

.90 5372
1958a

PUBLIC HEARING
BEFORE
COMMITTEE ON REVISION AND AMENDMENT OF LAWS
on
SENATE CONCURRENT RESOLUTION NO. 8
(PROPOSING TO AMEND ARTICLE VIII, SECTION IV, PARAGRAPH 2
OF THE CONSTITUTION OF THE STATE OF NEW JERSEY)
SCHOOL FUND - INVESTMENT

Held:
Senate Chamber
State House
Trenton, New Jersey
March 19, 1958

MEMBERS OF COMMITTEE PRESENT:

- Senator Wayne Dumont, Jr. (Chairman)
- Senator Robert C. Crane

I N D E X

	<u>Page</u>
Senator Wayne Dumont, Jr.	2
S. Herbert Starkey, Jr. Director of Research N. J. Education Association	18
Mrs. Ruth H. Page Executive Secretary State Federation of Boards of Education	22

SENATOR ROBERT C. CRANE: Ladies and gentlemen, I now declare this public hearing, on Senate Concurrent Resolution No. 8 and Assembly Concurrent Resolution No. 24, open. This hearing is held under the sponsorship of the Senate Revision and Amendment of Laws Committee and we are today hearing both a Senate and an Assembly Concurrent Resolution proposing to amend the Constitution. I would cite, particularly, that the Senate measure has gone through the required process of having been introduced on January 20th and referred to this Committee; it was reported out on second reading on February 10th, and at that time there was passage of the appropriate resolution that the printed copy be placed on every desk in the Legislature. On February 17th it was recommitted for a public hearing, which hearing is being held at this time.

According to the Legislative Index, Assembly Concurrent Resolution No. 24 has not followed that process as to notification. However, a listing of the public hearing being held today is in the brief description of the bill so that people interested in either this measure or the one in the Assembly could be here today.

We have at the present time three people who are prepared to testify and I shall leave this pad here in front of me so that anyone who comes in and wishes to testify may enter his name.

To all apparent intent, there seems to be only those here who favor this resolution or some modification of it. Therefore, to start the hearing off, I should like

to introduce my distinguished colleague from Warren County, Senator Wayne Dumont, who is sponsor of Senate Concurrent Resolution No. 8 and additionally serves as Chairman of this Committee. However, while he is testifying he will occupy this chair to my left and when he has finished he will come back and join me at the dias.

I would like to say that these microphones are not for a public address system, they are for the Dictaphone by which we record all testimony. So I ask you please to speak distinctly and speak also into these microphones because we must have a good transcript of all that is said here so that we have an accurate report for the Legislature.

Now speaking for Senate Concurrent Resolution No. 8
- Senator Dumont.

SENATOR WAYNE DUMONT: Thank you very much, Senator Crane.

First, I would like to review a little bit of the history connected with this proposal. The Constitution, which was adopted by the voters of this State in 1947 and became effective in 1948, provides in Article VIII, Section IV, paragraph 2, as follows:

"The fund for the support of free public schools, and all money, stock and other property, which may hereafter be appropriated for that purpose, or received into the treasury under the provision of any law heretofore passed to augment the said fund, shall be securely invested, and remain a perpetual fund; and the income thereof, except so much as it may be judged expedient to apply to an increase of the capital, shall be annually appropriated to the support of free public schools, for the equal benefit of all the people of the State; and it shall not be competent for the Legislature to borrow, appropriate or use the said fund or any part thereof for any other purpose, under any pretense whatever."

Now, the history of this fund is rather interesting. Actually it started in 1817, I am told, and at the time this memorandum was written - and this was prepared by Mr. Samuel Alito of our Division of Research on June 9, 1955, in connection with a bill which I introduced in that year - this research at that time showed that the State School Fund, or properly the Fund for the Support of Free Public Schools, as of that date, amounted to more than sixteen and a half million dollars; that it is a dedicated and perpetual fund whose income is, according to law, annually appropriated to the support of the Free Public Schools of New Jersey; and that since its inception the income of the State School Fund had provided - this was in 1955 when this was written - more than twenty-five million dollars which had been distributed to the counties, townships and school districts of our State for the support of their free public schools; that the fund, under the present law, is administered by a Board of Trustees composed of the Governor, Attorney General, Secretary of State, Comptroller, - which is another name for the Director of the Division of Budget and Accounting - the State Treasurer and the Commissioner of Education, with the Secretary of State acting as Secretary of the Board administering the fund; that all money received from the sale and lease of land belonging to the State, now or formerly lying under water, goes to and is invested by the Trustees as a part of the permanent School Fund of the State.

