State of New Jersey

Issuer: State of New Jersey		
Upgrade	**Rating**	**Outlook**
General Obligation Bonds	A+ *(from A)*	Stable *(from Positive)*
Issuer: New Jersey Transportation Trust Fund Authority		
Assigned	**Rating**	**Outlook**
Transportation Program Bonds, 2023 Series AA	A	Stable

Additional state related rating actions are captioned on page 4.

Methodology:

U.S. State General Obligation Rating Methodology

U.S. State Annual Appropriation Obligation Rating Methodology

ESG Global Rating Methodology

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Rating Summary: The rating upgrade for the State's General Obligation Bonds recognizes the State's return to full actuarial pension contributions in FY 2022 following more than two decades of underfunding, as well as the accumulation of record reserves. These achievements are somewhat offset by the State's issuance of deficit financing bonds to bolster liquidity and balance the FY 2021 budget, as well as the role of non-recurring pandemic-related federal aid in the State's improved financial position. Nevertheless, the State has demonstrated a recent commitment toward restoring and maintaining actuarially sound annual pension contributions and has dedicated budgetary windfalls toward paying down long-term liabilities and bolstering reserves rather than toward recurring spending, which has supported it's financial flexibility.

The currently offered New Jersey Transportation Trust Fund Authority (NJTTFA) Transportation Program Bonds, 2023 Series AA are special obligations secured by contract payments from the State. The State's obligation to make payments under the contract is subject to annual appropriation. Therefore, the NJTTFA rating is based on a one notch distinction from that of the State's General Obligation rating. Substantially all of the revenues to be appropriated for payment of NJTTFA Transportation Program Bonds are constitutionally dedicated to the costs of the State's transportation system. The dedicated revenues (motor vehicle fuels tax, petroleum products tax, and a portion of the sales tax), while not pledged, exceed debt service requirements by a comfortable margin. Although the State is not required to appropriate sufficient amounts to NJTTFA to pay debt service, in KBRA's view the underlying purpose of the financing is essential, and the State has a strong interest in maintaining access to the capital markets to finance capital projects.

The State entered the pandemic with narrow reserves and a commitment to a schedule of sharply increasing annual pension contributions needed to keep pace with its plan to restore full annual actuarial contributions by FY 2023. Annual contributions remained on track through the pandemic, aided by the sale of deficit financing COVID-19 emergency bonds which raised $4.3 billion, as well as by the receipt of non-recurring pandemic-related federal assistance. Pandemic-related reductions to tax receipts were milder than feared and gave way to historic windfalls in FY 2021, FY 2022, and FY 2023 year-to-date, as broad federal stimulus and the rapidly reopening economy pushed receipts to record levels and reserves to historic highs. It is in this context that the State was able to accelerate the return to full actuarial pension funding one year early, in FY 2022, defease debt, and cash-fund capital projects while maintaining very large reserves.

The current administration has placed a high priority on improving the State's overall fiscal health and current reserve levels provide a large cushion to manage future budgetary challenges. KBRA notes that the State has yet to demonstrate its commitment to sustaining full actuarial pension contributions and reserves on an ongoing basis, and these risks continue to be incorporated at the revised rating level. Consistency in and commitment to both pension funding and reserve maintenance through the full economic cycle will be integral to maintenance of the rating.

The State's General Obligation (GO) rating level reflects strength inherent to its broad and diverse employment base, high per capita personal income at 120% of the U.S., and stable demographics, counter-balanced by extraordinarily high unfunded pension liabilities arising from a failure to make actuarially sound pension contributions each year between 1997 and 2021. Fixed costs for debt and additional continuing obligations are consequently high relative to other states.

A robust economy resulted in strong receipts across state budgeted funds in FY 2022. Revenues increased 8.4% YoY to $52.7 billion, though the increase was significantly larger at 19.0% after netting out the impact of $4.3 billion in COVID-19 emergency general obligation bond proceeds applied to revenues in the prior year. Appropriations increased 16.6% YoY to $52.8 billion, but the increase was narrower at 14.6% after excluding amounts directed to the debt defeasance and prevention fund totaling $3.7 billion in FY 2021 and $5.15 billion in FY 2022. Of the $3.7 billion deposited in FY 2021, $2.5 billion was used to defease debt with the remaining $1.2 billion used to fund capital construction costs for which state debt was already authorized and for which funding would otherwise have been derived from future State bond issuances. Of the $5.15 billion deposited in FY 2022, $2.2 billion was used for additional debt defeasance and general pay-go capital, $1.9 billion for school facility and maintenance projects, $230 million for NJ Department of Transportation capital projects, and $814 million for NJ Transit capital projects. The unallocated balance of the debt defeasance and prevention fund is $1.97 billion as of March 31, 2023. These actions have helped to reduce outstanding debt to a level closer to that which existed prior to the pandemic. The State's combined undesignated and surplus revenue fund balance increased to $8.3 billion at FYE 2022, a level equivalent to a strong 15.8% of appropriations. Fund balances as a percent of appropriations by comparison were 4.5% at FYE 2019 and 5.6% at FYE 2020, before surging to 15.2% at FYE 2021 following the issuance of the aforementioned emergency bonds.

