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New Jersey; Appropriations; General Obligation; Miscellaneous Tax; Moral Obligation; Sales Tax

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Table Of Contents

New Jersey; Appropriations; General Obligation; Miscellaneous Tax; Moral Obligation; Sales Tax

Credit Profile		
New Jersey APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey GO		
Unenhanced Rating	A-(SPUR)/Stable	Outlook Revised
Long Term Rating	A-/Stable	Outlook Revised

Rationale

S&P Global Ratings has revised its outlook on the State of New Jersey to stable from negative. At the same time, S&P Global Ratings has affirmed its 'A-' rating on New Jersey's general obligation (GO) bonds, its 'BBB+' rating on the state's appropriation-backed debt, its 'BBB' rating on New Jersey government departmental appropriation-backed debt, and its 'BBB-' rating on state moral obligation debt.

The outlook revision reflects our belief that the state's combined pension-funded ratio, calculated on a Governmental Accounting Standards Board (GASB) 67 basis, will stabilize or improve over our one-year outlook horizon, following a decline in the most recent July 1, 2016, actuarial valuation. In our view, New Jersey's high unfunded pension liabilities and underfunding of the state's annual actuarially determined contribution (ADC) remain key credit considerations and a source of future budget pressure. New Jersey's pension system remains among the worst funded in the nation and a primary reason why our GO rating on New Jersey is second-lowest among the states.

Although we believe the state's combined pension-funded ratio on a GASB basis will stay weak at under 40% of net pension liability during the next fiscal year, we no longer expect GASB-funded ratios to deteriorate further in the near term absent a recession. We base our expectation on state projections and the recently enacted fiscal 2018 budget, which increased pension contributions to 50% of ADC from 40% in 2017. Although a 50% contribution level remains low, and the increase in pension funding can be matched against a larger use of one-time budget items, nevertheless, it represents improvement over the state's 30% of ADC funding in fiscal 2016, the level assumed in the most recently released GASB pension valuation. As a result, future GASB actuarial valuations will likely assume improved ongoing contributions, pushing out projected asset depletion dates and raising the actuarial blended discount rate. We do not expect GASB valuations to recognize the state's recent legislative transfer of its lottery enterprise revenue to the retirement funds for 30 years as an investment "asset," under which the state recognizes a much higher funded ratio using its own actuarial assumptions; however, ADC actuarial contribution assumptions will likely include combined lottery and general fund contributions. If New Jersey meets its current legislative plan to ramp-up pension contributions by one-tenth of ADC for the next five years, and makes substantial further increases after that as part of the new lottery legislation, the state projects it will avoid complete depletion of assets and eventually achieve a 90%-funded ratio.

We also believe recent changes to annual pension contribution procedures support our revision to a stable outlook, including quarterly general fund payments and new monthly payments of dedicated state lottery revenue. These changes substantially reduce the possibility of large holdbacks of pension payments at the end of the fiscal year to meet potential annual budget shortfalls, as occurred in fiscal 2014, when the governor withheld $883 million of budgeted pension contributions. We calculate that if the last quarterly general fund pension payment were withheld in fiscal 2018, the maximum that could be withheld would be $375 million, or 1% of budget, and annual funding of ADC would decline to about 43% from the budgeted 50% of ADC. The lottery legislation irrevocably transfers lottery revenue, totaling about $1 billion a year, to the pension plans. Although this is only about 20% of ADC, it is an improvement over certain previous years when the state made no pension contributions.

We remain concerned about the ability of the state to achieve full ADC funding in five years, since our 2018 budget calculation shows a slight increase in the combined structural budget gap of pension underfunding and one-time budget items. While pensions remain New Jersey's most significant source of budget pressure, the state's largest revenue sources are subject to revenue volatility, as evidenced by declines in capital gains revenues over fiscal 2016 that worsened its structural imbalance. If the state reduces its annual pension contributions from currently budgeted levels, experiences a significant decline in GASB pension-funded ratios, or suffers a significant increase in its structural operating deficit, all of which we believe is possible in a recession scenario, we could return the outlook to negative. If GASB pension-funded ratios improve to where we believe they will be sustainably above the 40% level that currently triggers a one-notch downward distinction from our indicative credit scoring, we could revise our outlook or raise our rating on New Jersey.

The state's 'A-' GO rating reflects what we consider:

- A history of structurally unbalanced budgets, when including annual underfunding of pension payments and other obligations, which creates increasing long-term pressure on future budgets;
- A large unfunded pension liability, and continued state underfunding of its retirement systems' annual ADC;
- Significant postemployment benefit obligations; and
- Above-average debt burden.

In our opinion, credit strengths include New Jersey's:

- Diverse economic base, which is showing signs of improvement, but which continues to lag the national growth rate;
- Improving, but still-limited, fund balance reserves relative to revenue fluctuations; and
- High wealth and incomes, which are still among the highest of the 50 states.

The state appropriation-secured debt reflects our view of:

- Pledged revenue that is subject to annual appropriation by New Jersey;
- The state's demonstrated commitment, within both the administrative and legislative branches, to repaying its appropriations-backed obligations; and
- The long-term general creditworthiness of the state.

In our view, New Jersey has been able to maintain adequate, if small, financial reserves at the cost of significantly underfunding its pension obligations. The enacted fiscal 2018 budget continues this trend, in our opinion.

The state estimates fiscal 2017 ended with a small budgetary operating fund balance of $434 million, or 1.3% of fiscal 2017 appropriations, slightly lower than the $579 million budgeted. The difference is largely attributable to revenues coming in below originally budgeted levels. The 2017 budget assumed 4.3% revenue growth including various one-time revenues (2.9% growth of ongoing revenue alone), compared to the 2.0% overall revenue growth that actually occurred. The 2017 fund balance represents a small decline from fiscal 2016's $557 million, or 1.6% of fiscal 2016 appropriations. Because the fiscal 2017 fund balance is only an estimate at this point, there is a potential for a small upward adjustment when lapsed appropriations are fully determined.

Although 2017's ending fund balance closed slightly positive, the state paid only fourth-tenths of ADC to its retirement funds. The underfunding of its ADC amounted to $2.8 billion, or 8.1% of fiscal 2017 appropriations. When added to a small number of nonrecurring items in fiscal 2017, equal to about 1.6% of budget, we calculate a significant structural budget gap of about 9.7% of appropriations in 2017.

