Rating Action: Moody's upgrades the State of New Jersey's issuer rating to A1 from A2, assigns A2 rating to EDA School Facilities Construction Refunding bonds; outlook stable

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New York, April 06, 2023 -- Moody's Investors Service has upgraded the state of New Jersey's issuer rating to A1 from A2 and also upgraded the ratings assigned to the state's general obligation and Garden State Preservation Trust bonds to A1 from A2. Ratings also were upgraded one notch on the state's subject-to-appropriation bonds, to A2 from A3 for more essential projects and to A3 from Baa1 for bonds that financed less essential projects and bonds supported by the state's moral obligation pledge. At the same time, we have assigned an A2 rating to the state's planned sale of $804 million School Facilities Construction Refunding Bonds 2023, Series RRR and $255 million School Facilities Construction Refunding Bonds, 2024 Series SSS (Forward Delivery), which are expected to be priced on April 20. Also upgraded to A2 from A3 were the Transportation Trust Fund Authority's (TTFA) federal highway reimbursement revenue bonds. The pledge specific rating assigned to the New Jersey County College Enhancement Bond Program Chapter 12 was upgraded to A2 from A3. Program pledge specific ratings for the state's aid intercept enhancement systems -- the New Jersey Qualified School Bond Program and the New Jersey Municipal Qualified Bond Program -- were also upgraded to A2 from A3. The outlook applicable to all these bonds and pledge specific ratings has been revised to stable from positive.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908060674 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

New Jersey's issuer rating upgrade to A1 incorporates a solid economic recovery, with job gains leading the region and driving employment above the state's pre-pandemic peak. It is supported by the state's commitment to full, actuarial pension contributions through fiscal 2024 (starting 7/1/2023) and its additional allocations of funds to a program to defease debt and cash-fund capital projects. These factors underscore continuing improvement in New Jersey's governance characteristics, already reflected in the state's G-1 governance score. An unprecedented level of budgetary surplus should position the state to respond to any economic dislocations caused by rising interest rates or other near-term conditions, while also maintaining the commitment to diligent long-term liability management. The state nevertheless remains subject to long-term liability and fixed-cost burdens much more substantial than those of most other states. The rating on New Jersey's general obligation (GO) bonds is equivalent to the issuer rating because of the broad, full faith and credit pledge supporting the bonds.

The A1 rating on the Garden State Preservation Trust bonds is based on the state's contractual obligation to transfer a constitutionally dedicated portion of the statewide sales tax (the first $98 million, enough to cover debt service) to the trust for debt service, subject to annual appropriation. The rating is supported by a strong legal structure that restricts use of the allocated funds to debt service and by the ample coverage of the allocated amount by the state's sales tax. The rating also incorporates the lack of structural separation of the dedicated revenue from the state's General Fund and the technical need for annual appropriation.

The A2 ratings on most of the state's appropriation debt, including the current issues, are notched off the state's A1 issuer rating, reflecting the contingent nature of the debt (requiring annual legislative appropriation) as well as other features, including the essential nature of the financed projects. This also applies to the rating on the County College Enhancement Bond Program Chapter 12. Payment on most of the state's net tax-supported debt is subject to appropriation, and the importance of maintaining capital market access provides strong incentive for the state to make timely appropriations for essential-asset debt. The lower rating (A3) on some state appropriation obligations -- including debt issued through the New Jersey Sports & Exposition Authority for racetrack, convention center and stadium projects and debt issued by the New Jersey Economic Development Authority for the state's Wind Port Project -- is consistent with the appropriation risk and lower essentiality of the financed facilities.

The South Jersey Port Corporation's senior- and subordinate-lien A3 bond rating also is notched off the state issuer rating. The two-notch distinction is generally consistent with our approach to bonds supported by a state's moral obligation to replenish a debt service fund (DSRF). The state has a long history of making good on its commitment, established in the corporation's enabling act and bond resolutions, to consider appropriating funds to replenish the port's DSRF to match maximum annual debt service. State appropriations deposited into the subordinate-lien DSRF cannot be transferred to the senior lien DSRF. Nothing requires the legislature to appropriate proportionately to the two liens' DSRFs, but the risk of inequivalent appropriations does not warrant a full notch distinction between the liens.

The A2 programmatic pledge specific ratings on the Qualified School Bond Program and the Municipal Qualified Bond Program also are notched off of the state's issuer rating. The one-notch distinction reflects the programs' strong position in the state's hierarchy of debt and spending priorities and strong program mechanics, including the direct payment of aid to the trustee for debt service.