Projections for the fiscal year ending June 30, 2023 estimate state budgeted funds revenues of $54.1 billion (up 2.7% YoY) and appropriations of $54.5 billion (up 3.3% YoY nominally, but up 9.5% YoY after excluding last year's $5.15 billion debt defeasance and prevention fund deposit as well as an additional $2.35 billion deposit that the Governor has recommended that the State Legislature make at the end of FY 2023). After accounting for anticipated budgetary adjustments, a $1.21 billion excess of revenues over appropriations is projected to result in an increase in the undesignated fund balance to $9.53 billion, or an uncharacteristically strong 17.5% of appropriations. The State was awarded $6.2 billion in federal American Rescue Plan (ARP) funds which are accounted for outside of state budgeted funds. Of this amount, $4.8 billion has been appropriated to various multi-year State programs as of March 2023, with the remaining $1.4 billion uncommitted and available for future use. The State plans to obligate and spend all remaining balances by CYE 2024 and CYE 2026, respectively.

The Governor's Proposed FY 2024 Budget assumes revenues of $53.83 billion (down 0.4% YoY on expectations of a slowing economy, as well as the lapsing of a corporate business tax surcharge on December 31, 2023, that is anticipated to reduce collections $323 million that year) and appropriations of $53.09 billion (down 2.6% YoY nominally, but up 1.8% after excluding the governor's recommended $2.35 billion deposit to the debt defeasance and prevention fund at the end of FY 2023). The Proposed Budget recommends significant increases in spending for PreK-12 school aid, increased funding for pension contributions, increased cost for entitlement programs, enhanced payments to childcare providers, and increasing health benefit costs. Revenues are projected to exceed appropriations by $489 million after accounting for anticipated budgetary adjustments, resulting in a $10.02 billion undesignated fund balance, equivalent to 18.9% of appropriations.

The State's last two budgets, as well as the Governor's Proposed FY 2024 Budget, have provided for full actuarially sound contributions to its pensions for the first time since 1996. The appropriated FY 2023 contribution of $6.82 billion is equivalent to 104% of the actuarially determined contribution (ADC), exceeding the ADC by $236 million. The Governor's Proposed FY 2024 budget maintains full funding with a $7.09 billion contribution equivalent to 104% of the ADC, exceeding the ADC by $244 million. Funding requirements remain subject to investment performance and revisions to actuarial assumptions, but based on currently available information, the State has completed its pension funding ramp and is expected to be in a position to fund full ADC payments on a more level basis going forward.

The Stable Outlook recognizes improvement in the State's financial picture, including the restoration of full actuarially based annual pension contributions and improved reserves, and is based on KBRA's expectation that lawmakers and the current administration will leverage the State's broad and diverse economy and recent historic surpluses to prudently manage the State's finances through the economic cycle while maintaining full actuarial pension contributions and prudently managing countercyclical reserves.

Additional information pertaining to the State appropriation bonds issued by the New Jersey Transportation Trust Fund Authority, New Jersey Economic Development Authority, and New Jersey Education Facilities Authority can be found in the detailed reports linked herein.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- State economic base is large and diverse. Per capita personal income is the fourth highest in the nation.
- Governor has broad executive powers under the New Jersey Constitution to adjust the budget and reduce spending to maintain budget balance.

Credit Challenges

- The ability to maintain balanced operations and satisfactory reserves will be challenged by the loss of one-time federal revenues available to bolster finances through the pandemic.
- Unfunded pension and OPEB liabilities are very high relative to personal income and gross state product.
- Expiration of a 2.5% surcharge on corporate business tax at the end of CY 2023 is expected to reduce annual revenues by $323 million in FY 2024 and nearly a billion each year thereafter when fully phased out, and could challenge structural budgetary balance.