The law prescribes that the money so appropriated from the Fund for public school purposes must be apportioned

by the Commissioner of Education, among the 21 counties in proportion to the number of days' attendance of all pupils attending public schools.

The principal of the fund had grown from an initial \$15,000, in 1955 that is, to the sixteen and a half million stated at that time. And as of that date it was 139 years old, so that the State School Fund today would be 142 years old. It began in 1816 with an Act which directed the State Treasurer to invest, in public 6% stock of the United States, \$15,000 of State monies accrued to the State as its share of certain funded debts to the United States and from dividends received from shares held by the State in the Trenton Banking Company. The State Treasurer was further directed to invest any future earnings from these sources in a similar manner.

The rest, I think, of this historical research simply brings the fund up to date and notes the amendments that were made to it over a period of years.

So, in 1955 the State Tax Policy Commission, on which I have been privileged to serve as a Senate representative since 1954 -- in May of 1955 the 8th report of the Commission on State Tax Policy was released and that, as you will recall, provided for the capital construction program to the school districts, the grants in aid, which I think in the present year total about twelve million dollars and are rising every year because of the way the foundation program was set up, at \$30.00 per pupil and average daily enrollment, less the local fair share, and the State making up the

difference, the amount of State Aid has necessarily increased every year, as it does under the 1954 program of State Aid for Current Operations of the School Districts; and that those two programs together have approximately tripled the amount of State Aid that was available to the School Districts in 1954, as between then and now, 4 years later. But in 1955, when there were three bills introduced which were reintroduced in 1956 - there were several of us who acted as co-sponsors of the legislation at the time - the only bill that did not pass in 1956, when the bills were reintroduced and the program really gained passage and support, was the particular bill that provided for the loaning of the State Fund for the support of the free public schools.

I should amend that statement somewhat to say that that bill passed the Legislature but was vetoed by the Governor.

In the report of the State Tax Policy Commission, in the summary which appears in this 8th Report, released in May, 1955, this statement was made:

"Second, establish a State Fund from which local school districts can borrow for capital needs at interest rates of 1% in excess of the rates at which the State can borrow money. This would be a temporary program limited to the period of urgent school building needs estimated" this was at that time "to last until 1960. This provision is designed to aid only those districts with high debt service costs. With the State able to borrow at rates between 2% and 2½% this means a maximum interest rate of 3 to 3½% for any school district. Of 389 local bond issues between July 1, 1949, and June 30, 1954, only 89 issues were at interest rates in excess of 3%, but these 89 issues represented \$43,517,800 or 28% of the \$155,248,700 total for all 389 issues. The State shall provide for loans to local school districts at rates of interest equal to the bond interest rate paid by

the State upon its own bonds, plus an additional 1%. The total authorized State loans outstanding at any time for this purpose shall not exceed \$15,000,000 and the authority to make such loans shall terminate June 30, 1960. Profits accruing to the State as a result of the 1% interest rate in excess of State bond costs shall be applied to cover any losses incurred, to meet State costs of administering the loan funds, and to increase the amount of funds available for loan to local school districts."

As I say, Senate Bill No. 3, which embodied the recommendations of that report on this particular phase of assisting the local districts with capital construction, was the bill that passed both houses of the Legislature, I think without any dissenting votes, in 1956, and then was returned to the Senate with an absolute veto by the Governor.

He indicated in his veto message that he thought - I am trying to paraphrase this veto message somewhat - that he thought that a bill by itself was not constitutional because the Constitution actually should be amended. And, of course, that would have to be accomplished by a resolution accompanying the bill. He set forth in his veto message the specific section of the Constitution, which I quoted here at the outset, and he underlined the last phrase of it - "and it shall not be competent for the Legislature to borrow, appropriate or use the said fund or any part thereof for any other purpose, under any pretense whatever."

