

RATING ACTION COMMENTARY

Fitch Affirms New Jersey's IDR at 'A-'; Outlook Revised to Positive

Thu 12 Aug, 2021 - 4:01 PM ET

Fitch Ratings - New York - 12 Aug 2021: Fitch Ratings has affirmed New Jersey's Issuer Default Rating (IDR) at 'A-', and has likewise affirmed the following ratings which are linked to or capped by the state IDR:

- Approximately \$1.6 billion general obligation (GO) bonds at 'A-';
- Approximately \$559 million Garden State Preservation Trust bonds at 'A-';
- The state's qualified bond program and school bond credit enhancement program (Chapter 72) at 'BBB+';
- Approximately \$31 billion of state appropriation obligations linked to the state's IDR (as detailed at the end of this release) at 'BBB+'.

The Rating Outlook has been revised to Positive from Negative.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
New Jersey, State of (NJ) [General Government]	LT IDR A- Rating Outlook Positive Affirmed	A- Rating Outlook Negative
New Jersey Qualified Bond Program (NJ) /State Aid Intercept Rating/1 LT	LT BBB+ Rating Outlook Positive Affirmed	BBB+ Rating Outlook Negative
New Jersey School Bond Credit Enhancement Program (NJ) /State School Bond Program Rating/1 LT	LT BBB+ Rating Outlook Positive Affirmed	BBB+ Rating Outlook Negative
New Jersey, State of (NJ) /Garden State Trust Revenues/1 LT	LT A- Rating Outlook Positive Affirmed	A- Rating Outlook Negative
New Jersey, State of (NJ) /General Obligation - Unlimited Tax/1 LT	LT A- Rating Outlook Positive Affirmed	A- Rating Outlook Negative
New Jersey, State of (NJ) /State Appropriation/1 LT	LT BBB+ Rating Outlook Positive Affirmed	BBB+ Rating Outlook Negative
New Jersey, State of (NJ) /Transportation Trust Fund Revenues/1 LT	LT BBB+ Rating Outlook Positive Affirmed	BBB+ Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

SECURITY

GO bonds are secured by the full faith and credit of the state.

Garden State Preservation Trust revenue bonds are special, limited obligations of the trust, payable solely from a constitutionally dedicated portion of state sales tax revenue received by the trust pursuant to the state contract, subject to annual appropriation. Despite the appropriation requirement, a provision that prevents dedicated funds from being used for other purposes if no appropriation is made eliminates the risk of non-appropriation.

The state's qualified bond program includes the direct payment mechanism of certified state aid from the state treasurer to paying agents. The school bond credit enhancement program is secured by the availability of the Chapter 72 school bond reserve to avert a missed payment on school-related debt.

Annual appropriation-backed bonds, rated one notch below the IDR, incorporate the sound legal provisions supporting the obligations, including through contract, lease or other commitment between the state's agencies and the state treasurer and the requirement of annual legislative appropriations for debt service.

ANALYTICAL CONCLUSION

The revision of the Outlook on New Jersey's 'A-' IDR, to Positive from Negative, reflects the rapid turnaround in the state's fiscal condition as it recovers from the coronavirus pandemic. A solid economic rebound, state balancing actions during the pandemic and multiple rounds of federal assistance are now providing the state with both a solid financial cushion and extra capacity to accelerate progress on its high liabilities. Fitch views the state as being well positioned in the near term to continue progress on its longer-term fiscal challenges while manage through current uncertainties, including the lingering effects of the pandemic and duration of the strong economic and revenue rebound it is currently experiencing.

Economic Resource Base

New Jersey benefits from a broad, diverse economy, high wealth indices and its geographic position in the heart of the dynamic northeast corridor. The economic base includes significant presence in key industries such as trade, transportation and utilities, financial activities and professional and business services.

KEY RATING DRIVERS

Revenue Framework: 'aa'

The state's revenue system is very diverse and sensitive to economic trends. Underlying growth prospects are slow, approximating the rate of inflation over time. The state has no legal limitations on its ability to raise revenues through base broadenings, rate increases or the assessment of new taxes or fees.

Expenditure Framework: 'a'

The natural growth in expenditures over time is expected to be well above revenue growth, driven by program spending demands. The state maintains the wide latitude to reduce spending common to most U.S. states and has repeatedly done so in response to forecast revenue shortfalls, including during the current period of fiscal uncertainty. The carrying cost for long-term liabilities is well above the U.S. state median driven by high debt and the accumulated effects of weak pension contribution practices.