The A2 rating on the New Jersey TTFA Federal Highway Reimbursement Revenue Notes (GARVEEs) incorporates the appropriation requirement for pledged revenues, satisfactory coverage by pledged federal highway aid, a strong 3x additional bonds test and a requirement that pledged revenues first fulfill all annual debt service requirements, once appropriated. The rating further incorporates the relatively long final maturity that spans multiple authorizations of the federal aid highway program and, like most GARVEE programs, the lack of structural protection against disruption in federal highway aid, such as a debt service reserve fund. The TTFA's GARVEEs are capped at the same level as the state's other appropriation debt, due to the requirement that pledged revenue be appropriated to pay debt service, together with the lack of legal constraints on the use of federal reimbursements. Certain characteristics of the GARVEE credit and structure, including the motivation to maintain the existing federal reimbursement funding and spending cycle, provide the state with a strong incentive to appropriate.

RATING OUTLOOK

The stable outlook is supported by the likelihood the state will continue its current practices for managing reserves and long-term liabilities, and by the expectation that the state will maintain a comparatively large budgetary surplus even in the event of near-term economic dislocations.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Legislative or other actions to require or encourage continuation of full, actuarial pension contributions

- Maintenance of budgetary balances and liquidity significantly above low levels of the past

- Stable debt and pension metrics, including declines in fixed costs as a share of own-source revenue

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Pension contribution reductions to levels substantially below those that are actuarially indicated

- Reliance on a preponderance of non-recurring actions to address substantial budget deficits

- Share depletion of state's available balances, leading to reduction in liquidity, without a clear path to rebuilding it

- Substantial growth in unfunded pension liabilities or other debt that elevates fixed costs

LEGAL SECURITY

New Jersey's GO bonds are general obligations backed by New Jersey's full faith and credit. The Garden State Preservation Trust bonds are supported by the state's contractual obligation to transfer a constitutionally dedicated portion of the statewide sales tax to the trust, subject to annual appropriation.

The various appropriation-backed bonds including the School Facilities Construction Refunding Bonds 2023 Series RRR and Series SSS are payable from anticipated state payments made under a contract, lease or funding agreement, subject to annual legislative appropriation. This is also true of the state's Chapter 12 intercept bonds. Once appropriations have been made, the state's payment obligations are absolute and unconditional.

The South Jersey Port Corporation's senior- and subordinate-lien bonds are supported in the first instance by senior and subordinate liens, respectively, on net revenues from the corporation. All senior and subordinate bonds are additionally backed by (and primarily paid from) the state's commitment to annually appropriate amounts sufficient to restore the DSRF to the required level.

The Qualified School Bond Program and the Municipal Qualified Bond Program intercept programs provide credit enhancement to participating schools and municipalities through the diversion of state aid revenues directly to a trustee to ensure timely debt service payments, and thereby prevent debt service obligations from competing with other local expenditure priorities.

The TTFA's Federal Highway Reimbursement Revenue (or GARVEE) notes' source of pledged revenues is Federal Title 23 funding received by the state under the Federal Aid Highway Program, subject to state legislative appropriation. The US Highway Trust Fund (HTF) receives revenues from national excise taxes on gasoline and other vehicle taxes established under periodic reauthorization by Congress. HTF funds are used to reimburse states for eligible road and transportation capital project costs according to formulas that take into account population and other factors.

USE OF PROCEEDS

The bonds will refinance debt issued in 2012-2014 for the state's School Facilities Construction program to achieve interest cost savings. The refunding, in combination with cash defeasance of the School Facilities Construction program debt, will allow the state to shifting future program funding allocations to pay-go investment from debt service.

PROFILE

New Jersey is the 11th biggest state based on population, with an estimated 9.26 million residents in 2022, according to the US Census Bureau. The state's 2021 GDP ranked ninth, at about $566.9 billion (or $682.9 billion on a current-dollar basis).

METHODOLOGY

The principal methodology used in general obligation, Garden State Preservation Trust bonds, subject-to-appropriation, moral obligation, and New Jersey County College Enhancement Bond Program Chapter 12 ratings was US States and Territories Methodology published in March 2022 and available at https://ratings.moodys.com/api/rmc-documents/356901. The principal methodology used in the Transportation Trust Fund Authority's bonds was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/api/rmc-documents/70024. The principal methodology used in the intercept pledge specific ratings was State Aid Intercept Programs and Financings Methodology published in March 2022 and available at https://ratings.moodys.com/api/rmc-documents/356903. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM908060674 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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- Issuer Participation

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- Participation: Access to Internal Documents

- Endorsement

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