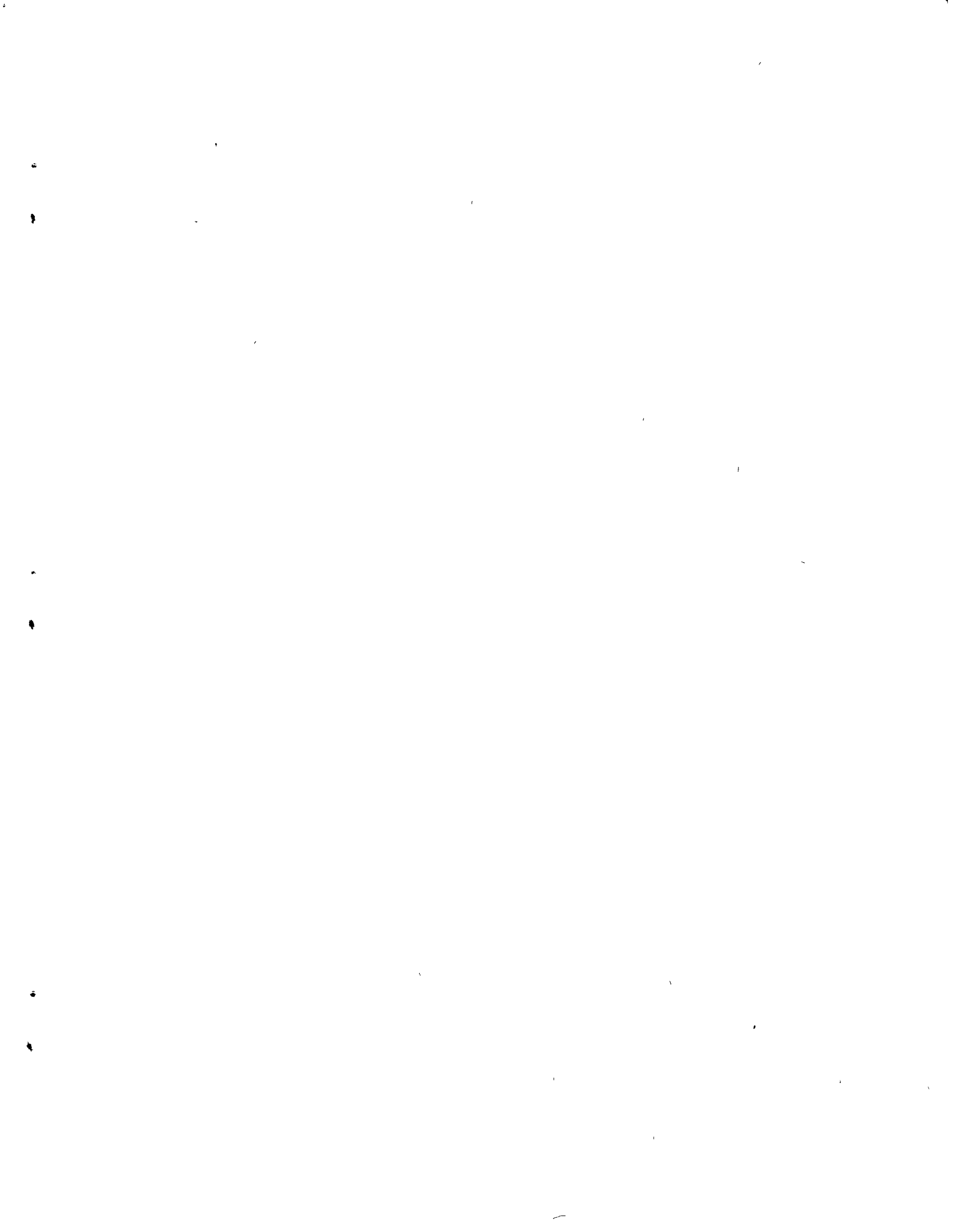
He pointed out that the Constitution requires that the moneys and other property in this fund be securely invested and remain a perpetual fund, a trust fund dedicated to one purpose, the annual appropriation of its income to the support of

free public schools for the equal benefit of all the people of the State; that neither those moneys or property, nor the riparian lands, which have been appropriated by statute for the benefit of that fund can be used for any other State purpose. He cites cases in support of that statement.

He states further that it is true that the bill does not compel the trustees for support of public schools to purchase school district bonds; it purports to give them the power to do so, in the case of particular school districts, at an interest rate limited by the bill, irrespective of whether the investment otherwise might be deemed desirable or secure.

In his opinion, in his message, that bill would have reversed the salutary policy which led to the establishment of the State Investment Council.

He points out further that virtually all of the moneys of the fund are now invested. This message was dated September 17, 1956. And that some of the funds are invested in long-term securities acquired prior to the establishment of the State Investment Council in 1950. If the fund were to purchase any substantial amount of school district bonds, pursuant to Senate Bill No. 3, liquidation of its present investments would be required to make cash available for that purpose. Liquidation would result, in his opinion, in this message, in substantial losses under present market conditions.



He also thought that the standard of eligibility of school districts set forth in the bill was not sufficient. And he pointed out here that there are comparatively few school districts which find themselves unable to market their bonds except at an interest rate much higher than that required to be paid by most municipalities or school districts.

Continuing the quotation, "The reasons for this condition in the affected districts vary and depend upon the ratables within the district, the size of both the municipality and the school district obligations outstanding against the same ratables, the size of the issue, the population of the community and the general credit rating of the district. The problems of these particular districts may warrant special consideration."