The state enacted its fiscal 2018 budget several days late. In our view, the budget has reasonable economic assumptions, and would once again leave the state with a small ending fund balance of $409 million, or 1.2% of budgeted appropriations. Overall operating revenue is projected to increase 2.6%, not inconsistent with IHS Markit's forecast of 3.0% and 4.2% personal income growth in calendar years 2017 and 2018, respectively. Actual revenue collections for the first month of fiscal 2018 were 5.5% higher than the previous year period. The budget uses nonrecurring budget items equal to about 4% of budgeted appropriations, apart from pension underfunding. The state pension contribution is budgeted to increase; nevertheless, it will be only 50% of ADC. This $2.5 billion shortfall, when added to $1.4 billion of nonrecurring budget items, in our view indicates a still-significant structural budget gap of about 11.2% of budgeted appropriations.

Every year that the state does not fully fund ADC defers costs into later years, adding to future budget pressure, in our view. Currently, New Jersey's combined pension-funded ratios under generally accepted accounting principles (GAAP), as determined by GASB, are among the worst in the country, at 30.9% as of June 30, 2016, down from 37.5% in 2015, and 42.5% in 2014.

We view New Jersey's recent enactment of a law transferring its lottery enterprise revenue to the state's retirement systems for 30 years as having slightly positive credit implications, mostly because monthly payment of lottery revenue leaves less money available at the end of a fiscal year that can be held back by the governor in the event of a budget shortfall. Although the law creates a minimum level of annual pension contributions--a positive compared with certain previous years over the past two decades when the state contributed nothing--lottery revenue alone falls far short of the amount necessary to keep weak pension-funded levels from drifting lower. Lottery revenue totals about $1.0 billion per year, compared with the state's fiscal 2018 pension contribution of $2.5 billion, and the ADC of $5 billion. Additional general fund contributions will remain necessary in order for the state to escape more burdensome pension contributions in the near future. While the law raises general fund retirement contributions after five years compared to the current schedule, up until year six New Jersey contributes no net additional money other than what it would have contributed before the new law. In year six, when higher net lottery/general fund contributions would go into effect, a future legislature and administration could possibly modify the scheduled higher general fund contribution with a new statute. Although the agreement substantially raises the funded ratio of New Jersey's retirement funds using state actuarial accounting, we do not believe funded ratios using GASB, which we use for state rating purposes, will rise in the near term above the 40% level that would trigger a potential rating upgrade under our state rating methodology. (See the lottery section for more information on our analysis of the state's lottery/pension law.)

On a GAAP basis, the most recent financial audit for the fiscal year ended June 30, 2016, showed an ending total general fund balance of $3.9 billion, or 10.9% of expenditures, a decline from $4.5 billion the year before. The available unassigned general fund balance was $462.8 million, or 1.3% of expenditures.

New Jersey's strong income level is a significant credit strength, with 2016 per capita income at 125% of that of the U.S. The state's economy has been showing slow but steady gains in the past year, after a weak recovery following the last recession. New Jersey's real gross state product (GSP) growth was slightly below that of the U.S. in calendar 2016 at 1.2%, compared with 1.5% for the nation. IHS Markit forecasts GSP growth of 1.2% in calendar 2017 and 1.8% in calendar 2018, compared with 2.2% and 2.7% for the nation, respectively. The state's 5.0% unemployment rate in 2016 was only slightly above the nation's 4.9%, while the most recent preliminary unemployment rate of 4.2% in July 2017 was below the nation's 4.3%. We believe part of New Jersey's budgetary challenges in recent years has been the result of previous slow economic growth; while growth has recently improved, IHS Markit forecasts growth will again slow down as the state reaches full employment. In our view, New Jersey also has the potential to exhibit significant revenue volatility in a recession scenario due to historical income tax volatility and is among the states most financially vulnerable in a potential economic downturn due to high pension, debt, and other postemployment benefit (OPEB) fixed costs, which we calculate will comprise about 23% of operating expenditures in fiscal 2018, if including the lottery system's contribution as both a revenue and pension expense.

New Jersey's pension-funded ratios are among the worst in the country. Although higher ADC contribution rates are expected to stabilize the GASB pension-funded ratio in the near future, continued annual funding of less than ADC will again eventually worsen funded ratios in the longer term if the state does not adhere to scheduled increases in ADC contributions. Lower-than-expected investment returns in the past five years have also lowered the funded ratio, although the one-year return in fiscal 2017 is expected to beat the state's 7.65% assumed rate of return. Our state rating criteria uses GASB actuarial valuations, not the state's actuarial assumptions, and we remain concerned about New Jersey's ability to afford future funding increases. Under GASB Statement 67 reporting, as of July 1, 2016, New Jersey's combined pension-funded level declined to a low 30.9%, in part due to a reduction in the assumed rate of return to 7.65% from 7.90%. We believe the new return assumption is a more reasonable one, but the combined funded ratio was also low before the revision occurred. In fiscal 2016, the investment rate of return was negative 0.93%, although the state could beat its return assumption in fiscal 2017 based on recent stock market gains. The recent Lottery Enterprise Contribution Act boosts state general fund contributions in six years' time from the current funding schedule; however, we believe there is a significant risk that future legislation could reduce the scheduled increase. New Jersey is funding only five-tenths of its ADC in fiscal 2018.

Pension liabilities are very high compared with those of other states and we believe will be a continuing source of budget pressure. We calculate New Jersey's share of net pension liability at fiscal year-end 2016 as a very high 22.4% of state personal income and $13,855 per capita. The largest share of the state's net pension liability is attributable to the teachers' pension and annuity fund (TPAF), for which the most recent 2016 actuarial report on a GASB basis projects will run out of assets in 2029.

The state's current pension funding plan is to increase pension funding contributions, at minimum, by an additional one-tenth of ADC each year until full funding is realized in fiscal 2023. The legislature recently considered a ballot measure, but did not place it on the November 2016 ballot, that would have amended New Jersey's constitution to require the state to pay the full annual required pension contribution every year and would establish constitutional protections. We believe a similar constitutional amendment proposal could come up for consideration again next year. Even without this measure, the state's planned increased pension contributions will likely pressure its finances. The $2.5 billion of ADC not funded in fiscal 2018 amounts to about 7% of budgeted appropriations.

We also consider New Jersey's unfunded other postemployment medical benefits high, at $69.3 billion for state and education employees as of the most recent July 1, 2016, valuation date, or $7,750 per capita, not including another $16.1 billion unfunded medical benefits for local government employees.