Long-Term Liability Burden: 'a'

The state's long-term liability burden is elevated and well above that of most U.S. states, reflecting its considerable outstanding debt and large net pension liabilities. The burden has declined in recent years, in step with pension contribution increases, but future capital needs and continued pension demands will likely keep this ratio at a comparatively high level. The state's other post-employment benefits (OPEB) liability is significant but has fallen considerably given state action to trim benefit costs.

Operating Performance: 'a'

Gap-closing capacity has been strengthened as the state's recovery progresses, although operating performance would likely be more challenged in a downturn given somewhat constrained expenditure flexibility. Reduced reliance on nonrecurring actions and higher operating balances further support strengthened budget management.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Stronger economic gains that over time lead to revenue growth consistently in excess of inflation;

--Further progress in addressing high liabilities and other sources of spending pressure, including by lowering outstanding debt, consistently funding full actuarial pension contributions and effectively managing other spending pressures;

--Further budgetary management improvements that prioritize stronger fiscal reserves and minimize reliance on one-time resources.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Evidence that New Jersey's ability over time to support high carrying costs within its budgetary framework, including continuously making full actuarial pension contributions, is straining its operating performance;

--Significant increased reliance on non-structural budget solutions, or difficulty absorbing the budgetary impact of expiring federal pandemic assistance;

--A significant weakening or delay in the economic recovery from the pandemic that leads to revenue growth consistently below inflation.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Federal Relief Provides Critical Support

Federal aid measures enacted since the start of the pandemic have provided direct fiscal support and boosted economic activity in New Jersey and throughout the country. Direct fiscal aid has included a 6.2 percentage point (pp) increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid, a provision expected to remain in place through the end of calendar 2021. Through July 2021, the state had received about \$1.3 billion from the enhanced FMAP provision. The ultimate value of the FMAP rate increase will depend primarily on the state's actual Medicaid spending and the timeframe of the national public health emergency.

Under the Coronavirus Aid, Relief and Economic Security Act enacted in March 2020, New Jersey and its eligible local governments received \$3.44 billion from the CRF, with the state allocating its \$2.4 billion portion for a range of eligible operating costs in education, social services and for staffing needs.

Under the ARPA, enacted in March 2021, New Jersey's state and municipal governments are receiving \$9.8 billion in direct aid from the Coronavirus State and Local Fiscal Recovery Fund, of which the state's portion is \$6.2 billion. The state has allocated about \$2.4 billion of these funds in fiscal 2022 for specific pandemic recovery-related needs, including eviction prevention, special education, health preparedness and other measures. ARPA funds to date have not been used to date to provide budget savings or replace lost revenues.

New Jersey Economic Update

The pandemic and related public health measures continue to have an effect on New Jersey's economy. Progress on reopening has been supported by a rising vaccination rate but renewed concerns about the trajectory of the pandemic persist. Economic and employment data remains volatile, and state economic performance is likely to be closely tied to public health conditions.

The state's labor market situation has been weaker than the national average, despite considerable improvement through the first half of 2021. At the start of the pandemic, non-farm payroll declined more sharply in New Jersey than in the nation as a whole (-17% from February 2020 to April 2020 in New Jersey, vs. -15% nationally). The state's recovery in jobs since April 2020 (59% of jobs regained through February 2021) likewise remains below the nation's 70% recovery.

New Jersey's official monthly unemployment rate of 7.8% in June remains notably higher than the national 6.1% rate for that month. Additionally, the Fitch-adjusted unemployment rate, which adds back estimated labor force exits, was 10.5% in June, above the states median Fitch-adjusted unemployment rate of 6.7% (U.S. States Labor Markets Tracker, published July 2021 - <https://www.fitchratings.com/research/us-public-finance/us-states-labor-markets-tracker-state-employment-recovery-strengthens-in-june-2021-21-07-2021>).