That ends the quotation, but for the reasons that he has set forth herein, he didn't think that this bill presented an appropriate solution at that time. He thought rather that the additional aid for capital construction, for the particular school districts in distress, should have been provided by an appropriation, a direct appropriation, and, in other words, a provision for a tax to raise the necessary funds; that such a program should include standards for determining the need of the school districts and the order of priority among those districts by some agency, which would most appropriately be the State Department of Education.

Now, in the Annual Message of the Governor, submitted to the Legislature this year on opening day,

January 14, 1958, he had this to say, and I quote:

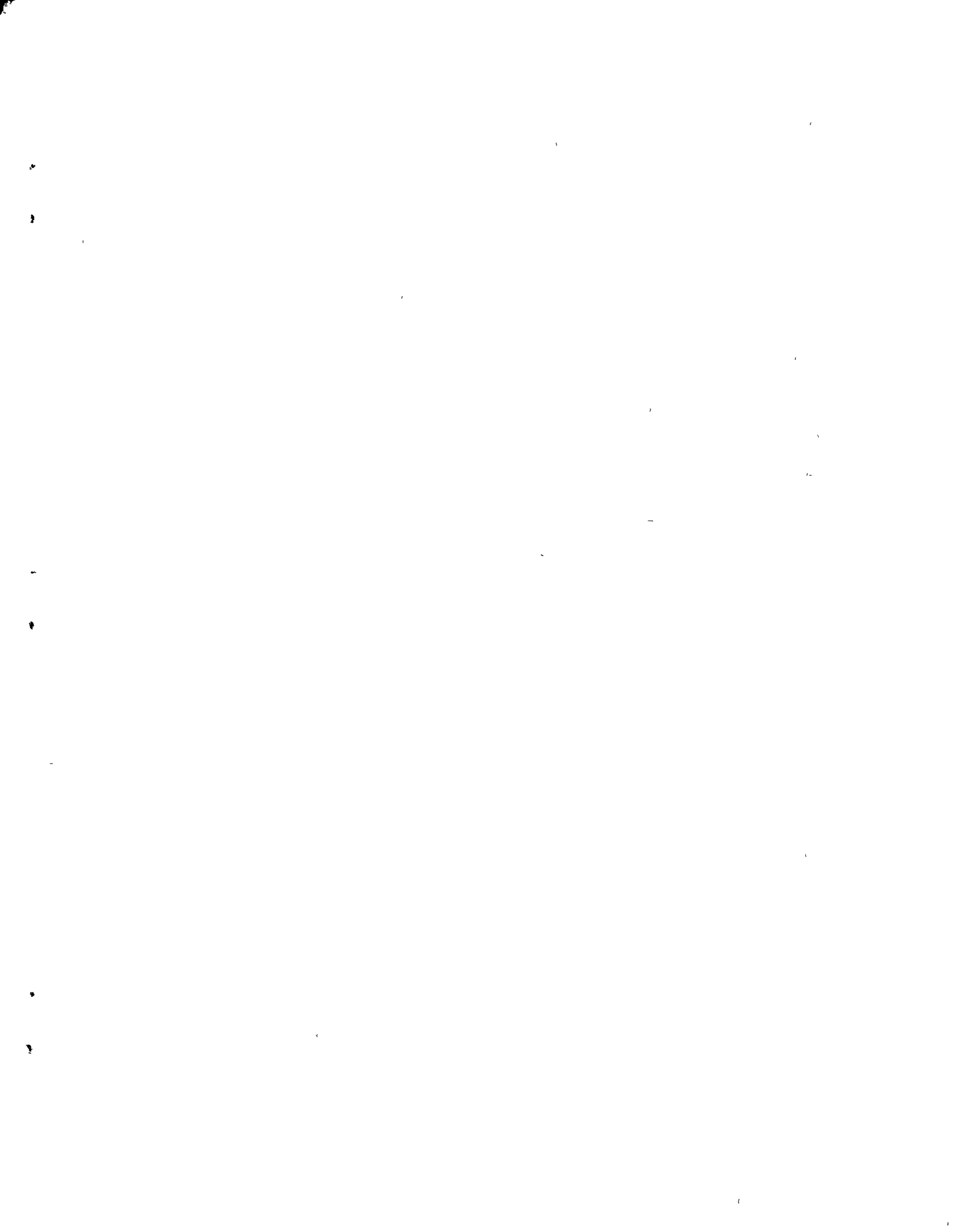
"There is a pressing need for measures which will permit our school districts to finance capital improvements at lowest possible interest rates. A constitutional amendment to permit the use of the present State school fund, and legislation authorizing the pledge of state school aid funds to accomplish this end are under consideration."