State tax-supported debt levels are high, in our opinion, at $3,985 per capita and 6.4% of personal income as of the close of fiscal 2016. Since fiscal year-end 2016, New Jersey has sold about $1.2 billion of new money other lease-supported debt, including $300 million in a private placement to renovate the state capitol building, while retiring $1.8 billion of debt., for a net reduction of $600 million, or $64 per capita. We believe the private placement debt, secured by annually appropriate state lease payments, does not pose significant contingent risk. The state also plans to enter into a private placement liquidity facility at the end of August to facilitate fiscal 2018 cash flow, similar to recent years, although it expects cash flow borrowing to be reduced this year as the result of recent debt refundings that have helped the state even out its monthly cash flow.

New Jersey's overall score is '2.5', reflecting an indicative credit score of 'A', which can be further adjusted based on scoring overrides. As of the most recent July 1, 2016, actuarial valuation, the state's combined pension-funded ratio using GASB was 30.9%, triggering our one-notch adjustment for pensions with funded levels below 40% and leading to an 'A-' indicative rating under our state criteria methodology published Oct. 17, 2016, on RatingsDirect.

Outlook

The stable outlook on state appropriation-secured debt reflects our stable outlook on the New Jersey GO rating.

The stable outlook on the GO debt reflects our belief that the state's combined pension-funded ratio, calculated on a GASB 67 basis, will stabilize or improve over our one-year outlook horizon, following a decline in the most recent July 1, 2016, actuarial valuation. In our view, the state's high unfunded pension liabilities and underfunding of its annual ADC remain key credit considerations and a source of future budget pressure. New Jersey's pension system remains among the worst funded in the nation and a primary reason why our GO rating on the state is second lowest among all the states.

Although we believe the state's combined pension-funded ratio on a GASB basis will stay weak at under 40% of net pension liability during the next two fiscal years, we no longer expect GASB-funded ratios to deteriorate further in the near term absent a recession. We base our expectation on state projections and the recently enacted fiscal 2018 budget, which increased pension contributions to 50% of ADC. Although a 50% contribution level remains low, and the increase in pension funding can be attributed to use of an even greater amount of one-time budget items; nevertheless, it represents improvement over the state's 30% of ADC funding in fiscal 2016, the level assumed in the most recent released GASB pension valuation. As a result, future GASB actuarial valuations will likely assume improved ongoing contributions, pushing out projected asset depletion dates and raising the actuarial blended discount rate. We do not expect GASB valuations to recognize the state's recent legislative transfer of its lottery enterprise revenue to the retirement funds for 30 years as an investment "asset," under which the state recognizes a much higher funded ratio using its own actuarial assumptions; however, ADC actuarial contribution assumptions will likely include combined lottery and general fund contributions. If the state meets its current legislative plan to ramp up pension contributions by one-tenth of ADC for the next five years, and makes substantial further increases after that as part of the new lottery legislation, the state projects it will avoid complete depletion of assets and eventually achieve a 90% funded ratio.

We also believe recent procedural changes to annual pension contribution procedures support our revision to a stable outlook, including quarterly general fund payments and new monthly payments of dedicated state lottery revenue. These changes substantially reduce the possibility of large holdbacks of pension payments at the end of the fiscal year to meet potential annual budget shortfalls, as occurred in fiscal 2014, when the governor withheld $883 million of budgeted pension contributions. We calculate that if the last quarterly general fund pension payment were withheld in fiscal 2018, the maximum that could be withheld would be $375 million, or 1% of budget, and annual funding of ADC would decline to about 43% from the budgeted 50% of ADC. The lottery legislation irrevocably transfers lottery revenue, totaling about $1 billion a year, to the pension plans. Although this is only about 20% of ADC, it is an improvement over certain previous years when the state made no pension contributions.

We remain concerned about the ability of the state to achieve full ADC funding in five years, since our 2018 budget calculation shows a slight increase in the combined structural budget gap of pension underfunding and one-time budget items. While pensions remain New Jersey's most significant source of budget pressure, the state's largest revenue sources are subject to revenue volatility, as evidenced by declines in capital gains revenues over fiscal 2016 that worsened its structural imbalance. If the state reduces its annual pension contributions from currently budgeted levels, experiences a significant decline in GASB pension-funded ratios, or suffers a significant increase in its structural operating deficit, all of which we believe is possible in a recession scenario, we could return our outlook to negative. If GASB pension-funded ratios improve to where we believe they will be sustainably above the 40% level that currently triggers a one-notch downgrade from our indicative credit scoring, we could revise our outlook or raise our rating on New Jersey.

Governmental Framework

New Jersey Constitution requires that the governor sign a balanced budget and the state is required to stay in balance throughout the year, although this might require the use of available reserves and the deferral of pension payments.

This was tested in the courts when, in 2014, the governor reduced the state's pension contribution by $883 million to close a budgetary gap. The state does not have formal limitations in that it can set and modify tax rates, deductions, exemptions, and collection dates. In the past, it has used such flexibility to increase revenues and levy additional taxes. For example, in fiscal 2007, New Jersey raised its sales tax to 7% from 6% and expanded the base, and in fiscal 2010 it levied a millionaires' tax effective for calendar 2009. In fiscal 2015, it eliminated tax credits, closed loopholes, and authorized online gambling as a way of raising revenues. In fiscal 2017, the state substantially raised its gas tax rate, although this benefitted its transportation fund rather than the general fund. Although these initiatives generated additional revenue, we believe they have been insufficient in the context of the state's need to address its long-term liabilities. The governor has vetoed attempts to impose taxes or raise overall tax rates to address budget imbalances, thus, in our view, contributing to an uneven track record of raising revenues to address shortfalls and reducing the state's ability to address its long-term liability to additional benefit reform.

The governor has broad executive powers to reduce spending as necessary to maintain a balanced budget. In the past four years, he has taken significant action to reduce spending to maintain balance. In addition to underfunding pensions, the state has also delayed the payment of the Homestead property tax relief program from one fiscal year to the next and reduced spending for other programs. We believe, however, that there are practical constraints regarding the level of downstreaming that can be done, especially around education spending and Abbott schools. In the past, underfunding of Abbott schools resulted in successful litigation for the restoration of funding. Since fiscal 2014, New Jersey has used a funding methodology to calculate school aid that is different from the statutory funding formula. We view this as an area of potential funding pressure if the funding amounts are challenged. This ability was recently evidenced by the governor's decision to underfund pensions in fiscal 2014, and affirmed by the judge ruling on the fiscal 2014 payment reduction. The governor's ability to underfund pensions as part of the budget adoption process, rather than reduce budgeted items throughout the year if there is a shortfall, was validated by the recent state supreme court ruling regarding pension payments. While New Jersey has subsequently enacted legislation to provide quarterly payments to the pension funds, we believe the fourth-quarter payment remains sufficiently large enough to provide significant near-term flexibility should the state need to reduce expenditures to meet a year-end shortfall.

