[Bond Case Briefs]

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[Pension Funding Fight Nears a Climax in Deficit-Stung New Jersey.]

The fight in New Jersey over funding government workers' pensions is coming to a head — and no one disputes that it'll be costly to taxpayers.

With the retirement system facing an $83 billion shortfall, Democrats who control the legislature are pushing for a ballot measure that would require the state to pay what it owes each year to end a bipartisan tradition of shortchanging pensions. Governor Chris Chris Christie, a Republican presidential candidate, has called it a "road to ruin."

The measure promises to add billions of dollars in spending to the budget of New Jersey, whose credit rating has been cut to the second lowest among U.S. states because of the retirement system's strains. Over the past decade, New Jersey paid about $24 billion less than it should have into the funds, freeing up cash to close budget shortfalls, spend or ease taxes, according to data compiled by Bloomberg.

"They're in a damned if you do, damned if you don't situation," said Carl Thompson, a municipal analyst in Boston at Eaton Vance, which holds $30.7 billion of state and local-government bonds, including New Jersey's. "They're probably going to be facing some rating pressure in either situation."

Christie took office in 2010 vowing to tame ballooning retirement debts. In 2011, he signed legislation requiring the state and its workers to boost their contributions. While Christie has put more aside than his predecessors, he's continued to fall short as he wrestled with deficits after the recession.

In 2015, he reneged on the 2011 law and paid about $681 million. That was about $3.2 billion less than actuaries estimated it should pay, according to a 2014 report by the New Jersey Pension and Health Benefit Study Commission. By comparison, the state spends about $2.2 billion a year on universities and colleges.

The measure, which has the support of public-employee unions, was introduced by Senate President Steve Sweeney, a Democrat, after state courts upheld Christie's ability to pay less than called for under the 2011 law. If approved by voters in November, the constitutional change would put the state on track to make full actuarially required payments by 2022, save taxpayer money and cut the unfunded liability by $4.9 billion over three decades, he said.

Fiscal Stability

"The failure to address this problem would only continue the bad budget practices of the past," said Richard McGrath, spokesman for Sweeney. "Projections show that revenue growth is sufficient to ramp up to full funding by 2022, which will put the state on the road to fiscal stability."

Asking residents directly is a way to get around Christie, whose signature isn't needed to place ballot questions before voters. The Democrat-controlled legislature approved the resolution last month. It needs one more vote in each chamber.

Investors say increased payments are necessary to keep the system from going broke. Without a fix, they've been demanding a higher yields to buy its debt instead of top-rated municipal securities: New Jersey's 10-year bonds yield 2.6 percent, about 0.79 percentage point more than benchmark securities, up from as little as 0.19 percentage point in May 2014, according to data compiled by Bloomberg. Only Illinois pays more among the 20 states tracked by Bloomberg.

Ratings companies have cut the state's grade nine times since Christie took office, a record for one of the state's governors. Moody's Investors Service ranks it A2, five steps above junk. In November, the New York-based company warned that the grade "will continue to fall" if it doesn't get a handle on mounting liabilities, including pensions.

New Jersey has "one of the worst records in the country" for funding its retirement obligations, said Marcy Block, a senior director at Fitch Ratings. In fiscal 2014, the state contributed 18.6 percent of what New Jersey's pension fund needed, the least of any state, according to Moody's. It hasn't made a full payment since 1996, according to figures from the pension commission's study.

"Something like this is starting to put them on a path of turning things around," said Thompson, the analyst with Eaton Vance. "I would rather see them to do something than nothing."

Going Broke

New Jersey has seven plans for workers, teachers and emergency personnel. The primary plan, the Public Employees' Retirement System, may run out of money by 2024.

The Garden State would join about five others whose constitutions require them to fund their retirement systems, according to Keith Brainard, who tracks pensions at the National Association of State Retirement Administrators.

New Jersey is so far behind, though, that mandated payments in the short term "would significantly reduce the state's budget flexibility and potentially strain their liquidity,"' said Moody's analyst Baye Larsen.

The state would probably cut services and raise taxes to make the obligations, said Rob Amodeo, head of municipals in New York for Western Asset Management Co., which holds $25 billion of the securities. New Jersey's individual income taxes are already the sixth-highest in the U.S., according to the Tax Foundation, a Washington-based group. It's ranked No. 1 for property taxes.

"We don't see a commitment to sound or sincere negotiations," Amodeo said. "This might be the only remedy."

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