To that end, I introduced on January 20, of this year, six days after the message from the Governor, Senate Bill No. 19, which provides that:

"The Division of Investment in the Department of the Treasury is authorized to and shall purchase, within the limits of the available capital funds in the fund for the support of free public schools, the bonds and other obligations of any school district upon original issue, required for school construction purposes, which are certified to be eligible for such purchase by the Commissioner of Education and the Director of the Division of Local Government in the Department of the Treasury, at an average price for each issue to yield 1% more than the going rate of interest for municipal bonds as shown by the current copy of the financial publication known as the Daily Bond Buyer."

The Bill goes on to recite that:

"The Commissioner of Education and the Director of the Division of Local Government in the Department of the Treasury shall adopt rules and regulations for determining the eligibility for purchase by the Division of Investment of bonds and other obligations of school districts required for school construction purposes. Such rules and regulations shall limit such purchases to bonds and obligations which have first been offered for sale in the manner provided by law with respect to such bonds or obligations and for which no bid or bids for the entire issue are received, or if any such bids are received, each is in excess of the said going rate of interest for municipal bonds plus 1%. The Commissioner and the director may require such evidence of the validity of the proceedings for public sale and of reasonable effort to induce prospective bidders to bid upon the issue, as they may find necessary for the administration of this act."



And this act would take effect immediately but would not be operative until the proposed amendment to paragraph 2 of Section IV of Article VII, of the New Jersey Constitution, as set forth in Senate Concurrent Resolution No. 8, would be adopted and become a portion of the State Constitution.

So Senate Concurrent Resolution No. 8, which is really the subject of this hearing, is simply the resolution that provides for the amendment of the Constitution to make this particular bill, Senate 19, operative.

Now, Senate Bill No. 19 has passed here and is now in the Education Committee of the Assembly.

The history of Senate Concurrent Resolution No. 8 has been very adequately explained by Senator Crane, what has happened to it here, and it is back in Committee, of course. We must report it out for distributing copies on the desks of the Members and then put it back in for public hearing.

I mentioned to Assemblyman Fred Hauser, I think about two weeks ago, the possibility of the Assembly Education Committee participating in this hearing, in order that we might get some reaction, at least, in regard to Assembly Concurrent Resolution No. 24 during the same hearing.

That Resolution, as I understand it, which is still in the Assembly Education Committee and which was introduced, I believe, on March 3d of this year, would actually make the State of New Jersey the guarantor of school bonds rather than authorize the purchase of the same. In other words, I

think the difference between that and the Resolution that I have sponsored is that this Resolution in the Assembly would permit the State to guarantee the credit or pledge the faith and credit of the State behind local district school bonds in an effort to have the interest rate reduced on the public market for those bonds, but would not apparently authorize the fund or the income therefrom to be invested in the bonds directly. I may be wrong about that but that is the way I interpret that Resolution; whereas the Resolution that I have sponsored here would actually authorize the Division of Investment to purchase the bonds, providing, of course, consonant to Senate Bill No. 19, that the district could show to the Commissioner of Education and the Director of the Division of Local Government the proof that they had tried to issue the bonds in the public market and had not been able to secure a reasonable rate of interest for the purchase of the same on the public market.

Actually, I don't think that we can officially hold any hearing on Assembly Concurrent Resolution No. 24, but there is no reason why we could not have comments made about it here today to get the reaction of the public and any groups that are represented. It is not in our Committee anymore than Senate Bill No. 19 any longer is but I think that with this background we are in a position to go now to the suggestions that I trust will come from the groups that are represented here today. And I would like to make very clear that while I have sponsored a bill and a resolution

on this subject, which I consider to be extremely important, I don't want at any time, on this bill or any other, to be arbitrary and I will be most happy to hear any suggestions or recommendations that will be forthcoming, I trust, from the witnesses.

Thank you very much, Senator.

SENATOR CRANE: Senator Dumont, I am wondering if there isn't some room here for questioning on the part of anyone who wishes to testify either for or against this Resolution. With that in mind, I would ask those who do have questions to address them to the Chair, please. Are there any questions at this time? any questions that you might wish to ask of the sponsor while we have him here on the stand?

Yes, sir. Would you identify yourself, please, by giving your name.

MR. HERBERT ROGIN: My name is Herbert Rogin, President of the East Brunswick Board of Education and also on the Executive Committee of the Federation representing Middlesex County.

Inasmuch as this is in the discussion stage, I wonder what Senator Dumont's reactions would be to the possible incorporation of both of these bills into one, where the State would back the district bonds with its full faith; however, if they did in open market come in above the 1%, that the State could sell their own bonds, that the fund would then be available for the purchase of those particular district bonds.

