

# New Jersey GO Debt Rating Raised To 'A-' From 'BBB+' On Improved Structural Deficit And Liquidity

March 31, 2022

NEW YORK (S&P Global Ratings) March 31, 2022--S&P Global Ratings raised its rating on the State of New Jersey's general obligation (GO) bonds to 'A-' from 'BBB+', and its long-term and underlying ratings to 'BBB+' from 'BBB' on various other bonds secured by annual appropriations from the state. S&P Global Ratings also raised its rating on New Jersey bonds secured by appropriations for a human services provider to 'BBB' from 'BBB-', and on South Jersey Port Corp.'s state moral obligation debt to 'BBB-' from 'BB+'. The outlook is stable.

At the same time, S&P Global Ratings raised its rating on the New Jersey Qualified Bond Act Program one notch to 'BBB+' from 'BBB' and its rating on the New Jersey Fund for Support of Free Public Schools Program to 'A-' from 'BBB+'. This affects the long-term ratings on issues where S&P Global Ratings maintains an underlying rating that is below the state program rating and issues that carry only a program rating. The outlook is stable. The rating action on the New Jersey state credit enhancement programs follows our rating action on the state.

"The upgrade reflects what we view as material improvement in the state's structural deficit and near-term liquidity, with recent surplus revenues being used to promote what we view as longer-term financial stability and an improved commitment to prefunding liabilities, although credit pressures remain," said S&P Global Ratings credit analyst Tiffany Tribbitt.

Our 'A-' GO rating on New Jersey reflects our view of the following factors:

- A history of substantially underfunding the state retirement systems' annual actuarially determined contribution (ADC) and lack of pre-funding for other postemployment benefits obligations, which in our view puts pressure on future budgets;
- A structural deficit that, while narrowing in recent years due to surplus revenues, could increase again during an economic downturn; and
- A diverse economic base benefiting from its strategic location between New York City and Philadelphia, resulting in per capita income levels that are among the highest in the nation, but growth that often lags the national rate.

We view New Jersey's governance factors as moderately negative within our credit rating analysis based on historical pension contribution underfunding and the state's legal or practical impediments to modifying the benefit structure for the plans (see "ESG Brief: ESG Pension and OPEB Analysis In U.S. Public Finance," published Oct. 7, 2021, on RatingsDirect). However, our forward-looking view of this risk is modestly improving based on the state's full ADC contribution beginning in fiscal 2022. In addition, we view the state's cybersecurity support for its local governments and school districts through the New Jersey Cybersecurity and Communication Integration Cell as a sign of good governance and risk mitigation. Although environmental risks are

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elevated given New Jersey's long coastal exposure and higher levels of air pollution, in part due to emissions from other states, the state actively works to mitigate these risks through strategic infrastructure investments, including decarbonizing transportation in areas with poor air quality, and partnering with local governments and leveraging federal funding for climate resilience projects. Finally, although court mandates regarding school funding in low-income districts result in elevated social risks, recent legislative changes to the funding formula mitigate the influence in our credit analysis. This results in a neutral influence from environmental and social risks within our analysis. See "ESG Credit Indicator Report Card: U.S. States And Territories," published March 31, 2022.

If the state continues to improve its funding discipline and makes what we view as sustainable progress in maintaining its Governmental Accounting Standards Board pension funded ratio above 40%, without increasing its structural deficit or experiencing deterioration in any other credit factors, we could raise the rating.

If the state's financial progress reverses, because of such factors as little or no revenue growth due to a weakening of the economy, pension underperformance, or political unwillingness to make necessary adjustments, we could lower the rating.

### **Related Research**

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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