provided by State appropriations but not to
17 exceed the moneys available in the [fund] account. The new school
18 bond reserve account shall be funded in an amount equal to at least 1%
19 of the aggregate issued and outstanding bonded indebtedness of
20 counties, municipalities or school districts for school purposes for all
21 such indebtedness issued on and after the effective date of P.L. ,
22 c. (now pending before the Legislature as this bill), exclusive of
23 bonds the debt service for which is provided by State appropriations

24 The school bond reserve shall be composed entirely of direct
25 obligations of the United States Government or obligations guaranteed
26 by the full faith and credit of the United States Government.

27 b. Securities representing at least one-third of the minimum market
28 value to be held in the school bond reserve shall be due to mature
29 within 1 year of the date of issuance or purchase. It shall be the duty
30 of the trustees of the fund to determine that the school bond reserve
31 is established at the proper level, based on the market value of the
32 obligations on the effective date of this act, to ascertain annually on
33 or before September 15 the aggregate amount of bonds issued and
34 outstanding and to maintain the old school bond reserve account and
35 the new school bond reserve account at the appropriate [level] levels
36 for the ensuing year based on annual market valuations of the
37 obligations. The trustees are authorized to retain so much of the
38 income earned by the fund in the preceding year as they may
39 determine to be required to maintain each account in the reserve at
40 the [level] levels herein specified. The amount of the reserve held in
41 the old school bond reserve account so established is pledged as
42 security for prompt payment, in accordance with the provisions of
43 N.J.S. 18A:56-16, to holders of bonds issued prior to the effective
44 date of P.L. , c. (now pending before the Legislature as this bill),
45 for school purposes by counties, municipalities or school districts of
46 principal of and interest on the bonds in the event of the inability of

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1 the issuer to make payment. The amount of the reserve held in the
2 new school bond reserve account so established is pledged as security
3 for prompt payment, in accordance with the provisions of
4 N.J.S.18A:56-16, to holders of bonds issued on and after the effective
5 date of P.L. , c. (now pending before the Legislature as this bill), for
6 school purposes by counties, municipalities or school districts of
7 principal of and interest on the bonds in the event of the inability of the
8 issuer to make payment. In the event the amount held in the old
9 school bond reserve account exceeds the amount required to be held
10 pursuant to subsection a. of this section, the excess may be transferred
11 by the State Treasurer to the new school bond reserve account. In the
12 event the amounts in either the old school bond reserve account or the
13 new school bond reserve account fall below the amount required to
14 make payments on bonds, the amounts in both the old school and new
15 school bond reserve accounts shall be available to make payments for
16 bonds secured by the reserve.

17 c. Beginning with the fiscal year ending on June 30, 2003 and
18 continuing on each June 30 thereafter, the State Treasurer shall
19 calculate the amount necessary to fully fund the old school bond
20 reserve account and the new school bond reserve account as required
21 pursuant to subsection a. of this section. To the extent moneys
22 available under P.L.1967, c.271 (C.18A:56-1 et seq.) are insufficient
23 to maintain each account in the reserve at the required levels, the State
24 hereby agrees that the State Treasurer shall, no later than September
25 15 of the fiscal year following the June 30 calculation date, pay to the
26 trustees for deposit in the school bond reserve such amounts as may
27 be necessary to maintain the old school bond reserve account and the
28 new school bond reserve account at the levels set forth in subsection
29 a. of this section. No monies may be borrowed from the fund to
30 provide liquidity to the State unless the 1 1/2% and 1% accounts are
31 at the levels certified as full funding on the most recent June 30
32 calculation date.

33 (cf: P.L.1980, c. 72, s. 5)

34

35 3. Section 6 of P.L.1980, c.72 (C.18A:56-20) is amended to read
36 as follows:

37 6. a. Bonds issued for school purposes by counties, municipalities
38 or school districts subsequent to the effective date of [this act]
39 P.L.1980, c.72 (C.18A:56-17 et seq.) and prior to the effective date
40 of P.L. , c. (now pending before the Legislature as this bill), shall
41 bear the following legend: "Payment of this obligation is secured
42 under the provisions of the 'New Jersey School Bond Reserve Act' in
43 accordance with which an amount equal to 1 1/2 % of the aggregate
44 outstanding bonded indebtedness (but not to exceed the moneys
45 available in the fund), of New Jersey counties, municipalities and
46 school districts for school purposes as of September 15 of each year,

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1 is held within the State Fund for the Support of Free Public Schools
2 as a school bond reserve pledged by law to secure payments of
3 principal and interest due on such bonds in the event of the inability
4 of the issuer to make payment."