SENATOR DUMONT: Well that sounds like a reasonable suggestion, as far as I am concerned. I will be very happy to give it serious consideration because it may well be, as you suggest, that instead of doing one thing or the other we ought to make the fund available for both purposes, or for either one.

MR. ROGIN: Thank you.

SENATOR CRANE: Senator, I think, for the benefit of those who are listening to this discussion, these two proposed amendments are identical down to line 14 of Senate Concurrent Resolution No. 8, where it ends with a period; "under any pretense whatever.", and Assembly Concurrent Resolution No. 24 down to line 13, where it ends with a semicolon "under any pretense whatever;", and that from there on the two bills are different in language.

SENATOR DUMONT: That's right, and the proviso in the Assembly Resolution goes on to indicate that the Legislature may provide by law for the use of the fund, including the income therefrom, and any other moneys duly appropriated in support of free public schools to secure the payment of the principal of and 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 or any claim for interest thereon. So I think, as Senator Crane has pointed out, the Assembly Resolution not only covers the material I have in the Senate Resolution but I think also adds the other possibility. So that it would be a fuller

resolution, particularly for putting into effect both purposes.

SENATOR CRANE: You would have no objection, for your purposes, to including the Assembly language?

SENATOR DUMONT: Either way, - As far as that goes, I have no objection to supporting the Assembly Resolution. The only thing is that the bill which I sponsored has passed here and has gone to the Assembly and this Resolution has moved out of Committee and back in for the purpose of the hearing and any amending we would wish to do, and there has been a little bit more activity in that respect than on the Assembly Resolution. But there is one problem here, as I recall it, under the Rules. This is Senate Rule 72:

"If any concurrent resolution shall be amended after its introduction, printed copies of the amended form shall be placed upon the desks and a public hearing shall be held on the amended form."

It would seem to me unnecessary to hold another public hearing on an amendment to SCR No. 8, and if we decide that ACR No. 24 is desirable, we could go ahead and proceed with that without any further amendment of this Senate Resolution or holding a public hearing or again placing the copies of the amended form on the desks of the members.

SENATOR CRANE: Well, that would be a Committee decision. But, for the record, as far as you are concerned, the inclusion of the Assembly language would not prejudice the interest and the intent of your legislation. Is that correct?

SENATOR DUMONT: That's right, sir.

SENATOR CRANE: Are there any other questions that anyone cares to address?

Would you identify yourself by name, please?

MRS. RUTH H. PAGE: I am Mrs. Page, Executive Secretary of the State Federation of District Boards of Education. I would like to ask Senator Dumont whether or not this fund would be sufficient to buy at one time all the bonds which might possibly be going at a rate above 1% of the State's going rate?

I have before me the figures for bonds which were sold in September and in October, and in those two months eighteen million dollars worth were sold, of school bonds; 23 districts were represented; and 20 had rates higher than 4%. My thought would be that the going rate for the State at about that time would be $2\frac{3}{4}$, perhaps, or even if it were 3, these are all 4 or better. Had you given some thought to that?

SENATOR DUMONT: Well, through you, Mr. Chairman, in reply to Mrs. Page's question, I don't think that the sixteen million dollars, or whatever -- I think the fund at the present time consists of somewhere around sixteen million dollars in principal, as it did in 1955 -- that that would be anywhere near enough to provide for all of the districts that might establish, by proper evidence, themselves as needy districts. I might say at the time that we prepared the State Tax Policy Commission report on school construction, in

1955, it was our impression at the time that there were about 30 school districts in the State that could qualify or could have qualified then in the area that we were describing as needy districts, and that the majority of those were located in the southern counties of New Jersey, although there were some also in North Jersey.

Now, that was three years ago, and it may well be that school districts now - that many more of them could qualify as so-called needy districts, and are not able to market their bonds publicly at what we would describe as reasonable rates of interest in the going market.

It seems to me, however, Mrs. Page, that this would be a step in the right direction toward trying to help the school districts, without at the same time necessitating raising the millions of dollars more to make available, on either a purchase or a loan basis, to the districts by new or additional taxes. I think we are all aware of the tax problem we face here, as it is, and here, at least, as we thought three years ago, is a fund which would provide the beginning of a program that would help to augment the present program of state aid, grants in aid, for school construction, and which might in time give us a dual approach to school construction from the State level, not only have our own program of state aid, which makes New Jersey one of the few states in the Nation to have such a program, but also could provide perhaps a loan program, as many states do. Pennsylvania is one, that I know of, that makes money

available on the state level through a lending agency to the school districts for capital construction at reasonable rates of interest.

I don't think this is enough, by any means, but it would be a start.

