

CHAPTER 118

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

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

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

Certification of anticipated default; purchase of bonds, payment of interest by trustees; State aid treatment.

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

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

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

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

C.18A:56-19 School bond reserve accounts; establishment; composition; funding of accounts.

5. a. There is established within the fund for the support of free public schools a school bond reserve. The school bond reserve shall consist of two accounts, the old school bond reserve account and the new school bond reserve account. The old school bond reserve account shall be funded in an amount equal to at least 1 1/2 % of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes for all such indebtedness issued prior to the effective date of P.L.2003, c.118, exclusive of bonds the debt service for which is provided by State appropriations but not to exceed the moneys available in the account. The new school bond reserve account shall be funded in an amount equal to at least 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes for all such indebtedness issued on and after the effective date of P.L.2003, c.118, exclusive of bonds the debt service for which is provided by State appropriations. The school bond reserve shall be composed entirely of direct obligations of the United States Government or obligations guaranteed by the full faith and credit of the United States Government.

b. Securities representing at least one-third of the minimum market value to be held in the school bond reserve shall be due to mature within one year of the date of issuance or purchase. It shall be the duty of the trustees of the fund to determine that the school bond reserve is

established at the proper level, based on the market value of the obligations on the effective date of this act, to ascertain annually on or before September 15 the aggregate amount of bonds issued and outstanding and to maintain the old school bond reserve account and the new school bond reserve account at the appropriate levels for the ensuing year based on annual market valuations of the obligations. The trustees are authorized to retain so much of the income earned by the fund in the preceding year as they may determine to be required to maintain each account in the reserve at the levels herein specified. The amount of the reserve held in the old school bond reserve account so established is pledged as security for prompt payment, in accordance with the provisions of N.J.S.18A:56-16, to holders of bonds issued prior to the effective date of P.L.2003, c.118, for school purposes by counties, municipalities or school districts of principal of and interest on the bonds in the event of the inability of the issuer to make payment. The amount of the reserve held in the new school bond reserve account so established is pledged as security for prompt payment, in accordance with the provisions of N.J.S.18A:56-16, to holders of bonds issued on and after the effective date of P.L.2003, c.118, for school purposes by counties, municipalities or school districts of principal of and interest on the bonds in the event of the inability of the issuer to make payment. In the event the amount held in the old school bond reserve account exceeds the amount required to be held pursuant to subsection a. of this section, the excess may be transferred by the State Treasurer to the new school bond reserve account. In the event the amounts in either the old school bond reserve account or the new school bond reserve account fall below the amount required to make payments on bonds, the amounts in both the old school and new school bond reserve accounts shall be available to make payments for bonds secured by the reserve.

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

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

C.18A:56-20 School bond legend.

6. a. Bonds issued for school purposes by counties, municipalities or school districts subsequent to the effective date of P.L.1980, c.72 (C.18A:56-17 et seq.) and prior to the effective date of P.L.2003, c.118, shall bear the following legend: "Payment of this obligation is secured under the provisions of the 'New Jersey School Bond Reserve Act' in accordance with which an amount equal to 1 1/2 % of the aggregate outstanding bonded indebtedness (but not to exceed the moneys available in the fund), of New Jersey counties, municipalities and school districts for school purposes as of September 15 of each year, is held within the State Fund for the Support of Free Public Schools as a school bond reserve pledged by law to secure payments of principal and interest due on such bonds in the event of the inability of the issuer to make payment."

b. Bonds issued for school purposes by counties, municipalities or school districts on and after the effective date of P.L.2003, c.118, shall bear the following legend: "Payment of this obligation is secured under the provisions of the 'New Jersey School Bond Reserve Act' in accordance with which an amount equal to 1% of the aggregate outstanding bonded indebtedness (but not to exceed the moneys available in the fund), of New Jersey counties, municipalities and school districts for school purposes as of September 15 of each year, is held within the State Fund for the Support of Free Public Schools as a school bond reserve pledged by law to secure payments of principal and interest due on such bonds in the event of the inability

of the issuer to make payment."

4. This act shall take effect immediately.

Approved July 1, 2003.