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Fitch: New Jersey Quarterly Pension Payments Credit Neutral.

Fitch Ratings-New York-21 December 2016: [Fitch Ratings-New York-20 December 2016: New Jersey's recently enacted Senate Bill 2810 (S2810), requiring quarterly payments to the state's pension systems beginning in fiscal 2018, is not likely to have a meaningful impact on the state's liquidity, budgetary flexibility or on the funded status of its pension systems, according to Fitch Ratings. However, it could result in higher cash flow borrowing in the future. The state's 'A' Issuer Default Rating/Stable Outlook, is well below most other states, reflecting its structural fiscal challenges and persistent underfunding of pension liabilities. Fitch expects these factors to remain unchanged with enactment of the bill.

S2810 will require the state, starting with fiscal year 2018, to make its annual employer pension contribution in level quarterly payments by the final day of each quarter, a change from the current practice of a year-end contribution. As the payment schedule is statutory, rather than constitutional, it does not limit the governor's executive authority to strike or reduce pension contributions during the fiscal year should the state experience an unanticipated revenue shortfall. That authority was upheld by a state superior court ruling in 2014.

S2810 also provides flexibility to the executive branch to make contributions at a time of its choosing within the quarter, and to net off any debt service cost associated with the increased cash flow borrowing necessitated by scheduling pension contributions earlier in the fiscal year. For fiscal 2017, the state has $1.5 billion in privately placed tax and revenue anticipation notes outstanding.

New Jersey's pension contribution, because it has historically been paid at fiscal year-end rather than periodically through the fiscal year, has become by default a form of budgetary cushion, notably when spring personal income tax (PIT) collections lag forecast expectations. In fiscal 2014, the governor slashed the annual pension payment by $883 million as a means to address a late-year $1 billion budget gap created, in part, by disappointing April PIT collections. Although S2810 may reduce the budgetary cushion available at fiscal year-end, a still sizable balance would remain to be paid in the last quarter of the fiscal year; $600 million in fiscal 2018 from an expected $2.4 billion pension system payment. New Jersey retains expansive powers to address budgetary weakness.

Fitch expects the new law to have little positive impact on the state's very strained pension systems in the near term. S2810 does not change the governor's one-tenth ramp-up schedule of annual contributions to reach the actuarially determined level in fiscal 2023. While contributions earlier in the fiscal year may result in higher accrued investment earnings over time, such gains are likely to be at a far lower rate of return than the unrealistic 7.9% assumed return level used by the systems. Moreover, given the forecast depletion dates for six of the state's seven plans, Fitch expects the systems' funded status to continue to erode, requiring shorter duration investments to support benefit outflows.

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