MRS. PAGE: I would like to say, through the Chair, that Senator Dumont knows that this had our enthusiastic support when this bill first came out. However, I feel called upon to call it to the attention of the hearing that situations are different at different times. Now, September and October were particularly bad in the bond market. The relaxation of government credit on November 14th changed the whole picture and the figures that I have for November, December and February are considerably lower. But the only thing I wanted to point out was that the fund could have been used up in two months out of the whole year.

SENATOR DUMONT: Thanks very much, Mrs. Page.

SENATOR CRANE: Senator, I have one further question. Last year, through the bills introduced by Senator Lance of Hunterdon, we established a School Bond Interest-Rate Commission. Have you at any time consulted with Senator Lance as to this phase of the program, to know whether or not it had the support of that Commission?

SENATOR DUMONT: No, actually I haven't talked to him specifically with reference to that but he has indicated his support of this program in the conferences where we have discussed the Resolution and the Bill. And, I guess, - it

represented by Senate Concurrent Resolution No. 8, sponsored by Senator Dumont, was the use of the State School Fund to purchase the bonds of districts which receive no bids on an entire issue or the bids are at more than 1% above the going rate for municipal bonds. Senate 19 and Senate Concurrent Resolution No. 8 would implement this proposal. A year or two ago this proposal appeared to many to be the best of the suggestions made. The school building situation is becoming more serious and the interest rate situation is more complex than it was when this proposal was first brought forward. I think this bears out the point Mrs. Page has just made.

In light of our present situation, we can visualize two, three or more large districts, who are now in a serious building situation, exhausting the available funds. The other 99% of our school districts, also in need, might not receive any benefit from this plan either in funds or in the advantages of lower interest rates.

A second approach also before the Legislature in Assembly 287, Assembly 288, and Assembly Concurrent Resolution 24 would provide for the use of the State School Fund to secure the payment of school bonds which may go into default. Assembly 288 would require the state school building aid allowance to be applied first to debt service on school bonds and also provides for the application of school building aid to the payment of any defaulted school bonds. These bills and resolution should greatly increase the security of holders of these bonds and, therefore, should enable all school

districts to sell their bonds at lower interest rates.

I think at this point the question then revolves around which of these two things will achieve the best and most for the districts of the State. The suggestion of combining the two, I think, should be looked at in terms of - if an attempt to combine both might defeat the purpose of getting lower interest rates. I think bond experts and their opinions should be sought on what effect, if any, for example, would the combination of these two resolutions have on the general interest rates.

The New Jersey Education Association prefers this last approach of ACR 24 but would strongly urge further improvements or changes. As presently written, action is not initiated until after a default occurs. Much of the effectiveness of this proposal will be lost if steps cannot be initiated before the actual default occurs. The legislation should be so prepared that the corrective steps provided will be in time to prevent the default. The Commissioner of Education and the Director of the Division of Local Government are certainly in a position to know when action is needed. We would also suggest that the proposals be amended to take care of bonds already issued as well as those hereafter issued.

The New Jersey Education Association commends you for conducting this hearing and we have faith that you will again act promptly to further improve the financing of our sorely needed school buildings.

SENATOR DUMONT: Does anyone desire to ask questions of Mr. Starkey? (No questions)

Mr. Starkey, do you have any wording as to -- I know we could work that out here, technically, but what you are interested in is that this program will help those districts that have issued bonds heretofore as well as hereafter.

MR. STARKEY: That's right, yes.

SENATOR DUMONT: Have you any figure in mind as to how much money the N.J.E.A. thinks will be necessary in this particular type of program?

MR. STARKEY: I think the fundamental question, of course, comes back to, and again experts need to answer this type of question, if you put the faith of the funds of the government back of this - in other words, if ACR 24 is enacted, do you achieve enough of a reduction in interest rates to perhaps prevent what Mrs. Page illustrates happened last September and October? In other words, if it achieves the purpose of reducing rates, presumably you don't need as large a fund.

SENATOR DUMONT: Very good. Anything else?

MR. ROGIN: Senator Dumont, as I spoke to you before, indicating the effect of North Carolina's faith on the sale of their school bonds, where East Brunswick in last November was forced to sell an issue at $5\frac{1}{4}$, in January when interest rates were lower North Carolina sold ten million dollars worth at 2.3, indicating that the pledge

of the State would probably be enough. However, if then a district came in at a percentage point above the ability of the State, I am sure the fund then would be sufficient to take those very weak districts.

SENATOR DUMONT: Thank you. Any other questions? Thanks very much, Mr. Starkey. We appreciate your coming.

The next witness is Mrs. Ruth H. Page, President of the State Federation of Boards of Education.

