FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades New Jersey's IDR to 'A'; Outlook Positive

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Fitch Ratings - New York - 12 Sep 2022: Fitch Ratings has upgraded New Jersey's Issuer Default Rating (IDR) to 'A' from 'A-', and has upgraded the following ratings linked to or capped by the state's IDR:

--Approximately $5.5 billion general obligation (GO) bonds to 'A';

--Approximately $484 million Garden State Preservation Trust revenue bonds to 'A';

--The state's qualified bond program and school bond credit enhancement program (Chapter 72) ratings to 'A-';

--Approximately $30.7 billion appropriation obligations issued by state authorities and linked to the state's IDR (as detailed at the end of this release) to 'A-'.

The Rating Outlook is Positive.

RATING ACTIONS

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

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 the pledged property, which consists primarily of a portion of state sales tax revenue to be received by the trust pursuant to the state contract, subject to annual appropriation.

The 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 a contract, lease or other commitment between the issuing agencies and the state treasurer and the requirement of annual legislative appropriations for debt service.

ANALYTICAL CONCLUSION

The upgrade of New Jersey's IDR to 'A'/Positive Outlook reflects Fitch's view that the strong fiscal momentum of recent years and consistent policy actions to confront its long-term fiscal and liability challenges reflect a notable improvement in budget management. These steps have materially improved the state's near-term resilience and are likely to yield further gains going forward. A solid economic rebound, robust revenue collections and the presence of federal support have enabled it to build a sizable fiscal cushion, while simultaneously addressing high debt and pension liabilities and considerable unmet capital needs.

The state benefits from inherent strengths including very high wealth and the broad budget management prerogatives common to states. Despite recent progress, New Jersey continues to be challenged by very high liabilities and elevated carrying costs, constraining the state's budget choices.

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'

New Jersey's revenue system is very diverse and sensitive to economic trends. Underlying growth prospects are slow, approximating Fitch's long-term expectations for the national 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 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. The carrying cost for long-term liabilities is well above the U.S. state median driven by high debt and the cumulative effects of weak pension contribution practices, although having achieved full actuarial contributions, carrying cost growth is likely to slow going forward.

Long-Term Liability Burden: 'a'

The long-term liability burden is elevated and well above that of most U.S. states, reflecting 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 leave this ratio comparatively high. Other post-employment benefit liabilities are significant. Recent dedication of significant resources to reducing the debt burden could support improvement in Fitch's assessment of the long-term liability burden and the state's overall rating.

Operating Performance: 'a'

Gap-closing capacity has been strengthened as the recovery progresses, although operating performance would likely be more challenged in a downturn given somewhat constrained expenditure flexibility. Reduced reliance on nonrecurring actions and the building of higher operating balances have further strengthened budget management. Recent enacted budgets and Fitch's assessment of the state's fiscal trajectory suggest further gains in operating performance are likely over the next one to two years, supporting the positive outlook.

RATING SENSITIVITIES

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

--Further progress in addressing high liabilities and other sources of spending pressure, including by lowering outstanding debt, maintaining full actuarial pension contributions and effectively managing other employee and retiree benefit costs;

--Further improvements that prioritize stronger and sustainable fiscal reserves and minimize reliance on one-time resources;

--Accelerating economic gains that over time lead to revenue growth consistently in excess of Fitch's long-term expectations for national inflation.

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 making full actuarial pension contributions, is straining its operating performance;

--Significantly increased reliance on non-structural budget solutions or difficulty absorbing the budgetary effect of expiring federal pandemic assistance;

--A significant weakening of the state's economic trajectory that leads to revenue growth consistently below long-term expectations for national 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

New Jersey Economic Update

The state's labor market situation was weak through the pandemic, but has improved considerably through 2021 and 2022. At the start of the pandemic, non-farm payroll declined slightly 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 recovery in jobs since April 2020 has accelerated, with 99% of jobs regained through July 2022, just below the national level.

New Jersey's official monthly unemployment rate of 3.7% in July 2022 remains slightly higher than the national 3.5% rate for that month. Fitch also considers the employment to population ratio (EPOP) when evaluating the health of labor markets, with New Jersey's suggesting a solid recovery, albeit not yet to pre-pandemic levels. New Jersey's EPOP of 60.6% in July was above the 60% national level in that month but below the 61.8% rate it reported in February 2020, just before the pandemic.

New Jersey Budgetary Update

Similar to many states, New Jersey's finances since the pandemic struck have been remarkably resilient relative to earlier forecasts, supported by federal pandemic aid, state balancing actions and tax collections well beyond earlier forecasts.