Job losses in New Jersey, as in other states, have disproportionately affected lower wage workers, and the job recovery for these workers has been particularly slow. However, the negative tax revenue implications have been offset by the positive effects of federal support for the economy and affected workers, and by higher income tax collections from the state's graduated marginal tax rate structure. (U.S. States Labor Market: Disparities in Pandemic Job Losses to Persist Beyond 2022 - <https://www.fitchratings.com/research/us-public-finance/us-states-labor-market-disparities-in-pandemic-job-losses-to-persist-beyond-2022-04-08-2021>)

New Jersey Budgetary Update

Despite the ongoing uncertainty posed by the pandemic, New Jersey's finances have been remarkably resilient relative to earlier forecasts, supported by federal aid, progress in vaccination, state balancing actions and unexpectedly solid tax collections. For fiscal 2021, which ended on June 30, total revenue is

now expected at \$44.2 billion, compared to \$39.9 billion as of the executive budget, in February 2021, and only \$33.9 billion, in the state's May 2020 forecast, at the depth of the pandemic fiscal crisis. The state had anticipated total revenue of \$41.2 billion in the February 2021 executive budget, prior to the pandemic. The final fiscal 2021 figure excludes other resources in the budget, chiefly the \$4.3 billion in proceeds from GO Covid-19 emergency bonds, issued in November 2020 to fund the deficit projected at the time.

The fiscal 2022 budget makes progress on longstanding challenges while leaving New Jersey with considerably improved flexibility. Total revenue is forecast at \$42.3 billion, a decline of 4.4% from the prior year. The decline reflects both expiration of some federal aid that supported the fiscal 2021 budget as well as timing shifts from imposition of the state's pass-through entities tax (undertaken in response to federal tax law changes in 2017). These timing shifts are expected to lower personal and corporate income taxes, as well as the pass-through entities tax itself.

With an ample fiscal cushion going into final fiscal 2022 budget negotiations, the state set aside \$3.7 billion in excess fiscal 2021 resources in a debt defeasance and prevention fund, intended to retire \$2.5 billion in outstanding debt and to fund \$1.2 billion in authorized capital needs on a pay-go basis. After all actions, fiscal year 2021 is still closing with a \$6.7 billion surplus, equal to 15% of total revenues.

The fiscal 2022 budget makes a \$6.9 billion contribution to the state's pensions, including the \$6.4 billion ADC and a supplemental contribution of \$505 million to accelerate funding progress. The fiscal 2022 contribution is the first to fully cover the ADC in decades. The state made \$5.8 billion of the contribution at the start of the fiscal year, rather than it being allocated in quarterly installments, the state's practice since 2017; another \$1.1 billion will come from net lottery proceeds on a monthly basis based on the 2017 state Lottery Enterprise Contribution Act (LECA), which redirect lottery net revenues to the pension systems.

To date New Jersey is not accessing its \$6.2 billion federal ARPA allocation to offset state revenues losses, but it has set aside about \$2.4 billion in fiscal 2022 for eviction prevention, education, health preparedness and infrastructure, among other uses. The state reports very strong liquidity, with its fiscal 2022 beginning cash balance standing at \$14 billion, after payment of the full pension ADC; no cash flow borrowing is anticipated in fiscal 2022. The fiscal year is forecast to end with a surplus of nearly \$2.4 billion, equal to nearly 5.6% of revenue.

CREDIT PROFILE

Population growth in New Jersey is significantly slower than the national average but personal income remains among the highest of the states. New Jersey's economic advantages did not spare it from an unusually weak economic rebound in the long expansion that followed the Great Recession, with recovery only taking root in 2015. Economic growth up until the coronavirus pandemic remained solid and the state's unemployment rate stood below the nation's in 2019 for the first time since 2010. While New Jersey's recovery so far during the pandemic has lagged national trends, Fitch expects New Jersey's economic attributes and moderate long-term growth prospects to remain unchanged over time.

Revenue Framework

Most revenues are collected in the state's two primary operating funds, the general fund and the property tax relief fund (PTRF). The personal income tax (PIT) is deposited to the PTRF and is the largest source for supporting operations, at 43% of fiscal 2020 operating revenues. As part of the fiscal 2021 enacted budget, the state extended the 10.75% marginal top rate on taxable income above \$5 million down to \$1 million. The change was forecast to generate \$514 million in fiscal 2021 as of the fiscal 2022 executive budget.