New Jersey does not have a voter-sponsored referendum process. However, the legislature can bring constitutional amendments to voters if it approves the measure by a supermajority in each chamber in any legislative year or if it approves the measure by simple majority in each chamber in two consecutive legislative years. As it relates to debt, the state's voters adopted a constitutional amendment requiring that all new legislation authorizing program debt issuance (GO and appropriation debt) be put on the ballot. The constitution provides that the legislature will not create in any fiscal year a debt or liability that (combined with previous debt) exceeds 1% of total appropriations, unless authorized by law, for some single object or work specified. No such law can take effect until voters can vote on it, although this does not apply to refinancing of debt. Exceptions are made in cases where a non-state source (an independent third party, such as federal money) supports the debt, and where there are constitutionally dedicated revenue sources. The constitution also requires that debt amortization not exceed 35 years, but provides for suspension of this for natural disasters. There is no legal priority of payment for debt service.

Despite the restrictions, and the fact that it has one of the highest debt burdens in the nation, New Jersey has not had significant impediments to issuing debt.

On our scale of '1.0' to '4.0', where '1.0' is the strongest score and '4.0' is the weakest, we have assigned a composite score of '1.5' to New Jersey's governmental framework.

Financial Management

New Jersey adheres to what we consider standard budget management practices. The state has been very optimistic in setting its revenue targets in previous years and has missed its estimates by significant amounts, requiring midyear budget adjustments. New Jersey has a formal schedule for providing revenue and spending forecast updates. Official revenue estimates are statutorily required in February and, by practice, are also done each May. Spending plans are updated three times each year and are done internally each month for major items, such as Medicaid, and economically sensitive issues. In practice, the state does monthly revenue updates and daily cash management. Budget adjustments typically occur in February, when the upcoming fiscal year budget is released, and in May, if needed.

A strong executive system gives the governor the power to reduce the enacted budget without legislative approval. Although there are restrictions on such budget reductions (only the legislature can de-appropriate funds for executive agencies), the governor can limit an enacted budget without legislative approval by impounding money for waste, mismanagement, or extravagance as long as legislative goals are not ignored; or by reserving spending. Unless released by fiscal year-end, this money then lapses. New Jersey has made some difficult and unpopular spending decisions to avoid deficits. Gap-closing solutions have typically focused on avoiding deficits, but they often rely on nonrecurring revenue or spending actions, as the deferral of pension payments and the use of debt restructuring demonstrate, rather than on finding long-term structural solutions.

New Jersey is legally required to end the year in balance, but the definition of balance can include the use of available reserves and does not factor in the deferral of pension or other payments. The state has historically relied on nonrecurring measures to balance operations. Practically speaking, it would have great difficulty in making cuts in aid to Abbott schools. Conceivably, it can make limited cuts to Medicaid and non-Abbott districts insofar as the level of service is above legal minimums; in practice, these cuts are traditionally politically difficult.

We consider New Jersey's financial management assessment (FMA) as standard. An FMA of standard indicates that the state maintains adequate policies in most, but not all, key areas. These policies often lack detail or institutionalization and might not include best practices. The state has a seven-year capital plan and written investment policy, but it lacks long-term financial planning and while debt is monitored frequently and reviewed annually, there are no practical limitations as to the amount of debt that it can issue. In developing its budget, New Jersey relies on its Office of the Chief Economist, but also looks at the Rutgers Economic Advisory Service forecast, as well as third-party economic analysis, such as IHS Global Insight Inc. and Economy.com. In our view, the state's revenue forecasts have been optimistic, with assumptions that neglect likely shortfalls, expenditure pressures, or other pending issues. Even though state revenue forecasts have become more conservative, underfunding of key areas continues to plague the budget process. Once the budget is enacted, officials monitor it monthly for both revenues and expenditures with adjustments made at least once a year in February, and in May, if needed. New Jersey has a statutorily established a surplus revenue fund that acts as a rainy-day fund, but there are no minimal funding level requirements or replenishment mechanisms. The requirement that 50% of surplus be deposited in the rainy-day fund can and has been overridden in the past and there has been no money deposited in that fund since 2009. The surplus revenue fund can be used if anticipated revenues in the general fund are estimated to be less than those certified by the governor if the legislature finds that an appropriation from the surplus revenue fund is preferable to raising revenue through a modification of the tax structure. The long-term obligation and capital expenditure fund (LTOCEF) was established as a separate, non-lapsing fund used only for paying capital expenditures, retiring and defeasing debt, and making supplemental payments for unfunded pension and OPEBs, but was used for other purposes as a result of the economic downturn. Currently, there are no funds in the LTOCEF.

On our scale of '1.0' to '4.0', where '1.0' is the strongest score and '4.0' the weakest, we have assigned a composite score of '2.5' to New Jersey's financial management.

Economy

In our view, New Jersey's economy enjoys several fundamental strengths, including high per capita GSP (114% of the U.S.) and per capita income levels (125% of the U.S.). The state's location close to New York City, resources, and employment opportunities support economic development, although this is not the case with regard to New Jersey's housing affordability and tax structure. Although taxes and cost of living are high, the state's relative cost structure is somewhat attractive to those looking for lower-cost options to New York City, and the state has recently seen substantial growth in the warehouse and logistics industry due to its central east coast location and proximity to highway networks.

New Jersey's wealth translates into an above-average ability to pay taxes, in our view. Areas of weakness in the economy include low population growth, which is below the U.S. average, and GSP growth that has trailed that of the nation for the past decade. New Jersey's population was 8.94 million in 2016, a 0.1% increase over the previous year. Its population growth typically trails the U.S.; over the past decade state population rose 3.3% compared with 8.3% for the nation. In 2016, New Jersey's real GDP increased by 1.2% compared with 1.5% for the nation, and we believe slow population growth is one factor in lower overall growth rates. New Jersey's age dependency ratio of 59.5% in 2015 is considered in line with U.S. levels.

The state's employment base is similar in composition to the national profile, with slightly greater emphasis on financial services (6.1% of employment compared with 5.7% for the nation in 2016); trade, transportation, and utilities (21.2% compared with 18.9%); and professional and business services (16.3% compared with 13.9%).

Since peaking at 9.8% from October 2009 through January 2010, unemployment has significantly fallen, and as of July 2017 the preliminary rate was 4.2% compared with 4.3% for the nation. In 2016, it averaged 5.0% compared to 4.9% for the U.S. IHS Markit forecasts employment growth of 1.0% in calendar 2017 and 0.5% in calendar 2018, somewhat below national growth of 1.4% and 1.2%. Several large public and private construction projects, including work on the Goethals, Bayonne, and Outerbridge Crossing bridges, and the American Dream retail and amusement complex, together with reconstruction efforts, are expected to contribute to increased employment. Amazon is also developing two distribution centers in the state. From a regional perspective, the Mid-Atlantic region (New Jersey, New York, and

Pennsylvania) has generally lagged the nation in economic growth in recent years.