The enacted budget for fiscal 2022, which ended on June 30, made progress on longstanding challenges while leaving New Jersey with considerably improved flexibility. As part of the budget, the state set aside $3.7 billion in excess fiscal 2021 resources in a debt defeasance and prevention fund (DDPF), with $2.5 billion to retire outstanding debt and $1.2 billion for pay-go capital. Of this initial amount, the state defeased $2.2 billion in outstanding debt, which it estimated would save over $600 million in debt service over ten years.

The fiscal 2022 budget also included a $6.9 billion contribution to the state's pensions, consisting of the full $6.4 billion full actuarial determined contribution (ADC), plus a supplemental contribution of $505 million to accelerate funding progress. The payment marked the first full actuarial contribution after 26 years of contribution shortfalls. The state paid $5.8 billion toward the ADC at the start of the fiscal year, rather than allocating it in quarterly installments, the state's practice since 2017; another $1.1 billion was deposited from monthly net lottery proceeds under the 2017 state Lottery Enterprise Contribution Act (LECA), which redirects lottery net revenues to the pension systems.

Although final revenue figures for fiscal 2022 have not been released, strong performance prompted the state to strengthen its forecast, initially with the governor's executive budget for fiscal 2023 (announced in February) and again in May 2022, during budget negotiations. Total revenue as of May was forecast at $51.4 billion, up $2.8 billion (5.9%) from fiscal 2021 actuals and $9.1 billion (21.6%) from the enacted budget estimate.

As of May, the revenue surge was projected to leave the state with an estimated $10.7 billion ending fund balance, or nearly 21% of total revenue. For the 13 months through July 2022, the Treasurer reports that cash collections for major revenues were $7.9 billion (19.4%) over collections for the comparable period a year earlier.

Recovery Continues in Fiscal 2023

The fiscal 2023 enacted budget assumes continued fiscal momentum, albeit at a slower pace as recovery from the pandemic progresses. As of May, forecast revenues were raised $3.3 billion (7%) from the executive budget, to $50.6 billion. However, the outlook struck a cautious note, with total revenue forecast to fall $846 million (1.6%) from fiscal 2022, reflecting the state's view that collections are likely to revert to longer-term trends as the recovery matures. Although sales taxes would rise 2% year over year, gross income tax (GIT), pass-through business alternative income tax (PTBAIT), and corporation business tax (CBT) would decline 1.3%, 8.1% and 4.9%, respectively.

The enacted budget includes appropriations of $50.6 billion, about 3.7% lower than estimated fiscal 2022 spending. Major initiatives were largely in line with the executive budget proposal. The plan includes a full $6.8 billion actuarial pension contribution (from both budgeted resources and state lottery receipts under LECA, the second consecutive year the state has made full actuarial payments. The budget also sets aside more than $2 billion for direct property tax relief and $9.9 billion for K-12 formula aid, a $650 million increase. It includes a back-to-school sales tax holiday and a $500 per child tax credit for filers with incomes up to $30,000, phasing out thereafter for filers with income up to $80,000.

Fiscal 2023 is forecast to end with a balance of $6.8 billion, equal to more than 13% of budgeted appropriations, a level well above historical trends. On the capital side, the budget makes an additional $5.2 billion deposit to the DDPF from the fiscal 2022 ending balance, following the $3.7 billion deposit a year ago, to help address the state's comparatively high debt burden. Of the new deposit, $1.9 billion is targeted to school capital, primarily in higher-need districts, $814 million is targeted to New Jersey Transit (NJT) and $230 million is targeted to transportation projects.

The plan also allocates $2.1 billion in federal American Rescue Plan (ARP) Act money for capital, leaving only $1.7 billion remaining to be allocated in fiscal 2024; remaining ARP funds are not included in the state's fiscal 2023 ending balance, but are an additional source of flexibility should the state need it. The state reports continued strong liquidity, with no cash flow borrowing anticipated in fiscal 2023 for the third consecutive year.

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 slightly 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 GIT is deposited to the PTRF and is the largest source for supporting operations, at 40% of forecast fiscal 2022 operating revenues. As part of its pandemic response in the fiscal 2021 enacted budget, the state extended the 10.75% marginal top rate on taxable income down to $1 million, from $5 million.

Before the pandemic, the state implemented the PTBAIT as part of its response to the 2017 federal tax law changes; taxes paid by pass-through entities is offset by credits to GIT and CBT filers, and thus the tax is expected to be revenue neutral. The PTBAIT is generating about 7% of forecast fiscal 2022 operating revenue.

