
Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION: Meeting via Conference Call

DATE: May 5, 2023
2:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

James M. Rutala, Chair
Senator Paul A. Sarlo
Senator Douglas J. Steinhardt
Assemblyman Harold "Hal" J. Wirths
Lisa Almeida
Aaron Binder
Patrick Brennan
Leila Collins
David Drescher
Liz Mahn



ALSO PRESENT:

David F. Patella
Assistant Executive Director

Bartosz D. Zajac
Budget Specialist

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

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JAMES RUTALA (Chair): Good afternoon, this is Jim Rutala.

I would like to call the meeting of the New Jersey Commission on Capital Budgeting and Planning to order.

In accordance with the Open Public Meetings Act, the Commission has provided adequate notice of this meeting and given written notice of the time, date, and location. Notice of the meeting was filed at least 48 hours in advance by email or by fax to the *Trenton Times* and the *Newark Star-Ledger*, and filed with the Secretary of State.

Roll call, please.

MR. PATELLA: OK.

Senator Sarlo.

SENATOR SARLO: Senator Sarlo has joined the call.

MR. PATELLA: Senator Steinhardt.

SENATOR STEINHARDT: Here.

MR. PATELLA: Assemblyman Spearman. (no response)
Assemblyman Wirths.

ASSEMBLYMAN WIRTHS: Here.

MR. PATELLA: Mr. Binder.

MR. BINDER: Here.

MR. PATELLA: Mr. Drescher.

MR. DRESCHER: Here.

MR. PATELLA: Ms. Almeida.

MS. ALMEIDA: Here.

MR. PATELLA: Ms. Collins.

MS. COLLINS: Here.

MR. PATELLA: Mr. Brennan.

MR. BRENNAN: Here.

MR. PATELLA: Mr. Rutala.

MR. RUTALA: Here.

MR. PATELLA: And, Ms. Mahn.

MS. MAHN: Here.

MR. PATELLA: Chairman, you have a quorum.

MR. RUTALA: Thank you.

I'll take a motion to approve the minutes of February 24, 2023.

ASSEMBLYMAN WIRTHS: I'll move.

MR. RUTALA: Thank you.

Second?

MR. BINDER: Second.

MR. RUTALA: Thank you.

Roll call.

MR. PATELLA: OK, on the motion to approve the minutes from February 24.

Senator Sarlo.

SENATOR SARLO: Yes.

MR. PATELLA: Senator Steinhardt.

SENATOR STEINHARDT: I missed the last 30 seconds, it was just dead air, so I have no idea where we're at.

MR. PATELLA: Senator, we're just approving the -- moving the minutes from last meeting.

If you want to abstain, that's fine, since you weren't--

SENATOR STEINHARDT: I'll abstain, yes, because I wasn't (indiscernible) at that point.

So, thank you.

MR. PATELLA: Understood.

Assemblyman Spearman. (no response)

Assemblyman Wirths.

ASSEMBLYMAN WIRTHS: Yes.

MR. PATELLA: Mr. Binder.

MR. BINDER: Yes.

MR. PATELLA: Mr. Drescher.

MR. DRESCHER: Yes.

MR. PATELLA: Ms. Almeida.

MS. ALMEIDA: Yes.

MR. PATELLA: Ms. Collins.

MS. COLLINS: Yes.

MR. PATELLA: Mr. Brennan.

MR. BRENNAN: Yes.

MR. PATELLA: Mr. Rutala.

MR. RUTALA: Yes.

MR. PATELLA: And, Ms. Mahn.

MS. MAHN: Yes.

MR. PATELLA: Chairman, the motion moves.

MR. RUTALA: Thank you.

Next on the agenda, we have the debt report presentation for Fiscal Year 2020 -- 2022, I'm sorry.

D A V I D K. M O O R E: Good morning, Chairman Rutala and Commission members.

This is David Moore, the Director of the Office of Public Finance in the Department of the Treasury.

On the phone with me are Michael Kanef, the State Treasurer, and Anthony Longo, the Deputy Director of the Office of Public Finance. Today, we will present the State of New Jersey's Debt Report for Fiscal Year 2022.

Also on the call is Sonia Rivera-Perez, Deputy Director of Division of Pensions and Benefits, and Jeff DeCicco, Assistant Director of Financial Reporting in the Office of Management and Budget. Sonia is here to assist with any pension or other PERS employment benefit-related questions, and Jeff is here to assist with any accounting-related questions.