Continued mergers, acquisitions, and straight-out cutbacks in the state's extensive pharmaceutical sector have contributed to recent employment weakness. Merck & Co. announced it would reduce its worldwide workforce by 20% and that it will be shuttering its world headquarters in Whitehouse Station, its 88-acre campus in Summit, and its manufacturing plant in Kenilworth, but will be moving its headquarters there. Merck has 10,000 employees in New Jersey, but the company has not disclosed the precise number of layoffs in the state. However, German biotech company Evotec plans to establish a U.S. headquarters in Princeton, taking advantage of an available supply of highly skilled pharmaceutical workers that formerly worked at other firms. Manufacturing increased 1.9% from June 2015 to June 2016, while the largest employment sector increases have been in construction (3.0%), education and health services (2.3%) and financial activities (2.1%).

The state's housing market was slow to recover from the recession, but already high housing prices are now rising and construction employment is up. However, New Jersey's share of loans in foreclosure was 5.4% at the end of 2016, the highest in the country, in part due to a large number of sub-prime loans in foreclosure, although the state reports it has since declined to 4.9% as of the first quarter of 2017. Because New Jersey is a judicial review state, it has a backlog of foreclosures, which has dragged out the recovery process. Construction employment should also get a boost from the anticipated replacement of the Goethals Bridge and Outerbridge Crossing bridge, that each connect New Jersey to Staten Island.

On our scale of '1.0' to '4.0', where '1.0' is the strongest score and '4.0' the weakest, we have assigned a composite score of '1.9' to the state's economy.

Budgetary Performance

New Jersey's budgetary performance has been weak, in our opinion, with a trend of revenue shortfalls and significant underfunding of its pension ADC to produce relatively low budgetary reserves. The state estimates it ended fiscal 2017 with an operating funds balance of $434 million on a budgetary basis, or 1.3% of appropriations, after funding four-tenths of its ADC. This ending balance might improve slightly when final appropriation lapses are determined and final months' revenues are tabulated. The state had originally budgeted for a fiscal year-end 2017 balance of $579 million, the difference attributable to slower-than-budgeted revenue growth. The state is budgeting for a $409 million ending fund balance in fiscal 2018, or 1.2% of budgeted appropriations, although funding only five-tenths of its ADC (an actuarial shortfall of $2.5 billion), and using an additional $1.4 billion of nonrecurring budget items.

The state is statutorily required to put 50% of any general fund surplus revenues into the surplus revenue fund; however, this can be overridden by the annual appropriations act. Beyond this, there are no specified funding levels or rules governing replenishment. At fiscal year-end 2016, the surplus revenue fund had a zero balance, and none is expected in fiscal years 2017 or 2018.

We believe the state has well-developed cash monitoring capabilities, including daily monitoring of balances. Interfund borrowing that New Jersey's budget director can conduct with virtually no notice enhances flexibility. The state issued privately placed notes for cash flow in fiscal 2017, and expects to close on a similar private credit facility at the end of

August 2017 for fiscal 2018. However, it expects cash flow borrowing will be down from $1.75 billion in fiscal 2017 to $1.5 billion in 2018, in part due to recent debt refundings that have evened out monthly cash flow.

The New Jersey Office of the Chief Economist/Office of Revenue and Economic Analysis (OREA) develops the state revenue forecast. The legislature also prepares a forecast that it uses as a check, but the office issues the controlling forecast. OREA staff are not political appointees. OREA uses its own econometric model. By statute, the forecast is updated in February, and, by practice, once or twice during the year. New Jersey relies on a sales and use tax (28.0% of 2018 budgeted revenue) and an income tax (41.4%), which together accounted for two-thirds of total (general fund and property tax relief) revenue. Revenue adjustments happen in the ensuing fiscal year, if at all. The current administration has relied primarily on expenditure reductions, deferrals, and one-time measures as a way to close midyear budgetary gaps. Although the state has the ability to raise taxes and other revenues, it has not relied on this as a significant gap-closing tool, opting instead to maintain or lower taxes, despite sizable budgetary deficits, and deferred expenditures. In our view, this translates into reduced financial flexibility.

The state has a recent track record of timely expenditure reductions, but the focus has been more on avoiding deficits than realigning revenues and expenditures. It went through a school funding formula challenge and is required to fund Abbott schools at a certain level. It funds Medicaid and non-Abbott schools at levels above minimum requirements, affording it theoretical flexibility. However, the high funding levels have become institutionalized and politically difficult to limit. We believe the recent use of a methodology to calculate education funding, which differs from the statutory funding formula, could translate into additional budgetary pressure in future years. Although New Jersey has experienced growth in revenues as part of the recovery, in our view, revenue growth has not been sufficient to match fixed expenditure growth when including pension expenditures.

New Jersey has broad discretion in adjusting spending flows, as it demonstrated in the 2011 budget, which significantly reduced state assistance to local school districts (by $830 million, and requiring them to spend down reserves in place of the lost state aid) and municipalities ($446 million reduction) as part of its $11 billion budget gap-closing measures. However, since then the state has more predominantly relied on deferrals (pension payments and Homestead benefits), restructurings, fund balance drawdowns, and other one-time measures to balance the budget.

On our scale of '1.0' to '4.0', where '1.0' is the strongest score and '4.0' the weakest, we have assigned a composite score of '2.7' to New Jersey's budgetary performance.

Debt And Liability Profile

New Jersey's debt levels and debt burden are among the highest in the nation. As of June 30, 2016, the most recent audited year, we calculate the state had approximately $35.6 billion in net tax-supported debt outstanding, down slightly from $36.2 billion in fiscal 2015. Of this amount, approximately $2.0 billion was GO debt. Debt per capita is high, in our view, at $3,985, while debt is a high 6.4% of personal income, although down from 6.7% in the past year. Tax-supported debt service amounted to a high 10.8% of general governmental spending in 2016. Since the close of fiscal 2016, the state has sold about $1.2 billion of additional new money tax-backed debt, including a private placement of $300 million of lease debt for a state capital building renovation, and retired about $1.8 billion of debt, for a reduction of about $67 debt per capita. New Jersey expects to refund a portion of its motor vehicle surcharge debt in fiscal 2018 to provide $65 million of general fund budget relief. Although the refunding would have overall present value savings, it would raise out-year debt service by about $4.6 million per year, which will likely decline under a closed flow of funds that will advance retire debt.

