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Christie's Downsized Pension Payment Cuts Gap by 2%: Muni Credit

(Bloomberg) — Governor Chris Christie's proposal for a record contribution to New Jersey's pensions would erase less than 2 percent of an \$83 billion funding deficit.

In his 2016 budget address Tuesday, Christie said the \$1.3 billion infusion would stabilize benefits for 402,000 teachers, firefighters and other public employees and retirees. Yet the 52-year-old Republican, a potential White House aspirant, has a history of breaking promises on the contributions.

His decision in 2014 to shortchange the system for two fiscal years precipitated the eighth credit downgrade under his tenure, a record for a New Jersey governor. His latest pledge would cover less than half the \$3.1 billion he was scheduled to pay, raising the specter of further rating cuts.

"That is essentially a deferral, and one of the chief causes of the rating pressure has been the growing pension liability," said Paul Brennan, a money manager in Chicago at Nuveen Asset Management, which oversees about \$100 billion of municipal debt. "Continuing to defer that is probably not going to be well received" by rating companies and investors, he said.

The governor joins municipal leaders nationwide balancing the rising expense of retirement and health-care costs with spending on infrastructure and other government services. Kansas and Kentucky are considering selling debt to replenish their pensions, even after a group of state and local-government finance officials advised against the practice.

Freeze Plan

Because of new accounting standards, New Jersey's unfunded pension obligation grew from \$37 billion in 2013, according to a report released Tuesday by a panel that Christie appointed to recommend ways to bolster the system.

Christie praised the report, released during the budget address, and said he had an agreement on one of its recommendations: to freeze the 245,000-member teachers pension fund, cede control to a trust and retire debt over 40 years.

Yet Wendell Steinhauer, president of the New Jersey Education Association, the state's largest teachers union, said no final deal had been reached. Democrats, who control the legislature, said after the budget address that they won't accept pension changes on top of those made during Christie's first term until the governor makes full payments.

'Big Negative'

Forgoing a full payment "is a big negative for New Jersey," said Tom Metzold, co-director of munis in Boston at Eaton Vance Management, which oversees about \$25 billion of state and local debt. "I appreciate the fact that Christie is trying to make more changes to the pension plan, but that doesn't

solve the problem of what the state needs to pay today.”

Investors have been demanding extra yield to buy New Jersey debt rather than benchmark munis. Yields on 10-year New Jersey bonds last week reached 0.64 percentage point above top-rated munis, the biggest gap since at least January 2013, according to data compiled by Bloomberg.

Moody’s Investors Service grades New Jersey A1, four steps below top-rated debt. Standard & Poor’s and Fitch Ratings score it one level lower at A. Illinois is the only state with lower ratings.

Christie faces the added burden this fiscal year of a state Superior Court decision, issued Feb. 23, to make good on a \$1.6 billion pension payment he skipped as revenue missed targets. The \$2.25 billion that Christie had promised was to be a state record; instead, he committed to just the actuarially required \$681 million.

While crediting New Jersey for releasing the larger pension-funding deficit under the new accounting standards, Alan Schankel at Janney Capital Markets said insufficient pension payments are a concern.

“The historic amount is not necessarily relevant if the gap widens,” said Schankel, a managing director of fixed-income strategy in Philadelphia. “Any amount that makes the state fall further behind in their pension funding is unfortunate.”

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