As you know, the Office of Public Finance at the Treasury Agency are responsible for managing the process of borrowing funds for capital purposes -- primarily (indiscernible) bonds and other obligations in the capital market.

The purpose of the report is to assist the Commission by (indiscernible) meeting and Legislative mandate to include such a report in its State Capital Improvement Plan. In addition, the report is made available on our office's website, and provides a data resource document to the public finance community.

I will now turn it over to Anthony Longo to present the report.

ANTHONY M. LONGO: Thank you, David.

The (indiscernible) report is generally consistent in its format with that of prior years. The report comprises eight sections. Section 1 is an introduction, which includes a discussion of the various types of obligations covered and not covered by the report. Section 2 is the legislative

requirement for the report. Section 3 includes the state's outstanding obligations, which consist of summary tables and charts; changes in long-term obligations; a 10-year history of outstanding obligations; and a listing of legislatively authorized unissued debt.

Section 4 provides data on the annual debt services associated with the State's outstanding obligations with summary tables and charts, followed by more detailed data. In section 5, we provide obligation profiles for each bond issue or program funded with bonds. Section 6 provides selected debt metrics, which compares New Jersey's standing relative to the other states. Section 7 contains a glossary of terms and headings used throughout the report, and in the State's annual comprehensive financial report. Section 8 contains supplemental information, including subsequent events which occurred after June 30, 2022.

Certain pension and benefits data and a copy of the debt defeasance and prevention final report were sent to the Joint Budget Oversight Committee earlier this year.

At this point, I will begin a brief review of the numbers, focusing on some of the major totals and subtotals. Please turn to page 8 of the report.

If you look at the fourth line down of the top table, you can see that the total ACFR reconciled bonded obligations increased \$4.3 billion from Fiscal Year 2021 to Fiscal Year 2022. Non-bonded obligations decreased \$32.7 billion to \$168.6 billion. The bonded and non-bonded obligations together sum the report total of \$212.5 billion of aggregate bonded and non-bonded obligations as of June 30, 2022. This represents a decrease of \$37 billion from June 30, 2021 from \$249.5 billion. You can see

in the percent total column that the non-bonded obligations account for almost 80% of the State's aggregate outstanding obligations.

If you turn to page 10, you'll see the outstanding general obligation bonds of the State. The State's general obligation bonds decreased \$435.1 million year over year. The State's total outstanding amount of general obligation bonds on June 30, 2022 was \$5 billion.

If you look at the next page, you can see the State's Subject to Appropriation Bonds supported by general State revenues. These obligations decreased by over \$2.7 billion. The total outstanding amount of these obligations on June 30, 2022, was \$11.7 billion.

If you turn to the next page, you can see the State's Subject to Appropriation Bonds, supported by dedicated State revenues. These obligations decreased by \$675.5 million year over year. The total outstanding amount of these obligations on June 30, 2022, were \$16.5 billion. Also on this page is a subtotal for the two previous sections.

If you turn to the next page, you can see the ACFR reconciliation, which consists of obligations not supported by State revenues; obligations recorded on other entities' books, and other bond adjustments. The total ACFR reconciliations decreased \$445.4 million year over year to \$10.7 billion. Some of the four previous sections with the aggregate bonded obligations figure, a full \$2.9 billion -- which, again, was a decrease of \$4.3 billion.

If you turn to the next page, you can see the non-bonded obligations totaled \$168.6 billion on June 30, 2022 -- a decrease of \$32.7 billion. If you add the aggregate bonded obligations figure from the previous page and the total non-bonded obligations from this page, you will arrive at

the report total of \$212.5 billion for aggregate bonded and non-bonded obligations as of June 30, 2022 -- a decrease of \$37 billion.

In addition to the information on this page on outstanding obligations, the statute also requires their report to include debt service cost on those obligations for the prior fiscal year, the current fiscal year, and the subsequent five fiscal years.

If you turn to page 18, you can see in Fiscal Year 2022 the State incurred \$4.1 billion in debt services, supported by State revenue. In Fiscal Year 2023, that figure was projected to increase to \$4.3 billion, then decrease to \$4.1 billion in Fiscal Years '24 and '25, then decrease to \$4 billion in Fiscal Year 2026, then decrease to \$3.7 billion in Fiscal Years 2027 and 2028.