In the past three years, the state has worked to eliminate its exposure to variable-rate debt backed by letter of credit and swaps. The state no longer has variable-rate debt issued by the New Jersey Building Authority, leaving only $1.2 billion in variable-rate obligations at fiscal year-end 2016, none of which is backed by letters of credit, consisting of $904.3 million related to the New Jersey Economic Development Authority, and $297.5 million for the Transportation Trust Fund Authority. As of June 30, 2016, the state had no swaps outstanding; however, in our view, some of the terms of the direct placement introduce some, albeit reduced, contingency risk.

Direct Debt Exposure

The state had $847.5 million of bank loan bonds outstanding at the end of fiscal 2016, not including a subsequent sale of $300 million of privately placed bonds for a state capital renovation expected to be refinanced by the end of calendar 2017 with public long-term debt. The bank loans were used to pay for the state's swap termination payments and intrayear debt restructuring. The provisions of the loans are similar to the debt provisions, but give the bank additional benefits not available to bondholders and could affect credit quality if triggered. These provisions include higher interest rates if ratings drop below 'BBB+' and a mandatory three-year term-out at a 12% interest rate if a number of other conditions are present. We believe that these terms are very permissive at present and could place additional pressure on the rating if triggered. However, the total amount outstanding is limited to $847.5 million, or just 2.4% of the state's debt outstanding. If this exposure increased significantly or resulted in substantial additional costs to New Jersey, it could potentially affect credit quality. The state also anticipates entering into a new direct placement cash flow facility financing for fiscal 2018 sometime near the end of August 2017.

New Jersey has also privately placed a $300 million variable-rate bond secured by annual lease appropriations to renovate its state capital building, but these are not in the form of a direct contract with a bank, but a purchase of bonds issued through the New Jersey Economic Development Authority with a mandatory remarketing date in December 2018. We see the provisions of this issue as meeting relatively standard lease-secured bond provisions, subject to annual appropriation by the legislature, and do not consider the bonds to pose a significant contingent risk. The state expects these bonds to be remarketed into long-term, fixed-rate bonds before the end of calendar 2017.

Pension Liabilities

New Jersey's pension-funded ratios are among the worst in the country. Although higher ADC contribution rates are expected to stabilize the GASB pension-funded ratio in the near future, continued annual funding of less than ADC will again eventually worsen funded ratios in the longer term if the state does not adhere to scheduled increases in ADC contributions. Lower-than-expected investment returns in the past five years have also lowered the funded ratio, although the one-year return in fiscal 2017 is expected to beat the state's 7.65% assumed rate of return. Under GASB Statement 67 reporting, as of July 1, 2016, New Jersey's combined pension-funded level declined to a very low 30.9% (including state pension funding for K-12 teachers and the state share of pension contributions for state colleges and universities and their security personnel), in part due to a reduction in the assumed rate of return to 7.65% from 7.90%. We believe the new return assumption is a more reasonable one, but the combined funded ratio was already low at 37.5% in 2015. In fiscal 2016, the investment rate of return was negative 0.93%, although the state might beat its return assumption in fiscal 2017 based on recent stock market gains. The recent Lottery Enterprise Contribution Act boosts New Jersey general fund contributions in six years' time from the current funding schedule; however, we believe there is a significant risk future legislatures and administrations could reduce the scheduled increase. New Jersey is funding only five-tenths of its ADC in fiscal 2018 and, under the currently planned schedule, the state's pension-funded levels are expected to continue to decline through at least 2023.

Pension liabilities are very high compared with those of other states and we believe will be a continuing source of budget pressure. We calculate New Jersey's share of net pension liability at fiscal year-end 2016 as a very high 22.4% of state personal income and $13,855 per capita. The largest share of the state's net pension liability is attributable to the TPAF, for which the most recent 2016 actuarial report on a GASB basis projects it will run out of assets in 2029.

The state's current pension funding plan is to increase pension funding contributions at a minimum of additional one-tenth of ADC each year until full funding is realized in fiscal 2023. The legislature recently considered a ballot measure, but did not place it on the November 2016 ballot, that would have amended New Jersey's constitution to require the state to pay the full annual required pension contribution every year and would establish constitutional protections. We believe a similar constitutional amendment proposal could come up for consideration again next year. Even without this measure, the state's planned increased pension contributions will likely pressure its finances.

OPEB liabilities

As of July 1, 2016, the date of the last OPEB actuarial valuation, the state portion of the unfunded OPEB actuarial accrued liability was $69.3 billion, with a funded ratio of 0%, which was composed of $25.5 billion for state employees and $43.8 billion for local education employees and supported by the state. New Jersey's OPEB liability has increased by $4.3 billion compared with the July 1, 2014, OPEB valuation. In fiscal 2014, there was a significant $12.0 billion increase in the state portion of OPEB attributable to changes in mortality assumptions and increased prescription drug cost trends. New Jersey adopted reform measures approved by the State and School Employee's Health Benefits Program Design Committee in 2015 and 2016, which helped slow the pace of growth. The state funds OPEBs on a pay-as-you-go basis.

On our scale of '1.0' to '4.0', where '1.0' is the strongest score and '4.0' the weakest, we have assigned a composite score of '3.8' to New Jersey's debt and liability profile.

Lottery revenue has limited near-term credit impact on state credit rating

S&P Global Ratings believes New Jersey's recent law transferring its lottery enterprise revenue to the state's retirement fund for 30 years has slight positive credit implications, mostly because lottery revenue paid monthly is not available for holdback by the governor at the end of the fiscal year in the event of a budget shortfall. While the law creates a minimum level of annual pension contributions from lottery contributions--a positive compared with certain prior years when the state contributed nothing--lottery revenue alone falls far short of full ADC funding.

Lottery revenue totals about $1.0 billion per year, compared with the state's actual retirement contribution in fiscal 2018 of $2.5 billion, and ADC of $5 billion. Additional general fund contributions will remain necessary for the state to escape burdensome pension contributions in the near future. While the Lottery Enterprise Contribution Act raises general fund contributions after five years, before then New Jersey contributes no additional money than what would have been contributed before the new law. In year six, when higher general fund contributions would go into effect, a future legislature could possibly modify the scheduled higher state general fund contribution with a new agreement. S&P Global Ratings remains focused primarily on actual retirement contributions compared to out-year projections and remains concerned about the state's existing high pension liabilities and continued underfunding of its ADC, a key part of our current state GO rating.