A state sales tax levied at 6.625% provides about 24% operating funds; this includes a tax on remote sales in place since 2018. CBT is a smaller contributor to revenues (11% in fiscal 2022), 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 the long-term rate of national inflation, consistent with the mature nature of its economy and its slow population growth. Revenue growth over the 10 years through fiscal 2020 was above growth in both U.S. GDP and inflation, after multiple years below, reflecting its strengthened recovery in part, and 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 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 healthcare and retirement obligations. Policy changes periodically affect these trends; for example, recent changes to health care and prescription drug benefits have lowered state employee healthcare expenses materially. Other needs remain pressing, such as support for New Jersey Transit (NJT) 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 direct debt, pension liabilities and a considerable OPEB obligation. As of the fiscal 2021 audit, Fitch calculates debt service, actuarial pension contributions and OPEB pay-as-you-go contributions as equaling 13.8% of governmental expenditures.

Over the near term, carrying costs for debt and pensions may grow more slowly or see modest declines.

For debt service, DDPF deposits are resulting in debt defeasances that have reduced principal and interest payments; defeasances undertaken from the fiscal 2021 deposit were estimated to have generated over $600 million in interest savings over 10 years, as noted earlier. Pay-go capital spending in place of borrowing will likely generate additional savings. The state does not have a timeline yet for additional defeasance savings from the fiscal 2022 deposit, but the governor expects to begin applying the new resources this year.

For pensions, the growth of state contributions is forecast to flatten out assuming the state maintains full actuarial pension contributions and other plan assumptions are achieved. Volatile investment performance and assumption changes triggered by actual experience deviating from actuarial targets could affect this outlook.

Past contributions for pensions have risen sharply but are likely to slow going forward now that the state has reached its goal of making full actuarial contributions. 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 only 30% of the ADC, the state committed to annually increase contributions in 10% increments, with the goal of reaching

100% in fiscal 2023. The fiscal 2022 enacted budget accelerated the final increase by one year and made a supplemental contribution, and the enacted budget for fiscal 2023 has again included full actuarial contributions.

Pension contributions are now allocated in four quarterly installments, instead of the previous single year-end appropriation under a 2016 statutory change, reducing the likelihood of using the year-end appropriation as a last-minute source of budget flexibility. State employer contributions are sourced both from general revenues and a share of lottery receipts under LECA, with lottery receipts formerly flowing to education backfilled through higher operating fund appropriations.

In contrast, OPEB expenses are likely to rise, driven by higher utilization trends following the pandemic and the higher inflation environment. Prior to the pandemic, state actions to curb employee and retiree health costs and slower medical claim and cost inflation trends had had a beneficial effect on state health costs, including OPEB contributions and liabilities.

Long-Term Liability Burden

As of Fitch's 2021 State Liability Report, which uses fiscal 2020 data, New Jersey's combined burden of debt and net pension liabilities (adjusted to a 6% discount rate) was third highest among U.S. states, at 20.2% of 2020 personal income, well above the 4.7% U.S. state median. The state's combined liability burden declined steadily in the years before the pandemic, due both to limited issuance of direct debt and the rising blended discount rates being used to calculate pension liabilities. The latter reflects incremental progress on pension contributions noted above. Using fiscal year-end 2021 data, Fitch estimates New Jersey's long-term liabilities at 20.4% of 2021 personal income.

Long-term direct debt as of June 30, 2021 totals $42.2 billion, equal to 6.1% of 2021 personal income. Fitch's figure also includes $2.7 billion in GARVEEs and $2.9 billion in tobacco settlement asset-backed bonds. The figure also includes $3.7 billion in New Jersey Covid-19 GO emergency bonds, issued in November 2020 to offset the then-projected revenue shock as the state confronted the pandemic.

Although the GO Covid-19 emergency bond issuance marked a sharp reversal of the pre-pandemic declining debt trend, state actions taken since then are materially reducing outstanding borrowing, chiefly through the DDPF created in 2022.

Despite substantial capital allocations, unmet infrastructure needs for schools, roads and transit remain significant. The largest of these is the Gateway Tunnel project, now expected to be completed in 2038 at a cost of $16.1 billion. The federal government is expected to cover half of the cost, with the remainder split between New Jersey and New York. One component in New Jersey, the Portal North Bridge, has broken ground already, although the main tunnel below the Hudson River will not break ground until 2024.

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 (PERS), 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, excluding local shares of the multi-employer plans, Fitch estimates that fiduciary assets covered only 32.7% of total state pension liabilities as of its fiscal 2021 audit, or 31.7% using Fitch's standard 6% investment return assumption. The state reported a fiscal 2021 net pension liability in aggregate at $95.2 billion across its plans, with Fitch's recalculation based on a 6% discount rate at $99.2 billion.

