State of New Jersey

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Rating Agency Highlights Critical Need to Follow Governor's Lead on Pension and Benefit Reform

"Pension funding is a major budgetary pressure for New Jersey and remains the most significant risk to its long-term credit quality."

--S&P Report on New Jersey Debt Rating

Trenton, Feb. 9, 2010 – State Treasurer Andrew Sidamon-Eristoff issued the following statement in response to Standard & Poor's decision to reduce the AA rating on New Jersey's general obligation debt to AA-.

"While New Jersey's bonds remain sound and respected investments, this downgrade highlights the real danger of failing to act swiftly on critical pension, health benefit and fiscal reforms," the Treasurer said. "The financial markets can send no clearer signal that the Legislature needs to follow the Governor's lead and act on the pension and benefit reforms he proposed last September – legislation that is critical to reviving the economy and restoring the state's fiscal integrity."

The report praised Governor Christie for championing pension reform, and pointed out the many negative consequences of continuing to delay legislation needed to get the state's pension problem under control. Furthermore, the report was very positive and supportive of the Christie administration's efforts to close last year's deficit, institute fiscal discipline and reform, control spending and reduce debt. "The stable outlook reflects Standard & Poor's view that New Jersey will continue to manage its structural budget imbalances proactively," the report said. "Through the recession, New Jersey, like every other state, has experienced revenue shortfalls, but the state took steps in fiscal 2010 to balance operations. The state closed fiscal 2010 with a $794 million general fund balance, about $300 million higher than 2009 levels."

While the report criticized the "long-term track record" of the state's fiscal managers, New Jersey under Governor Christie "has a recent history of making some difficult and unpopular decisions to restore balance," and the governor has put real pension reform front and center on the legislative agenda for the first time.

"Governor Chris Christie has recently announced various reform initiatives that if approved could help begin to manage the state's pension liability," S&P analysts said. "The state estimates that if enacted in its entirety, these pension reforms would enable it to achieve a 91 percent funding ratio by 2041." A funding ratio of more than 80 percent is considered more than sufficient to guarantee the security of a major pension fund.

S&P said that borrowing by past administrations has left the state with a debt burden that is "among the highest in the nation." Per capita debt "is high," S&P said, and amounts to $3,946 for every state resident, or nearly 8 percent of personal income and more than 7 percent of the state's total output of goods and services.

"This shows why New Jersey has no choice but to create the kind of entrepreneurial economy that will generate the jobs and wealth needed to restore prosperity and reduce our dependence on debt," the Treasurer said. "An expanding economy would not only generate more revenue and ease the debt burden, but reduce the demand for unemployment assistance, Medicaid and other costly forms of state aid."