Rating Sensitivities

▪ Track record of consistently balanced operations that do not rely upon non-recurring revenues, provide full actuarially determined pension contributions, and support maintenance of substantial operating reserves. ▪ Economic growth patterns that meet or exceed regional and national trends.	+
▪ A resumption of the pattern of underfunding full actuarial pension contributions. ▪ A significant diminution of reserves to balance financial operations. ▪ Deteriorating economic conditions.	-

Rating Highlights	
Personal Income Per Capita (2022)	$78,700
as a % of U.S.	120%
Real GDP CAGR 2010-2022	
New Jersey	1.04%
U.S.	2.07%
Undesignated Fund Balance as a % of Appropriations	
FYE 2022	15.8%
FYE 2023 Estimated	17.5%
FYE 2024 Estimated	18.9%
Fixed Costs as a % of Governmental Expenditures, FY 2022	15.2%
Actuarially Determined Contributions, % Funded	
FY 2022	108%
FY 2023 (Budgeted)	104%
FY 2024 (Govorner's Proposed Budget)	104%
Net Pension Liability as a % of Personal Income	
New Jersey	11.2%
Average of U.S. States	3.2%
Pension Funded Ratio*	45.0%

*Aggregate for State and local employees, GASB 67. Excludes lottery asset.

The State's general obligation rating is based on KBRA's [U.S. State General Obligation Rating Methodology](). The rating actions relating to specified NJTTFA, NJEDA and NJEFA transactions are based on the State's long-term general obligation rating and evaluation of the factors discussed in KBRA's [U.S. State Annual Appropriation Obligation Rating Methodology]().

Rating Determinants (RD) – G.O.	
1. Management Structure, Budgeting Practices and Policies	A+
2. Debt and Additional Continuing Obligations	A
3. Financial Performance and Liquidity Position	A+
4. State Resource Base	AA-

A detailed review of each rating determinant and KBRA's bankruptcy assessment can be found in prior reports, the most recent of which is dated November 17, 2022.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer- specific ESG issues but our analysis is often anchored around three core topics: climate change with particular focus on greenhouse gas emissions, stakeholder preferences, and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can affect financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can affect the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers regardless of size and industry.

KBRA's assessment of ESG management can be found in prior KBRA reports, the most recent of which is dated November 17, 2022.

Additional State-Related Rating Actions

Issuer: New Jersey Transportation Trust Fund Authority		
Upgrade	**Rating**	**Outlook**
Transportation Program Bonds	A *(from A-)*	Stable *(from Positive)*
Transportation Program Notes (Fixed Rate)	A *(from A-)*	Stable *(from Positive)*
New Jersey Economic Development Authority		
Upgrade	**Ratings**	**Outlook**
Lease Revenue Bonds	A *(from A-)*	Stable *(from Positive)*
Issuer: New Jersey Educational Facilities Authority		
Upgrade	**Rating**	**Outlook**
Revenue Bonds, Higher Education Capital Improvement Fund Issues	A *(from A-)*	Stable *(from Positive)*