Due to timing lags built into pension accounting, the state's fiscal 2023 audit will be the first to fully reflect the effect of making 100% of actuarial contributions on the plans. All else being equal, the reported ratio of assets to liabilities for New Jersey's plans should rise as full contributions bring discount rates into alignment with the plans' investment return assumptions. As of the state's fiscal 2021 audit, three plans still report depletion dates.

In the current environment, New Jersey's pensions are relatively less exposed to inflation pressures given a 2011 statutory change, later upheld in the state Supreme Court, that suspends automatic cost-of-living adjustments until the plans reach 80% funding. To date, the state has not revisited benefit provisions as it focuses on addressing large unfunded liabilities.

OPEB Liabilities Sizable and Volatile

The state reports a total OPEB liability of $101.6 billion in fiscal 2021, equal to a relatively high 14.6% of personal income. The liability has been subject to significant year-to-year swings since implementation of the new GASB reporting standard in fiscal 2018, chiefly given the use of a variable municipal bond index rate to calculate the liabilities in the absence of prefunding. As noted earlier, in the past the state has been able to make policy changes curbing health care cost growth for employees and retirees.

Operating Performance

New Jersey has established very strong gap-closing capacity based on policy actions to build reserves, material paydowns of various long-term liabilities and narrowing of the structural budget gap with full actuarial pension contributions. Until recently, New Jersey's ability to confront cyclical downturns has largely rested with the governor's power to reduce expenditures in the event that revenues fall below budgeted appropriations.

The state responded to budgetary setbacks by reducing expenditures or deferring key spending needs, reallocating revenues and applying portions of its slim fund balance, or reducing or eliminating pension contributions. The latter often resulted in the pension 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 equivalent to deficit borrowing.

Financial resilience is now improving as a result of state policy actions, the strong economic and revenue boost the state is enjoying and the presence of federal aid. Early in the pandemic, the state suspended $900 million in fiscal 2020 appropriations, but maintained its budgeted pension contributions, which included a material

increase from the prior year. In the fiscal 2021 enacted budget, the state raised the top marginal tax rate to incomes above $1 million and temporarily extended the CBT surtax, which together were expected to raise nearly $800 million.

Budgetary cushion in the form of an ending fund balance has expanded as fiscal performance has improved. The ending balance rose from $1.7 billion in fiscal 2019 to $2.2 billion in fiscal 2020 and to nearly $6.9 billion in fiscal 2021. As of the May forecast estimate, the state anticipated an ending fund balance of $10.7 billion in fiscal 2022 and $12 billion in fiscal 2023 (before final legislative actions, including the deposit to the DDPF).

The ending fund balance consists of an undesignated fund balance and deposits to the surplus revenue fund (SRF), which 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.

Prior to the recent rise in internal balances, state liquidity needs had been met via interfund borrowing and the issuance of TRANs, among other tools. 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 took place in fiscal 2022 and none is planned in fiscal 2023.

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.

Financial performance had 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, as surging tax revenues are redirected to address longstanding liabilities.

Ratings Linked to the State IDR

Fitch has upgraded the ratings on the following state appropriation obligations to 'A-', from 'BBB+', based on their linkage to the state's IDR. The Rating Outlook is Positive.

--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.

Annual appropriation-backed bonds, rated at 'A-' 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 on the bonds.

The 'A' rating for the Garden State Preservation Trust revenue bonds, on par with the state IDR despite the need for annual legislative appropriation of dedicated sales tax revenues, reflects Fitch's belief that the incentive for appropriation is significantly enhanced by a provision in the state's constitution that prevents dedicated funds from being used for other purposes in the event of legislative failure to make the appropriation.

The 'A-' rating for the state's qualified bond program reflects the state's strong oversight of its local units, the direct payment mechanism of certified state aid from the state treasurer to paying agents and modestly increased annual appropriation of state aid to local governments. Both programs are subject to annual appropriation of education aid.

The 'A-' rating for the school bond credit enhancement program reflects the state's strong oversight of schools, sufficient timing of notification procedures and the availability of the Chapter 72 school bond reserve to avert a missed payment on school-related debt. Both programs are subject to annual appropriation of education aid.

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.

FITCH RATINGS ANALYSTS

Douglas Offerman
Senior Director
Primary Rating Analyst
+1 212 908 0889
douglas.offerman@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Karen Krop
Senior Director
Secondary Rating Analyst
+1 212 908 0661
karen.krop@fitchratings.com

Eric Kim
Senior Director
Committee Chairperson
+1 212 908 0241
eric.kim@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Garden State Preservation Trust (NJ)	EU Endorsed, UK Endorsed

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