Assuming current actuarial assumptions and projected lottery earnings, the Lottery Enterprise Contribution Act would require the state to make higher annual contributions from its general fund in years six through 12 than it would have otherwise, designed to bring New Jersey's actuarial funded ratio up to a 90%-funded ratio in 30 years, instead of 80%, using state actuarial assumptions. In year 13, the state calculates that net state general fund contributions as a result of the Lottery Enterprise Contribution Act will decline, under a funding schedule that nets state payments against already existing declining debt service on state pension obligation bonds, although total state pension contributions from lottery and general fund sources are assumed to increase.

Since there is no net change in annual state pension contributions for the first five years, we see minimal near-term GO rating impact on the general fund due to the diversion of lottery revenue. Because the state is still funding only 50% of ADC in fiscal 2018, we continue to calculate a large structural state deficit, when incorporating missing pension payments. The long-term effect is less certain, depending on whether future state budgets carry through on the revised higher out-year general fund contributions currently scheduled under the new legislation.

Although the lottery revenues deposited into the retirement fund for 30 years becomes an irrevocable trust asset, the additional general fund contributions could potentially be amended by future legislatures and administrations. However, the state believes reversing the dedication of lottery revenue to the pension fund would create adverse tax consequences to retirees making it prohibitive. The lottery system will continue to be operated by New Jersey's lottery division.

As a result of the law and the state's independent valuations service provider's valuation of lottery revenues, the overall asset value of the state retirement funds will rise and New Jersey's unfunded liability will drop under the state's actuarial methodology. The independent valuation service provider has valued the 30-year revenue stream conservatively at a 7.65% discount rate (the same as the current pension fund actuarial assumed rate of return). This discount rate is conservative in that a lower discount rate would raise the market valuation of the lottery asset higher and further reduce the state's ADC. The valuation uses only lottery projected cash contributions, and calculates the market value of the lottery revenue stream at $13.5 billion. New Jersey calculates that adding the lottery revenue stream asset to the retirement system would raise the combined retirement systems' statutory funded ratio to 58.9% from 44.7% under state actuarial assumptions.

However, our state rating criteria uses a different funded ratio, based on GASB statements No. 67 and 68. New Jersey's recently released GASB valuation as of June 30, 2016, used a three-tenths of ADC contribution assumption (the actual ADC contribution rate in fiscal 2016, compared with fiscal 2018's scheduled 50% of ADC). The assumed pension fund future rates of return are reduced in years in which retirement fund assets are projected to be exhausted under GASB statements 67 and 68, and combined into a lower blended single discount rate assumption. On a GASB basis, we calculate combined fiscal 2016 retirement funds' net position equals 30.9% of liabilities, including the New Jersey portion of pension funding for state colleges and universities and their security personnel. In fiscal 2017, the state contributed four-tenths of ADC. On this basis, we anticipate the net funded ratio will remain below the 40% threshold that triggers a one-notch downward rating adjustment under our state rating criteria when the next two actuarial reports are released.

Actual future annual general fund contributions will vary depending on future actuarial asset values and realized investment returns, based on the state's current schedule of increasing net pension contributions by one-tenth of ADC each year until 100% of ADC is reached in five years.

If the public safety workers retirement system were split into a separate retirement fund, as reflected by legislation passed in the past year but vetoed by the governor, the system's assets would be split among the different funds based on legal restrictions and comparative unfunded liabilities.

From an analytical perspective, we are concerned about potentially higher state retirement contributions from the general fund in future years six through 12. While the currently projected increase in payments are not huge ($235 million additional payment in 2023) in the context of today's $35 billion annual budget, New Jersey has had a history of scheduling incrementally higher costs in out-years, as exemplified in its recent deal to raise the state gas tax rate (see "Long-Term Structural Balance Still Elusive In New Jersey's Proposed Fiscal 2018 Budget," published March 24, 2017). In our opinion, pushing higher payments into future years will add to budget pressure.

Although we view the new law as a credit slightly positive event, we remain concerned about New Jersey's existing high pension liabilities and continued underfunding of the state's ADC, a key part of our current rating on New Jersey. In particular, the state's teachers' retirement system's net pension liability at June 30, 2016, was a high $79.0 billion on a GASB basis, and its unfunded ratio a low 22%. GASB 67 projections indicate that the teachers' retirement system will run out of assets in 2029, at which time the state would have to increase its contributions substantially to meet its contractually mandated payments to retired teachers, absent improved state funding.

The new law will deposit lottery revenue in the retirement fund on a monthly basis, while another law requires general fund contributions to be deposited quarterly. More frequent pension contributions will raise slightly the average value of retirement fund investment assets and allow them to be invested for a slightly longer period, which should produce slightly better returns. It will also create less exposure to the fiscal year-end holdback of pension contributions if revenues fall short of budgeted levels, which we view as the main credit benefit, although the final general fund quarterly payment subject to a potential holdback will remain relatively large.

Although not currently expected, the new lottery law also requires the state to increase pension funding if at any time the Teachers' Pension and Annuity Fund, Public Employees Retirement System, or Police and Firemen's Retirement

System falls below a 50% funded ratio, using the state's actuarial methodology. New Jersey will be required to perform a revised valuation of the market value of the lottery enterprise revenue stream at least every five years--if the lottery revenue grows higher than initial projections, it will produce actuarial gains for the retirement fund, if the lottery performs below expectations, the general fund would have to make up the difference with increased contributions resulting from a lower valuation.

Overall, in our view the law creates a minimum level of annual state contributions--a good thing considering that in some previous years New Jersey had made no annual pension contribution, and it will slightly reduce the pension funds' exposure to end-of-the-year holdbacks in the event of a budget shortfall. However, lottery revenue alone will fall short of what the state needs to fully fund its annual retirement contribution on an actuarial basis. While we see GASB pension-funded ratios as stabilizing under current conditions, we believe the retirement system could be vulnerable in the next recession, when investment returns are likely to fall and the temptation to delay or reduce currently scheduled funding increases.