Appendix

State Budgeted Funds Summary of Revenues, Appropriations, and Fund Balances FYE June 30 (Budgetary/Modified Accrual Basis) (dollars in millions)	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Estimated	2024 Estimated
REVENUES							
General Fund							
Sales and Use Tax (Net)	$ 9,658	$ 9,911	$ 9,776	$ 11,238	$ 12,406	$ 12,950	$ 13,095
Corporate Business Taxes	2,316	4,029	3,812	4,895	5,718	5,780	5,359
Pass-Through Business Alternative Income Tax	-	-	-	1,968	3,980	3,962	4,051
Other Major Taxes and Fees	3,307	3,348	3,451	3,486	3,895	3,684	3,732
Other Miscellaneous	4,433	3,965	3,587	3,846	4,357	5,664	5,042
Proceeds of NJ COVID-19 State Emergency Fund	-	-	-	4,289	-	-	-
General Fund Revenues	19,713	21,252	20,626	29,721	30,356	32,040	31,280
Property Tax Relief Fund							
Gross Income Tax	15,038	15,903	16,254	17,470	20,738	20,412	20,884
Dedicated Half-Cent Sales Tax	769	845	821	944	1,041	1,052	1,064
Property Tax Relief Fund Revenue	15,807	16,748	17,075	18,414	21,779	21,464	21,948
Gubernatorial Elections Fund Revenues	0	1	0	0	0	1	1
Casino Control Fund Revenues	48	49	50	54	60	67	74
Casino Revenue Fund Revenues	218	266	263	364	458	484	527
TOTAL REVENUE	**35,786**	**38,316**	**38,013**	**48,553**	**52,653**	**54,055**	**53,829**
APPROPRIATIONS							
General Fund							
Legislative Branch	85	90	81	97	107	112	111
Chief Executive's Office	7	7	6	7	9	12	14
Judicial Branch	758	762	789	811	832	875	877
Department of:							
Children and Families	1,180	1,160	1,144	1,212	1,283	1,354	1,388
Corrections	1,038	1,040	1,034	1,045	1,101	1,154	1,143
Human Services	5,989	6,186	5,892	6,250	6,721	7,601	8,212
Transportation	1,376	1,584	1,733	1,839	1,586	1,637	1,638
Other Departments[1]	5,018	5,419	5,525	8,727	7,213	7,821	9,304
Inter-Departmental Accts -- Benefits and Misc.	4,409	4,615	4,639	8,777	11,885	9,539	7,061
General Fund Appropriations[2]	19,860	20,863	20,842	28,765	30,737	30,104	29,747
Property Tax Relief Fund							
Education	13,029	14,072	14,458	12,893	18,009	18,486	17,520
All Other	2,844	2,756	2,839	3,163	3,488	5,378	5,218
Property Tax Relief Fund Appropriations	15,873	16,828	17,297	16,056	21,497	23,863	22,737
Gubernatorial Elections Fund Appropriations	20	-	-	11	22	-	-
Casino Control Fund Appropriations	50	51	56	61	62	68	74
Casino Revenue Fund Appropriations	219	272	263	367	464	465	527
TOTAL APPROPRIATIONS	**36,021**	**38,014**	**38,458**	**45,260**	**52,783**	**54,501**	**53,085**
CHANGE IN FUND BALANCE							
Revenues Less Appropriations	(236)	302	(445)	3,293	(130)	(446)	744
Total Other Adjustments	508	420	897	1,531	1,564	1,654	(254)
Net Change in Fund Balance	**273**	**722**	**452**	**4,824**	**1,435**	**1,208**	**489**
Beginning Fund Balance[3]	718	991	1,712	2,060	6,884	8,319	9,527
Ending Fund Balance	**991**	**1,712**	**2,164**	**6,884**	**8,319**	**9,527**	**10,016**
ENDING FUND BALANCE COMPOSITION							
General Fund	991	1,288	2,155	1,893	5,257	7,134	8,412
Surplus Revenue Fund (Rainy Day Fund)	-	421	7	2,447	-	1,603	1,603
Property Tax Relief Fund	-	3	2	2,545	3,062	789	-
Gubernatorial Elections Fund	-	1	1	-	-	1	1
Casino Control Fund	-	-	-	-	-	-	-
Casino Revenue Fund	-	-	-	-	-	-	-
Ending Fund Balance[4,5]	**991**	**1,712**	**2,164**	**6,884**	**8,319**	**9,527**	**10,016**
as a % of Appropriations	*2.8%*	*4.5%*	*5.6%*	*15.2%*	*15.8%*	*17.5%*	*18.9%*

Source: Bond Appendix I and KBRA calculations.

[1]Includes appropriations for the Department of Education.

[2]FY 2022 appropriations reflect a $5.15 billion deposit to the Debt Defeasance and Prevention Fund, causing the level of appropriations to appear to have been reduced in FY 2023. This reduction reflects the removal of the deposit. FY 2023 appropriations similarly reflect a $2.35 billion deposit to the Debt Defeasance and Prevention Fund, causing the level of appropriations to appear to have been reduced in FY 2024. This reduction reflects the removal of the deposit.

[3]The General Fund opening undesignated fund balance for FY 2021 was restated downward by $103.9 million due to a reduction of receivables previously overstated.

[4]The ending undesignated fund balance for Fiscal Year 2022 and the opening undesignated fund balance for Fiscal Year 2023 are actual and final. The ending undesignated fund balance for Fiscal Years 2023 and 2024 may be revised as a result of changes in spending and/or anticipated revenues.

[5]Revenues for FY 2021 reflect $4.288 billion in emergency general obligation borrowing, and appropriations include a $3.7 billion deposit into the Debt Defeasance and Prevention Fund. Due to this, part of the growth in the ending undesignated fund balance for FY 2021 can be attributed to almost $600 million of this net additional, non-recurring resource.