If you turn to page 20, you can see that the debt service supported by general state revenues in Fiscal Year 2022 was \$2.4 billion. In Fiscal Year 2023, that figure was projected to increase to \$2.6 billion then decrease to \$2.5 billion in Fiscal Years 2024 and 2025, then decrease to \$2.4 billion in Fiscal Year 2026, then decrease to \$2.1 billion in Fiscal Years 2027 and 2028.

If you turn to the next page, you can see the debt service supported by dedicated State revenues in Fiscal Year 2022 with \$1.7 billion. That figure was projected to remain at \$1.7 billion in 2023, then decline to \$1.6 billion in Fiscal Year 2024 through 2027. In addition to bonded and non-bonded debt, the statute also required the report to include the unfunded actuarial accrued liability through the State-administered retirement system and the unfunded actuarial accrued liability for post-retirement, medical, and other benefits.

Those figures are represented on pages 67 through 72 of the report.

I will end my presentation there. I am happy to answer any questions with regard to the report.

MR. RUTALA: Thank you.

Are there any questions?

SENATOR SARLO: Just a question, and I appreciate the report and all the data that you did provide, and the Executive Summary (indiscernible)

Did I hear correctly -- \$37 billion reduction in debt year over year? Was that the number you used for Fiscal Year ending on 6-30-2022?

MR. LONGO: Yes, you're right; \$37 billion, yes.

SENATOR SARLO: So, \$37 billion, that would be, now -- OK. It says \$212 total, correct? You had indicated \$212 billion total?

MR. LONGO: Yes.

SENATOR SARLO: OK. And, that's \$37 billion down from the previous fiscal year? Is that correct?

MR. LONGO: Yes, \$249 to \$212.

SENATOR SARLO: \$249 to \$212; OK.

I just wanted to make sure I heard that correctly. OK.

And, now, did you do retiring of old debt? (indiscernible) of retiring of old debt?

MR. MOORE: Some of it is skewed -- this is David Moore -- some of it is skewed to retiring of debt, and some of it is skewed to changes in pension funds, and that outstanding liability.

Some folks from the Department of Pensions can probably describe that better than I can.

SENATOR SARLO: OK, is there somebody from Pensions that can just shed light on that?

SONIA RIVERA - PEREZ: Sure, this is Sonia Rivera-Perez from the Division of Pensions.

There were two major reductions. The first one would be a reduction of over 25% for a net pension liability, and that's mainly reflective of the State's progress in fully funding the pension contributions. In prior estimates, it was assumed that the State would only fund a portion of their required contributions, and now that the State is fully funding those contributions, functions have been updated, which resulted in a reduction in our net pension liability.

And, the second half of the reduction has to do with our OPEB liability, and that's more with (indiscernible) medical benefits that our members receive. We're seeing a 12% reduction in that liability that's attributable to improvement in our trends, specifically for our Medicare Advantage population. That's the program that most of our retirees are enrolled in. We've seen an improvement in that experience, and that's resulting in a reduction in our liability.

SENATOR SARLO: Thank you

SENATOR STEINHARDT: If I can, I have two follow-ups from Senator Sarlo, if that's OK.

MR. RUTALA: Please, go ahead.

SENATOR STEINHARDT: Thanks.

So, just so I understand, the \$37 billion reduction -- now, does that not come after an increase last year of more than that? So, a two-year comparison, as opposed to a one-year comparison, would actually show the debt increased?

MR. MOORE: In the prior year, for June 30, 2020, the total was \$204. So, it went from \$204 to \$249, and then down to \$212.

SENATOR STEINHARDT: So, an increase of \$45 billion, and a reduction of \$37, right?

MR. MOORE: Approximately.

SENATOR STEINHARDT: OK.

And, then, if I can follow up, I heard a comment about the pension, I just want -- so I'm clear on that, too.

The unfunded pension and health debt -- same question, I guess -- increased by more last year than it fell this year. Is that not also accurate?

MS. RIVERA-PEREZ: Correct, and, just to expand on that, the reason why in the prior year there was a much higher increase -- those liabilities are required to be calculated based on guidance from GASB and what essentially happened is that the bond rate used to discount the liabilities increased because of the time of measurement.

We had seen that in the rates for the time period that was used. And, we do expect that when these estimates are recalculated next fiscal year the bond rate that will be used will increase.

