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PUBLIC HEARING  
BEFORE  
ASSEMBLY COMMITTEE ON EDUCATION

on

ASSEMBLY CONCURRENT RESOLUTION NO. 24  
(PROPOSING TO AMEND ARTICLE VIII, SECTION IV, PARAGRAPH 2  
OF THE CONSTITUTION OF THE STATE OF NEW JERSEY)  
SCHOOL FUND - INVESTMENT

Held:

Assembly Chamber  
State House  
Trenton, New Jersey  
May 5, 1958

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Frederick H. Hauser (Chairman)

Assemblyman Thomas F. Connery

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I N D E X

	<u>Page</u>
S. Herbert Starkey, Jr. Director of Research N. J. Education Association	2
Mrs. Ruth H. Page Executive Secretary State Federation of Boards of Education	5

ASSEMBLYMAN FREDERICK H. HAUSER (Chairman): Pursuant to public notice, there will now come to order a public hearing scheduled for this morning here in the Assembly Chamber of the State House, Trenton, on Assembly Concurrent Resolution No. 24 introduced by Assemblymen Kurtz, Hyland, Connery and Barkalow, which proposes an amendment to Article VIII, Section IV, paragraph 2 of the State Constitution, to authorize the use of the fund for the support of Free Public Schools, to secure the payment of school bonds.

Present: The Chairman of the Education Committee of the Assembly, Frederick H. Hauser of Hudson County, and Thomas Connery, Assemblyman from Gloucester County and one of the sponsors of the Concurrent Resolution in question.

I have no opening statement but I will ask Assemblyman Connery to make his remarks at this point.

ASSEMBLYMAN THOMAS F. CONNERY: Well it is apparent, Assemblyman Hauser, that there are very few witnesses present to testify at this public hearing. I think the reason for that is pretty clear because back on March 19th, 1958, a public hearing then was held, at which Senator Dumont presided, on SCR 8 which, in some respects, is a somewhat similar resolution calling for constitutional amendment on the use of the State Fund for the support of Free Public Schools. I have read the transcript of the testimony which was given by the witnesses at that time and I note that at that public hearing, when the introductory statements by Senator Crane and Senator Dumont were made, information and testimony was called for on both

SCR 8 and ACR 24, about which we are concerned here today.

And further, in reviewing the testimony given by the persons who appeared at that hearing, I note that the witnesses stated their position and their views on both of these measures or resolutions.

I note, too, that testimony was given by Mrs. Ruth H. Page, Executive Secretary of the State Federation of Boards of Education; and also by Mr. S. Herbert Starkey, Jr., Director of Research of the New Jersey Education Association. And as I said, certain views were expressed and the position of those organizations on those measures was described by the witnesses.

Here in the Assembly Chamber this morning I see Mr. Starkey is present and in the interest of reducing this hearing to the simplest terms I thought perhaps the testimony of the witnesses given at the prior hearing could be incorporated in the record of this hearing and that the views expressed at the hearing on March 19, 1958 should form a part of this record on the public hearing on ACR 24.

I am wondering, since Mr. Starkey is present, whether he has anything further to add to the statement or testimony which he previously gave at the hearing held in March.

MR. S. HERBERT STARKEY, JR.: On March 19th we testified believing that we were going to testify before a joint committee, so our testimony, given at that time, is applicable to the bill which is before you this morning.

I would like to just emphasize that although we preferred ACR 24 at that time, we did have two points for further improvement which we preferred or would like to see in this resolution

and the companion bills. One, was the fact that we hoped the proposals would be amended so they would take care of bonds already issued as well as those hereafter issued. The second point was that we hoped an amendment could be so prepared that action could be initiated before a default occurred rather than after.

Now, that is included in the latter part of our testimony given at the other hearing on March 19th. I just wanted to emphasize those two points this morning.

ASSEMBLYMAN HAUSER: Mr. Starkey, do you make the point that the two provisions you mentioned there are not incorporated in ACR 24?

MR. STARKEY: I believe that those points we are making would not be in the Resolution, No. 24, but would probably be in the bills which implement that, as far as the legislation is concerned.

ASSEMBLYMAN HAUSER: I notice that the Resolution, ACR 24, states that the Legislature under this proposed Resolution may provide for the use of such fund, including the income, "to secure the payment of the principal of or interest on bonds or notes issued for school purposes by counties, municipalities or school districts or for the payment or purchase of any such bonds or notes", and I just wanted to make the point that your suggestions are not foreclosed by the proposed amendment to the constitution, ACR 24.

MR. STARKEY: Right.