MRS. RUTH H. PAGE: I would like to say that I am no longer the President --

SENATOR DUMONT: Oh, excuse me, I thought you were.

MRS. PAGE: -- of my organization. I don't know whether you'd say I have been promoted or exactly what but I am now the Executive Secretary, although I feel in fact that I do all the same things that I did before only I spend full time at it.

SENATOR DUMONT: Very good.

MRS. PAGE: I am Mrs. Page, Executive Secretary of the State Federation of District Boards of Education of New Jersey. The Federation is grateful to the Legislators for this opportunity of discussing the important question of amending the constitution to enable the State to invest in 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. This was declared unconstitutional.

At that time the amount of \$15,000,000 in the fund for the support of the schools seemed little enough. Today when \$100,000,000 worth of bonds are sold in one year and when interest rates are considerably higher than they were in 1954, the fund would soon be eaten up by one or two issues alone. Since then, the Federation has come to the conclusion that there may be another way to approach this problem.

The Federation recognizes that before anything is done, an amendment must be made to the state constitution. We support in principle ACR 24 and SCR 8 but question whether the wording of these bills is such that they will enable the state to do the kind of job the boards of education feel needs to be done.

Many districts pay a higher rate of interest than that paid by comparable districts in other states. New York, in particular, enjoys a lower rate of interest generally than New Jersey. One reason for this is the fact that New York can boast that no school district has ever defaulted on its bonds. New York State has the power to pay the interest and principal of those school bonds in districts likely to default.

It is our feeling that a similar provision in New Jersey 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. And I stress this feelingly because at the present time New Jersey enjoys the reputation of not being a good state for an investment. It shares that reputation with about four other states, and it is largely because of our conduct of affairs in the thirties, when certain districts were in default and New Jersey bought up these bonds at less than par. I think in the instance cited of the South Carolina bonds, the factor of New Jersey's past reputation was not taken into consideration. And I am told by bond buyers that people in Texas or Nevada, or wherever it is, who are willing to buy bonds have nothing to go on except past history and the

regulations as they stand regarding the sale of bonds. Our past history, therefore, is not a particularly good one and it is still being held against us because buyers buy bonds for longer than just a few years. They buy them over a longer period and they have to look to the future. And that's the reason that we feel that if New Jersey were to guarantee that no district would ever be in default and have the right to buy at par any bonds that were likely to be in default, have this apply both to the past and present sales, we would then get the kind of reputation that we are seeking among bond buyers. And it is largely on the basis of reputation because we can give instances in the sale of bonds where the name alone is sufficient to insure a good market simply because the bond buyer has something he can tie to.

I don't know whether I should cite instances here but an historic center, for example, and something of that historical value in the name of the district which might not have outstanding credit, nevertheless sometimes sells at a lower rate simply because bond buyers and other states of the nation feel they have something to tie to, here's a bit a history they know and that makes that issue seem more attractive to them, not based on actual facts. So we feel that if we could get the kind of program that would be attractive to bond buyers, if they felt our bonds would be an investment, that would take away the stigma of our conduct in the thirties, thereby we might improve the over-all credit standing of New Jersey and all districts would benefit.

We are not at all sure that the wording of the proposed amendment would enable the state to invest in the bonds of districts likely to default. Since the fund for the support of the free public schools is insufficient to buy many districts' bonds and since we are anxious to do all that is possible to improve the credit standing of all the districts and thereby enhance the marketability of all school bonds, the Federation would very much appreciate the opportunity of working cooperatively with the Legislators to clarify and strengthen the wording of this amendment and to help prepare the kind of legislation which we feel would be most advantageous to the state as a whole.

Thank you for the opportunity of presenting our views.

SENATOR DUMONT: Thank you, Mrs. Page, and I am sure that we would be very happy to have the Federation working closely with us on the wording of any further amendment.

Are there any questions of Mrs. Page? (No questions)
Thank you very much.

Do we have any other witnesses? Do you want to testify, Mr. Rogin?

MR. ROGIN: I don't think it's necessary, Senator. From the tenor of what you and Senator Crane have said I see that we are in accord and it is just a question of the mechanics. I think that Mrs. Pages questions have been answered by you and some of the folks here today.

SENATOR DUMONT: Is there anyone else to testify either for or against?

Well then, as long as we have no more witnesses, I would like to thank our Sergeant-at-Arms, Mr. Harkins, and both of the ladies who have so ably recorded the testimony of both hearings for their kindness and cooperation in taking these hearings, and to thank all of who have appeared here as witnesses for coming in and giving us the story as you see it and your suggestions and recommendations. We will be happy to discuss this further with you as we go through the legislative year.

Thank you very much and the hearing will be concluded.

* * * * *