So, we do expect to see improvement in the numbers. In essence, this is a timing issue with specific methodology that was used to calculate the liabilities.

SENATOR STEINHARDT: Thank you for that clarification.

The last two follow-ups: Has there been any new debt issued since the date of the report?

So, in other words, it wouldn't be captured in the report itself, but has there been debt issued (indiscernible)?

MR. LONGO: There's a supplemental information section in the back of the report that has the list.

SENATOR STEINHARDT: I'll just scroll my way back--

MR. LONGO: Like, page 66, hopefully, on the bottom of the page.

SENATOR STEINHARDT: OK. I'm working on it, sorry.

MICHAEL KANEF, J.D.: Hi, this is Michael Kanef from Treasury.

That page will list both the new money issuance and also the defeasance that the State has completed since the report date.

SENATOR STEINHARDT: OK, so, I'm not (indiscernible) but then roughly a billion dollars in new bonds -- does that sound about right?

MR. KANEF: Slightly higher than that.

SENATOR STEINHARDT: A little higher than that. OK.

UNIDENTIFIED SPEAKER: (indiscernible)

SENATOR STEINHARDT: OK.

Any other plans, future sales of debt that wouldn't be captured or -- yeah, I guess that's -- and, then, I guess that'll be my last question.

MR. LONGO: We just completed our funding issues that saved about \$43 million on present value basis for New Jersey Economic Development Authority School Construction Bond that's not captured in this report (indiscernible) a couple of weeks ago.

SENATOR STEINHARDT: Anything related to TTF?

MR. LONGO: We are working -- currently working on a transaction for TTF. It would close the beginning of June.

SENATOR STEINHARDT: (indiscernible) associated with that?

MR. LONGO: It's (indiscernible) funding for savings, so depending on what the market conditions were.

SENATOR STEINHARDT: Gotcha, OK.

Chairman, I have nothing else.

Thank you for that.

MR. KANEF: This is Michael Kanef from Treasury, just one additional point so I can provide some context for your first question if I could.

And, that is--

SENATOR STEINHARDT: Yes, thank you, if you could.

MR. KANEF: --2017 aggregate bonded and non-bonded obligations number, that's on page 16 of the report.

It's about \$262 billion--

SENATOR STEINHARDT: OK--

MR. KANEF: --and then basically it drops to \$239 and then \$217, and then \$204, \$249, and \$212.

So, the numbers do bounce around a little; there's some volatility in them, and some of that is, as Sonia mentioned, timing. And, some of it, if there are impacts -- for example, changing interest rates, which as you may know have been quite volatile over the past couple of years -- do impact the calculation of these numbers as well.

But, I think if you look at a longer-term trend, the efforts of the Legislature and the administration I think have been successful over the past several years of driving down a good chunk of the bonded and unbonded liabilities that the State pays. But, there's still work to be done.

SENATOR STEINHARDT: Listen, I appreciate that. I'm grateful for the explanation.

I am relatively new -- not only new to this committee, but new to the body -- so there is a big learning curve for me, too.

So, thank you, I appreciate you bearing with me.

I don't have anything else, but thank you for that.

SENATOR SARLO: I have one follow up -- Senator Sarlo -- Senator Steinhardt, and he raised a good point.

So, year-over-year, if you look at the two-year, from \$204 to \$249, and then coming back down to \$212. What was the big spike in the previous Fiscal Year from \$204 up to \$249?

MS. RIVERA-PEREZ: This is Sonia Rivera-Perez again.

There were -- specifically for our (indiscernible) liability, the way that those liabilities are calculated, they're based on a snapshot of time.

So, in 2021, particularly, we had two major drivers -- the experience, the health benefit trend for that particular measurement period. We're showing an increase in cost that did reverse itself when it was recalculated, and we also had a reduction in the bond rate that was used to develop that estimate. So, those two items resulted in a big uptick in (indiscernible) liability.

And, particularly for pensions there was a smaller increase, and that was because, at that point in time, the State had not yet started to fully fund contributions, and that caused the liability to increase slightly.

SENATOR SARLO: OK, thank you, I just wanted to get that clarified. Thank you.

SENATOR STEINHARDT: Senator Sarlo, thank you; I appreciate it.

MR. RUTALA: Any more questions?

ASSEMBLYMAN WIRTHS: I just have one question.