5 b. Bonds issued for school purposes by counties, municipalities or
6 school districts on and after the effective date of P.L. , c. (now
7 pending before the Legislature as this bill), shall bear the following
8 legend: "Payment of this obligation is secured under the provisions of
9 the 'New Jersey School Bond Reserve Act' in accordance with which
10 an amount equal to 1% of the aggregate outstanding bonded
11 indebtedness (but not to exceed the moneys available in the fund), of
12 New Jersey counties, municipalities and school districts for school
13 purposes as of September 15 of each year, is held within the State
14 Fund for the Support of Free Public Schools as a school bond reserve
15 pledged by law to secure payments of principal and interest due on
16 such bonds in the event of the inability of the issuer to make
17 payment."

18 (cf: P.L.1980, c. 72, s. 6)

19

20 4. This act shall take effect immediately.

21

22

23

STATEMENT

24

25 In recognition of the substantial amount of school construction that
26 is directly backed by State appropriations, the bill changes the reserve
27 requirement for school bonds backed by the fund for the support of
28 free public schools. Historically, local school districts have been able
29 to achieve a better interest rate on school bonds that are backed by the
30 fund, which provides a reserve of 1.5%. In recent years, the State has
31 undertaken direct financing of schools in Abbott districts, reducing the
32 risk to investors in bonds issued for school purposes by counties,
33 municipalities, or school districts, and also reducing the risk of a draw
34 upon the reserve fund. Thus, the 1.5% reserve is not needed to allow
35 school districts to bond at attractive rates. Bonds issued for school
36 purposes by counties, municipalities or school districts prior to the
37 effective date of the bill will continue to be backed by the 1.5%
38 reserve, the old school bond reserve account, while such bonds issued
39 by those entities on or after the effective date of the bill will be backed
40 by a 1% reserve, the new school bond reserve account. In addition,
41 the bill provides that, in the event of a claim on one of the two
42 accounts, the State will intercept State aid for the district that made
43 the claim in amounts sufficient to replenish the reserve. Further, the
44 accounts are cross-pledged in the event that a draw upon one of them
45 exceeds amounts available in the particular account. The bill further
46 provides that the State will maintain the accounts at the required

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6

1 levels, even if the riparian rights and earnings revenues are insufficient
2 to meet required levels, and that the State will not borrow from the
3 fund for liquidity purposes unless the accounts are the level certified
4 as sufficient. The calculation of sufficiency of the reserves will occur
5 on June 30 of each year. If the accounts are not sufficient, the State
6 Treasurer is required to transfer funds from other sources to achieve
7 sufficiency no later than the September 30 following the calculation
8 date.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 2671

STATE OF NEW JERSEY

DATED: JUNE 17, 2003

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 2671.

This bill changes the reserve requirement for school bonds backed by the fund for the support of free public schools. Historically, local school districts have been able to achieve a better interest rate on school bonds that are backed by the fund, which provides a reserve of 1.5%. In recent years, the State has undertaken direct financing of schools in Abbott districts, reducing the risk to investors in bonds issued for school purposes by counties, municipalities, or school districts, and also reducing the risk of a draw upon the reserve fund.

In addition, the bill provides that, in the event of a claim on one of the two accounts, the State will intercept State aid for the district that made the claim in amounts sufficient to replenish the reserve. Further, the accounts are cross-pledged in the event that a draw upon one of them exceeds amounts available in the particular account. The bill further provides that the State will maintain the accounts at the required levels, even if the riparian rights and earnings revenues are insufficient to meet required levels, and that the State will not borrow from the fund for liquidity purposes unless the accounts are the level certified as sufficient. The calculation of sufficiency of the reserves will occur on June 30 of each year. If the accounts are not sufficient, the State Treasurer is required to transfer funds from other sources to achieve sufficiency no later than the September 30 following the calculation date.

FISCAL IMPACT

The 1.5% reserve is not needed to allow school districts to bond at attractive rates. Bonds issued for school purposes by counties, municipalities or school districts prior to the effective date of the bill will continue to be backed by the 1.5% reserve, the old school bond reserve account, while such bonds issued by those entities on or after the effective date of the bill will be backed by a 1% reserve, the new school bond reserve account.