In response to federal tax changes in 2017, the state enacted a pass-through business alternative income tax (PT-BAIT) beginning in 2020 on distributed incomes from pass-through entities, offset by credits on PIT and corporate business tax (CBT). The tax is designed to be revenue neutral to the state, generating \$1.3 billion annually, with an equal amount offset in PIT and CBT through credits. Collection of retroactive amounts and delays in claiming credits in fiscal 2021 resulted in \$2.1 billion in PT-BAIT collections. In fiscal 2022, claiming of prior year credits against PIT and CIT will lower collections, even as PT-BAIT collections are forecast to revert to the \$1.3 billion figure.

Sales tax provides the next largest share at 28% operating funds. CBT is a smaller contributor to revenues (10% in fiscal 2020), but volatility makes forecasting difficult and performance is uneven. The state enacted a four-year temporary CBT surtax beginning in tax year 2018 at rates of 2.5% in 2018 and 2019, falling to 1.5% in 2020 and 2021. The fiscal 2021 budget retroactively imposed the surtax at 2.5% to Jan. 1, 2020 and extended it through 2023.

Fitch views New Jersey's revenue growth prospects as being relatively slow and in line with national inflation, consistent with the mature nature of its economy and its slow population growth. Revenue growth over the 10 years through fiscal 2019 was below growth in both U.S. GDP and inflation, reflecting in part its very limited momentum during much of the economic expansion that preceded the pandemic.

The state has no legal limitations on its ability to raise revenues through base broadenings, rate increases or the assessment of new taxes or fees.

Expenditure Framework

As in most states, education and health and human services are New Jersey's largest operating expenditures. Education is by far the larger line item, as the state provides significant funding for local school districts and the public university and college system. Health and human service spending is the second largest line item, with Medicaid being the primary driver.

The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program as well as federal government rules limit the states' options in managing the pace of spending growth. Federal action to revise Medicaid's fundamental programmatic and financial structure does not appear to be a near-term priority of the current federal administration or Congressional leadership. As with all federal initiatives, Medicaid remains subject to regulatory changes that could affect various aspects of the program.

The combined ADC for the state's seven defined benefit pension plans are sizable relative to the budget. The state has contribution responsibility both for state employees and certain non-state employees, such as teachers and some public safety workers. Under a 2016 plan, when actual contributions equaled 30% of the ADC, the state committed to annually increase contributions in 10% increments of the ADC, with the goal of reaching 100% in fiscal 2023. The enacted budget for fiscal 2022 accelerates the final increase by one year and makes a supplemental contribution, as detailed earlier.

Since a 2016 statutory change, annual contributions are now allocated in four quarterly installments, instead of the previous single YE appropriation, reducing the likelihood of using the YE appropriation as a last-minute source of budget flexibility.

State employer contributions are sourced from general revenues and a share of lottery receipts under LECA. As of fiscal 2022, the employer contribution of \$6.9 billion (including a supplemental \$505 million contribution over and above the ADC from excess resources) consists of \$1.1 billion in net lottery receipts and \$5.8 billion in state appropriations. The state has backfilled the lottery receipts formerly flowing to education through higher operating fund appropriations.

The natural pace of expenditure growth is expected to exceed expected revenue growth in the absence of further policy action, based on underlying needs for education, Medicaid, employee health care and retirement obligations. Policy changes periodically affect these trends; for example, recent reforms to health care and prescription drug benefits have lowered state employee health care expenses materially. Other needs remain pressing, such as the need to support New Jersey Transit operations and capital spending.

New Jersey has demonstrated an ample ability to adjust budgeted expenditures to meet changing fiscal circumstances, albeit sometimes by deferring spending, and the governor has strong executive authority to implement reductions to balance the budget. These powers have been affirmed by the state's Supreme Court, which has held that financial obligations except for GO debt are subject to annual legislative appropriation unless approved by voters.

The state has comparatively high carrying costs due to its elevated liability burden, including state direct debt, pension liabilities and a considerable OPEB obligation. As of the fiscal 2020 audit, Fitch calculates debt service, actuarial pension contributions and OPEB pay-as-you-go contributions as equaling 14.7% of governmental expenditures.

Carrying costs will be subject to increase in the near term given higher debt service for the GO COVID-19 emergency bonds and the pension systems' changes to actuarial assumptions, including a shift to a 7% investment return assumption as of the 2021 valuation. However, this increase could be partly offset by the use of resources in the new debt defeasance and prevention fund to accelerate debt repayment, and by the beneficial impact on pension assets of higher fiscal 2022 contributions, assuming investment gains match or exceed the investment return target.

