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Christie Pension Albatross Has Investors Dumping New Jersey Debt.

No matter whether Governor Chris Christie wins or loses a New Jersey Supreme Court case on his \$1.6 billion pension-payment cut, the municipal-bond market sees his state's credit suffering.

As New Jersey grapples with a growing retirement burden and a record nine downgrades, investors are demanding the most extra yield since at least January 2013 to own its bonds instead of benchmark munis, according to data compiled by Bloomberg.

Bondholders are souring on the state's fortunes as the court is poised to rule as soon as this month on whether the second-term Republican and potential presidential candidate must make full pension contributions, after he cut payments for this fiscal year amid a revenue shortfall. While a decision in his favor would avert a sudden budget crunch, it would exacerbate a pension-funding deficit that's restraining spending on schools, tax relief and municipal aid.

"There are negative credit implications either way," said Joseph Pangallozzi, a managing director at New York-based BlackRock Inc., which oversees \$114 billion of munis. "If the court rules against the administration, they have to come up with the money fast. If they rule with the administration, there is still no concrete long-term plan in place for addressing the unfunded liability."

Record Gap

Ten-year New Jersey debt yields 3.2 percent, or almost 0.9 percentage point above AAA munis. That gap has more than tripled in the past year to the widest since Bloomberg began compiling the data in January 2013. The state carries an A grade from Standard & Poor's, sandwiched between California's A+, and Illinois at A-. The three are the lowest-rated U.S. states.

Aside from Illinois, whose highest court rejected a solution this month for its \$111 billion pension shortfall, New Jersey's spreads are the widest among the 20 states tracked by Bloomberg. They're almost triple those on California, which S&P put on "CreditWatch with positive implications" Thursday.

Eaton Vance Management is reducing New Jersey holdings and expects the state's spreads may keep increasing whichever way the ruling goes, said Tom Metzold, senior portfolio adviser in Boston at the firm, which oversees \$28.6 billion in munis. Unlike Illinois, as a high-tax state New Jersey has less room to raise levies even if Christie agreed to that step, Metzold said.

'Hard Look'

"I would be taking a hard look at considering a downgrade because I don't see how you can keep it at its current level given their unwillingness to even consider a solution," Metzold said.

With the biggest parts of the budget already spent and no taxes that could generate revenue quickly, a full pension payment this year may be impossible, David Rosen, fiscal analyst at the nonpartisan

Office of Legislative Services, said this week at a hearing in Trenton.

Brian Murray and Kevin Roberts, spokesmen for Christie, didn't return an e-mail and phone call requesting comment.

The three biggest rating companies have lowered New Jersey nine times under Christie, a record for a governor of the state, citing the pension-funding shortfall, now \$83 billion.

Deferred Payments

Christie and the Democratic-led legislature approved a bill in 2011 that increased the state's annual payments in exchange for cost-cutting, such as higher employee contributions. Christie made the first two payments, deferred \$887 million last year when revenue sagged, and withheld about \$1.6 billion for the year ending June 30.

State lawyers, in response to a suit by public-worker unions seeking the full contributions, claim the 2011 law was unconstitutional.

The governor has called for reducing pension benefits to control costs. Democrats have said they won't agree to cuts until Christie makes full payments.

"As governor, I have put more money into the pension system than any governor in history," Christie said in a town hall meeting May 14, according to a transcript.

Through fiscal 2015, Christie will have contributed \$2.89 billion to the pensions, more than any of his predecessors.

If the court orders payments, Christie and legislators have options, Treasurer Andrew Sidamon-Eristoff said without specifying details during a Trenton committee meeting this week.

Illinois, which also has shortchanged retirement obligations, is getting punished even more severely in the bond market. Yields on 10-year Illinois debt are about a percentage point above New Jersey's, the biggest gap since November.

"Both states seem to be in denial as to making required payments that they agreed to make," Metzold said.

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by Romy Varghese and Elise Young

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