ASSEMBLYMAN CONNERY: I don't think I have anything further, Mr. Hauser, except, as I say, I believe that the record

of the hearing of March 19th, 1958, and the testimony of the witnesses at that time, be incorporated in the record of this hearing and made a part hereof.

ASSEMBLYMAN HAUSER: There being no objection on the part of any member of the Committee, it will be so ordered, that the record of the hearing previously held in March of this year, as referred to by Assemblyman Connery, will be incorporated in the minutes of the hearing being held today.

Does anyone else desire to speak on ACR 24?

There being no further persons desiring to appear or speak in connection with ACR 24, and due time having elapsed, the hearing will be closed with this further notation, that there is now in progress in the Senate Chamber a public hearing on a similar concurrent resolution, SCR No. 16 by Senator Dumont, which according to the time table is now taking place in the Senate Chamber.

This hearing is now adjourned.

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Following is a statement submitted by Mrs. Ruth H. Page, Executive Secretary of the State Federation of District Boards of Education of New Jersey:

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DISTRICT BOARDS OF EDUCATION  
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STATEMENT BY STATE FEDERATION OF DISTRICT BOARDS OF EDUCATION OF NEW JERSEY  
BEFORE THE EDUCATION COMMITTEE OF THE ASSEMBLY - MAY 5, 1958

The State Federation of District Boards of Education of New Jersey wishes to thank Assemblyman Hauser and the members of the Education Committee for this opportunity to discuss the matter of amending the State Constitution to enable the State of New Jersey to invest in school bonds of local districts.

For some time the matter of New Jersey's credit standing and the marketability of New Jersey's bonds has been a source of great concern for the boards of education in this State. When the building aid bills were passed, there was considerable pressure for a bill which would enable the State to buy the bonds of districts whose interest rates were more than 1% over that of the going rate on State bonds. The Federation actively supported this bill. The bill passed both houses but was not signed by the Governor because he felt it was unconstitutional.

The Federation supports Assembly Concurrent Resolution No. 24 and pledges its efforts to help voters understand the implications of the amendment to the end that they will vote favorably for it.

However, while I have the floor I would very much like to beg the Committee's favor to speak concerning the kind of legislation which the Members of the Federation feel is necessary to implement the proposed amendment.

When we first supported the bill to which I referred earlier (that which would enable the State to buy the bonds of districts whose interest rates were more than 1% over that of the going rate on State bonds), the amount of

\$15 million in the Fund for the Support of the Free Public Schools seemed little enough. At the time of the Eighth Report of the State Tax Policy Commission relatively few districts were selling their bonds at more than 1% above the going rate.

Today many districts are experiencing high rates. Since the Fund for the Support of the Free Public Schools is too small to help many districts, the Federation wishes to recommend certain measures which in our judgement would lead to improving the credit rating of all districts, thereby lowering the rates of all.

These measures would include first the provision that capital building aid be applied first to debt service and thereafter to capital improvements. Obviously such a measure would enhance the marketability of local district bonds.

Second the Federation earnestly seeks legislation which would enable the State to pay the principal and interest of bonds in districts likely to default. This is counter to the proposals presently before the legislators which provide that the State may buy the bonds of districts which have been in default a varying number of days.

It is our feeling that such a provision in New Jersey Law would improve the credit standing of the entire State and that the marketability of all school bonds would thereby be considerably improved. Little known districts would enjoy considerably lower interest rates when buyers once understood that the State of New Jersey would buy those bonds of any district likely to be in default.

Such a provision would have to apply to all school bonds of the State - both those previously offered for sale and those offered in the future. To guarantee only future sales would certainly serve to depress the bond market. A broker handling a resale of an older issue would more than likely have an adverse reaction if there were two kinds of bonds in the market and he might conceivably be unwilling to handle New Jersey's bonds in the future.

In view of New Jersey's past history with defaulted bonds, we would naturally be concerned that the State be enabled to buy at par the bonds of a district likely to default. Provision could be made then for the allocation of such a district's building aid for the payment of its debt to the State. Bond buyers have a long memory, and it will take determined effort to erase the unhappy impression earned by our past performance in this respect.

We are grateful to the legislators for the efforts that have been directed toward solving the critical problem of high interest rates. Our suggestions are prompted by the fact that the Fund for the Support of the Free Public Schools is too small to help enough districts. Therefore we believe that the best approach is that which seeks to benefit the most.

We sincerely believe that the measures we have suggested would serve to improve the credit rating of all districts with the net result that interest rates for all would drop. At a time when in many cases, debt service amounts to as much as 15% of a total budget, a drop in interest rates would have significant effect on the total financial picture of such districts.

We appreciate the opportunity of discussing these points with you and thank you for your consideration of them.

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