One of you guys touched on the interest rates, and (indiscernible) I was wondering if somebody could fill me in on the difference. I mean, (indiscernible) what the interest rates are on the bonds going out now, compared to what they were? I mean, they've been extremely low the last, what, six, seven, eight years? But, what are we seeing, and (indiscernible) I know we're obviously going to be paying a lot more money, but what was the most recent bond sale, or one that we have coming up, if you could give me an idea on when they're going out.

MS. RIVERA-PEREZ: I can speak specifically to the bond rate that was used for OPEB liabilities, pension liabilities, and the waiting period that you're looking at now, the rate was around 2.16%, and we expect that when the estimates are recalculated again, they will be based on the rate of 3.54%.

MR. KANEF: If I could ask David Moore -- this is Michael Kanef -- could I ask David Moore just to provide a little color on the actual interest rates on some of the (indiscernible) State bonded debt?

MR. MOORE: The bond transaction that we recently (indiscernible) close to (indiscernible)

ASSEMBLYMAN WIRTHS: I couldn't hear you, three point what?

MR. MOORE: Seven five.

ASSEMBLYMAN WIRTHS: Oh, 3.75%. That was the most recent?

MR. MOORE: Yes.

ASSEMBLYMAN WIRTHS: How many Fed hikes has there been since that sale (indiscernible)

UNIDENTIFIED SPEAKER: Just the one (indiscernible)

ASSEMBLYMAN WIRTHS: Just the one, OK.

UNIDENTIFIED SPEAKER: The Fed hikes don't translate directly into our market, and (indiscernible) hikes on taxable treasuries, and we're in the tax exempt space so our rates are always be -- should be a little lower if we're tax exempt.

ASSEMBLYMAN WIRTHS: Oh, no, I get that, but, I meant obviously the competition (indiscernible) Fed hike. A rising tide lifts all ships, unfortunately.

UNIDENTIFIED SPEAKER: It does, yes.

MR. KANEF: Although -- and this is Michael Kanef again from Treasury -- just to provide a little additional color, if you'll bear with me.

The Fed hikes also tend to increase shorter-term rates, and when the State issues, it often is issuing 25- or 30-year (indiscernible). And, those longer-term interest rates, while influenced by the Fed hike, are also influenced by market conditions.

So, given the expectations of a potential recession, the longer-term rates might actually, in some cases, be shorter than -- I'm sorry, pardon me, they'd be lower than a long-term rate. So, the rates that David was providing you with are really a blended rate for the different bonds that are issued with the different maturities.

So, again, the Federal actions do impact the markets and rates, but they don't translate, as David said, directly into the rates that the State pays in the tax-exempt market.

ASSEMBLYMAN WIRTHS: Thank you.

I'm good here on my end.

MR. RUTALA: Are there any other questions? (no response)

If not, can I have a motion to approve the Debt Report for Fiscal Year 2022?

Do we have a motion?

MS. MAHN: This is Liz Mahn, I'll motion.

MR. RUTALA: Thank you, Liz.

A second?

MR. DRESCHER: Second.

MR. RUTALA: Thank you.

Roll call.

MR. PATELLA: On the matter of accepting the Debt Report for Fiscal Year 2022.

Senator Sarlo.

SENATOR SARLO: I will move the Debt Report as presented.

MR. PATELLA: Senator Steinhardt.

SENATOR STEINHARDT: Yes.

MR. PATELLA: Assemblyman Wirths.

ASSEMBLYMAN WIRTHS: Yes.

MR. PATELLA: Mr. Binder.

MR. BINDER: Yes.

MR. PATELLA: Mr. Drescher.

MR. DRESCHER: Yes.

MR. PATELLA: Ms. Almeida.

MS. ALMEIDA: Yes.

MR. PATELLA: Ms. Collins.

MS. COLLINS: Yes.

MR. PATELLA: Mr. Brennan. (no response)

Mr. Brennan. (no response)

Mr. Rutala.

MR. RUTALA: Yes.

MR. PATELLA: And, Ms. Mahn.

MS. MAHN: Yes.

MR. PATELLA: The motion moves.

MR. RUTALA: Very good.

Is there any other business?

MR. PATELLA: Chairman, there is no other business.

MR. RUTALA: If not, can I hear a motion for adjournment?

ASSEMBLYMAN WIRTHS: So moved.

SENATOR STEINHARDT: Second.

MR. RUTALA: Thank you very much.

Have a good weekend.

(MEETING CONCLUDED)