Long-Term Liability Burden

As of Fitch's 2020 State Liability Report, which uses fiscal 2019 data, New Jersey's combined burden of debt and net pension liabilities is third highest among U.S. states, at 21.4% of 2019 personal income, well above the 5.0% U.S. state median. For more information, please see <https://www.fitchratings.com/research/us-public-finance/2020-state-liability-report-liability-burdens-fall-in-final-year-of-economic-expansion-26-10-2020>.

The state's combined liability burden declined steadily in recent years, due to the effects of gradually declining direct debt and the rising blended discount rates being used to calculate pension liabilities. The latter reflects incremental progress on pension contributions noted above.

Long-term direct debt as of June 30, 2020, and including the \$4.3 billion of GO emergency bonds issued in November 2020, totals \$44.1 billion, equal to 6.5% of 2020 personal income. Fitch's figure also includes \$2.7 billion in GARVEEs and \$2.9 billion in tobacco settlement asset-backed bonds. The ratio has declined over several years as outstanding debt rolls off and as capital demands, including for transportation, have been deferred, but capital needs remain large and thus the continued decline of the direct debt burden is not likely.

In recent years the state had begun tackling key issues such as transportation infrastructure funding, transit operations, employee and retiree health benefits, and as noted above, embarked on a multi-year phased increase in pension contributions to the actuarial level. Transportation funding changes enabled progress on road and rail safety, although transit issues remain significant and unmet needs include repairs to aging infrastructure, most notably the \$11.6 billion Gateway Tunnel project. A full funding grant agreement was recently signed for the portal north bridge project, a key component, and the federal transportation package currently being deliberated includes funding for the project.

Pension Liabilities Remain Dominant Long-Term Challenge

The state administers seven pension plans, with most of its own liability in three multiemployer plans covering retired employees, police and firefighters (PFRS), and local teachers (TPAF); the state as non-employer carries all of the liability for TPAF and a small share of PFRS. For the seven systems in

aggregate, including the state's shares of the multi-employer plans, Fitch estimates that fiduciary assets covered only 34.5% of total pension liabilities attributable to the state as of the state's fiscal 2020 audit, or 34% using Fitch's standard 6% investment return assumption. This figure relies on a June 30, 2019 measurement date, excludes the lottery enterprise and the effect of the remaining contribution ramp up, and reflects five of the plans having depletion dates under the GASB pension accounting requirement.

Dedication of net lottery revenues under LECA had no effect on the pension plans' fiduciary net position, although its implementation delayed the plans' forecast depletion dates calculated under the GASB rules and lowered the state calculation of total pension liability. When combined with recognition of the state's progressive pension contribution ramp-up, the reported fiscal 2020 net pension liability declined to \$90.8 billion, a \$24.3 billion drop from fiscal 2017.

The reported ratio of assets to liabilities for New Jersey's plans will rise materially as recent contribution increases bring discount rates into alignment with the plans' investment return assumptions. As of the June 30, 2021 measurement date, the state estimates that plan assets will cover 49% of liabilities in aggregate (this figure includes both state and local components and thus is not comparable to the ratios above). No plans will report a depletion date.

A shift to more conservative actuarial assumptions will also affect contributions and the funded status of New Jersey's plans going forward. As of July 1, 2019, the plans shifted to a closed 30-year, level-dollar amortization, and as of July 1, 2020, they shifted to a 7% investment return assumption, from 7.3%.

OPEBs Remain Sizable, But Policy Action Reduces Risk

The state reports a total OPEB liability of \$65.6 billion in fiscal 2020, considerably lower than the \$90.5 billion reported two years earlier, and the \$97.0 billion reported in fiscal 2017, the first year of reporting under a new accounting standard. The decreases have been driven by factors including higher discount rates, savings from plan design changes, lower costs for medical claims, and lower medical cost inflation trends. While this matches Fitch expectation that OPEB represents a more flexible obligation when compared with pensions, it still equates to a relatively high 9.8% of 2020 state personal income.

Operating Performance

New Jersey's operating performance has improved relative to expectations during much of the pandemic, with the state demonstrating a strong ability to manage through challenges of the downturn without becoming financially stressed, and quickly recovering financial flexibility.