Ratings Detail (As Of August 25, 2017)		
Garden State Pres Trust open space & farmland pres rfdg bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
Garden State Pres Trust sales tax (BAM) (SECMKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey GO (BAM)		
Unenhanced Rating	A-(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
Garden State Pres Trust sales tax		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey certs of part (Equip Lse Purch Agmt) ser 2004A		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey GO		
Unenhanced Rating	A-(SPUR)/Stable	Outlook Revised
New Jersey Bldg Auth, New Jersey		
New Jersey		
New Jersey Bldg Auth (New Jersey) approp (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Bldg Auth (New Jersey) st bldg rev rfdg bnds (New Jersey) ser 2016A due 06/15/2030		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Bldg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Bldg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised

Ratings Detail (As Of August 25, 2017) (cont.)		
New Jersey Bldg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Bldg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Bldg Auth (New Jersey) state bldg rev rfdg bnds (New Jersey) ser 2009B		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth, New Jersey		
New Jersey		
New Jersey Econ Dev Auth transp proj sublease rev bnds (New Jersey) (New Jersey Transit Corporation Projects)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth transp proj sublease rev bnds (New Jersey) (New Jersey Transit Corporation Projects)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) approp		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) biomedical research facilities bnds (New Jersey) ser 2016A due 06/15/2036		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) cigarette tax		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) cigarette tax (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) dept of human svcs pooled fing prog 2002		
Long Term Rating	BBB/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) mtr veh surcharge rev bnds ser 2004A dtd 08/25/2004 due 07/01/2011 2015-2027 2029-31 33-2034 & cap		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) mtr veh surcharge (BHAC)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs construction bnds (New Jersey) ser 2016AAA due 06/15/2041		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs construction rfdg bnds (New Jersey)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs construction rfdg bnds (New Jersey) (Federally Taxable)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs construction (MBIA) (SEC MKT) (National)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs const ser 2007U (wrap of insured) (AMBAC & AGM) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs const (wrap of insured) (AMBAC & BHAC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs const (ASSURED GTY)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs const 2005K (wrap of insured) (AMBAC & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac const bnds (New Jersey) ser 2015WW due 06/15/2040		

Ratings Detail (As Of August 25, 2017) (cont.)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac const rfdg bnds (New Jersey)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac const rfdg bnds (New Jersey) ser 2015ZZ		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac const (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac rfdg const bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch fac rfdg const bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) state lse (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) taxable mtr veh surcharges rev 2007 (Spl Needs Hsg Prog)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) taxable sch fac rfdg construction bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) APPROP (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) GO (wrap of insured) (FGIC & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) GO (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (Div of Developmental Disabilities)		
Long Term Rating	BBB/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (Liberty State Pk Proj) approp		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) mtr veh surcharge rev bnds ser 2004A		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) mun rehab ser 2003 A&B		

Ratings Detail (As Of August 25, 2017) (cont.)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs const bnds 2007 ser U		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) sch facs ser 2005N-1		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) st pension		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (Lafayette Yard Hotel Project) ser 2007		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed
New Jersey Econ Dev Auth (New Jersey) (Spl Needs Hsg Prog) motor veh surcharges		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (Spl Need Hsg Prog) ser 2005A		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Econ Dev Auth (New Jersey) (State Office Bldgs Proj)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth, New Jersey		
New Jersey		
New Jersey Educl Facs Auth (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised

Ratings Detail (As Of August 25, 2017) (cont.)		
New Jersey Educl Facs Auth (New Jersey) (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) dorm safety ser 2003		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) hgr ed		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Educl Facs Auth (New Jersey) ser 2002A		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth, New Jersey		
New Jersey		
New Jersey Hlth Care Facs Fincg Auth hosp asset transformation prog		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth hosp asset transformation prog		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) dept of human svcs lse rev bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) dept of human svcs lse rev rfdg bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) dept of human svcs lse (Greystone Park Psych Hosp Proj) ser 2013A (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) dept of human svcs lse (Marlboro Psych Hosp Proj) (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) APPROP		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) (MAC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Hlth Care Facs Fincg Auth (New Jersey) dept of human svcs ser 2005		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth, New Jersey		
New Jersey		
New Jersey Sports & Expo Auth (New Jersey) state contract rfdg bnds & federally taxable bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) state contract rfdg bnds & federally taxable bnds		

Ratings Detail (As Of August 25, 2017) (cont.)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) APPROP		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) 2007B sub series B-1 B-2 & B-3 (federally taxable) state contract (RMKTD)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) 2007B sub series B-1 B-2 & B-3 (federally taxable) state contract (RMKTD)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth state contract		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth st contract bnds		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Sports & Expo Auth (New Jersey) state contract		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth, New Jersey		
New Jersey		
New Jersey Transp Trust Fd Auth transp sys (MBIA) (ASSURED)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) approp (BAM) (SECMKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp prog bnds		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp prog bnds (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp prog bnds (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp prog bnds (New Jersey) ser 2015 AA due 06/15/2046		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp ser 2006A-C (wrap of insured) (MBIA) (BHAC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys bnds 2009 ser A & B dtd 06/03/2009 ser A cap apprec due 12/15/2032-2034 2036 2038-2039 & ser B		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys bnds 2010 ser A cap apprec bnds dtd 01/14/2010 due 12/15/2025-2034 2036-2037 2040		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys bnds 2013 (federally taxable) (New Jersey)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys bnds 2013 (New Jersey)		

Ratings Detail (As Of August 25, 2017) (cont.)		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys (wrap of insured) (AMBAC) (BHAC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp sys 2006A-C		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp (BAM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) APPROP		
Long Term Rating	BBB+/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) APPROP (ASSURED GTY)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) APPROP (BHAC) (FGIC) (SEC MKT)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) (AGM)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth transp		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth transp sys		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth transp 2005B (&)		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
New Jersey Transp Trust Fd Auth (New Jersey) transp adj rate sys		
Unenhanced Rating	BBB+(SPUR)/Stable	Outlook Revised
South Jersey Port Corp, New Jersey		
New Jersey		
South Jersey Port Corp (New Jersey) marine terminal rev rfdg bnds (AMT)		
Long Term Rating	BBB-/Stable	Outlook Revised
South Jersey Port Corp (New Jersey) rev and rev rfdg bnds (New Jersey) ser 2016 S-2 due 01/01/2030		
Long Term Rating	BBB-/Stable	Outlook Revised
South Jersey Port Corp (New Jersey) rev bnds (New Jersey) ser 2016 due 01/01/2039		
Long Term Rating	BBB-/Stable	Outlook Revised

Ratings Detail (As Of August 25, 2017) (cont.)		
South Jersey Port Corp (New Jersey) rev rfdg bnds (New Jersey) ser 2016 S-1 due 01/01/2039		
Long Term Rating	BBB-/Stable	Outlook Revised
South Jersey Port Corp (New Jersey) MORALOBLIG		
Long Term Rating	BBB-/Stable	Outlook Revised
South Jersey Port Corp (New Jersey) marine term		
Unenhanced Rating	BBB-(SPUR)/Stable	Outlook Revised
Long Term Rating	BBB-/Stable	Outlook Revised

Many issues are enhanced by bond insurance.