S&P Global
Ratings

RatingsDirect®

New Jersey GO Bond Rating Raised To 'A' From 'A-' On Improved Pension Funding Outlook; Stable Outlook

April 12, 2023

PRIMARY CREDIT ANALYST

David G Hitchcock
New York
+ 1 (212) 438 2022
david.hitchcock
@spglobal.com

SECONDARY CONTACT

Oscar Padilla
Dallas
+ 1 (214) 871 1405
oscar.padilla
@spglobal.com

NEW YORK (S&P Global Ratings) April 12, 2023--S&P Global Ratings raised its long-term and underlying ratings on New Jersey's general obligation (GO) bonds to 'A' from 'A-', raised its rating on certain bonds outstanding secured by state appropriations to 'A-' from 'BBB+', raised its rating on New Jersey Economic Development Authority's (EDA) department of human services pooled financing program bonds to 'BBB+' from 'BBB', and raised its rating on South Jersey Port Corp.'s state moral obligation debt to 'BBB' from 'BBB-'.

"The upgrades reflect better pension funding levels and improved structural balance, largely the result of an anticipated third consecutive year of full actuarial pension contributions in fiscal 2024," said S&P Global Ratings credit analyst David Hitchcock.

In addition, S&P Global Ratings assigned its 'A-' rating to the New Jersey EDA's $804.1 million school facilities construction refunding bonds, 2023 series RRR; and $254.7 million school facilities construction refunding bonds, 2024 series SSS (forward delivery). The outlook is stable for all ratings.

The series 2023 RRR and series 2024 SSS bonds are being issued pursuant to the provisions of the EDA's Act of 1974, as amended. The bonds, as well as previous parity debt, are payable solely from, and secured solely by, the pledged property under a resolution that consists primarily of amounts received by the authority under a 2001 school facilities construction contract with the state treasurer, as amended in 2010. The payments under the service contract are equal to the debt service payments on the bonds. The service contract carries an absolute and unconditional payment provision, subject only to legislative appropriation of sufficient funds. Although eligible school facilities have been financed under the authority's school facilities construction program, these facilities do not secure the bonds. In an event of non-appropriation by the state legislature, the trustee and bondholders have no remedies and have no rights to the school facilities, or to accelerate the bonds.

The series 2024 SSS bonds are being issued as forward delivery bonds, with an estimated closing date of April 25, 2024.

Series 2023 RRR and 2024 SSS EDA bond proceeds will be used to refund existing school construction bonds for debt service savings.

New Jersey's GO bonds outstanding are secured by the full faith and credit of the state. Revenues securing the state's appropriation bonds outstanding are subject to annual appropriation for debt service by New Jersey.

We rate the state's annual appropriation secured bonds, including the EDA's series 2023 RRR and series 2024 SSS school facilities construction bonds, one notch lower than the state's general creditworthiness, as represented by our GO rating on New Jersey, to account for the appropriation risk associated with state payments securing the bonds under our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019).

Our 'BBB+' rating on the EDA's department of human services bonds and 'BBB' rating on the South Jersey Port Corp.'s moral obligation bonds reflect our view of slightly higher annual legislative appropriation risk.

Our upgrade on the state to 'A' from 'A-' reflects our belief that New Jersey's combined retirement funds will show a sustained Governmental Accounting Standards Board (GASB) funded ratio above 40% for the foreseeable future. Therefore, we are removing our one-notch downward rating adjustment for low funded pension systems under our state rating criteria. New Jersey's combined GASB funded ratio was 45.0% at fiscal year-end 2022, despite a 7.9% investment loss in fiscal 2022, and we believe the funded ratio will likely slowly improve as a result of the state's full actuarial pension contribution in fiscal 2022, budgeted full actuarially determined contribution (ADC) in fiscal 2023, and full ADC proposed in the governor's fiscal 2024 executive budget.

The stable outlook on the state's appropriation-secured debt reflects that of the state GO rating.

The stable outlook on the state GO reflects our belief that New Jersey's combined GASB pension funded ratio is likely to remain above 40% for the foreseeable future as the state continues to contribute full ADC to its pension plans. However, at 45% in fiscal 2022, it remains low, while debt and OPEB liabilities are likely to remain high for the foreseeable future, leading to high fixed cost carrying charges, despite recent efforts to defease an amount of debt similar in size to the deficit bond it issued in fiscal 2021.

If the state should revert to structurally unbalanced budgets, as experienced during the many years it contributed less than actuarial recommendations to its pension funds, or as it did in fiscal 2021 when it sold a large GO bond issue to fund operations, we could downwardly revise the state GO outlook or rating. In addition, should we believe New Jersey will no longer be able to sustain a combined pension funded ratio of over 40% under GASB accounting rules, we could re-impose our one-notch downward revision to the state GO rating.

Should the state make further progress reducing its long-term debt, pension, and other postemployment benefit liabilities, while retaining structural budget balance, we could raise the rating or revise the outlook upward.