The state's ability to respond to cyclical downturns has largely rested with the governor's power to reduce expenditures in the event that revenues fall below budgeted appropriations. Given the timing of pension contributions, which were made at fiscal YE until fiscal 2017, this often resulted in the contribution becoming a de-facto cushion against budget underperformance, albeit one with a high long-term cost. Fitch views pension contributions below the actuarial level as being equivalent to deficit borrowing. In response to the pandemic-related budgetary and liquidity needs late in fiscal 2020, the state suspended \$900 million in appropriations, but maintained its budgeted pension contributions. In fiscal 2022, the state has completed the phase-in to full actuarial contributions, one year early.

The state has also been willing to raise tax rates, as demonstrated in the fiscal 2021 enacted budget tax rate increases noted above. At the time, the expanded top marginal tax rate to incomes above \$1 million was forecast to raise \$514 million in fiscal 2021, and the temporarily extended CBT surtax was forecast to raise \$261 million.

The surplus revenue fund (SRF), the state's rainy-day fund, has not historically provided a robust source of financial resilience. The SRF receives 50% of general fund revenues above the official certification, reduced by any shortfall in expected PIT revenues collected in the PTRF. Withdrawals are permissible as part of the budget or in the event of a fiscal year revenue shortfall. After depleting the balance in fiscal 2009, the SRF remained empty through most of the long economic expansion that followed. Stronger revenues in fiscal 2019 allowed a \$421 million deposit. These funds were drawn to help close the fiscal 2020 budget gap. Another \$2.4 billion is expected to be deposited for fiscal 2021, although these resources are again being drawn as part of the fiscal 2022 enacted budget.

Historically New Jersey has relied on interfund borrowing and the routine issuance of TRANs, among other tools to manage liquidity. Cash needs are driven by the timing of tax revenue collections, which are weighted to late in the fiscal year, and more level disbursements of state appropriations through the year. The state issued \$1.5 billion in TRANs in fiscal 2020 and authorized a \$2 billion TRANs issuance in fiscal 2021, although no borrowing was undertaken given the rebound in liquidity due both to unspent federal pandemic relief funds, proceeds of the GO COVID-19 emergency bonds and strengthening tax collections. No TRAN issuance is planned in fiscal 2022 given continued solid cash balances.

During the long economic expansion that ended with the pandemic, budgetary management in New Jersey was hampered by a delayed economic recovery and by longstanding practices that weakened operating performance. These included aggressive revenue forecasting, a reliance on non-structural actions and a contentious decision-making environment. The state responded to budgetary setbacks by reducing expenditures or deferring key spending needs, reallocating revenues and applying portions of its slim fund balance.

Financial performance has improved in the years leading into the pandemic, aided by stronger economic growth, more conservative revenue forecasting and explicit efforts to budget a more sizable ending balance as a first cushion against underperformance. Since the onset of the pandemic, the state has

relied on federal relief funds to cover substantial pandemic-related needs, even as the impact of surging tax revenues is redirected to address longstanding liabilities.

In fiscal 2021, \$3.7 billion in excess resources were redirected to reduce outstanding bonds and offset planned borrowing over a 10-year period, as detailed above. Nonetheless, the state expects to end the fiscal year with a \$4.2 billion undesignated surplus and \$2.4 billion in the SRF, together equal to 14.7% of appropriations. Following actions in the enacted budget, including the \$5.8 billion pension contribution (before deposit of net lottery revenues), fiscal 2022 is forecast to end with an undesignated surplus of \$2.4 billion, equal to nearly 5.1% of appropriations.

RATINGS LINKED TO THE STATE IDR

Fitch has affirmed the ratings on the following state appropriation obligations, which are linked to the state's IDR. The Outlook has been revised to Positive from Negative.

--New Jersey Economic Development Authority annual appropriation bonds;

--New Jersey Transportation Trust Fund Authority annual appropriation bonds;

--New Jersey Building Authority annual appropriation bonds;

--New Jersey Educational Facilities Authority annual appropriation bonds;

--New Jersey Health Care Facilities Financing Authority annual appropriation bonds;

--New Jersey Sports and Exposition Authority annual appropriation bonds.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

New Jersey Economic Development Authority (NJ)

EU Endorsed, UK Endorsed

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