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New Jersey Transit Strike Piles Onto Transportation-Fund Crisis.

The prospect of the first New Jersey Transit workers' strike in three decades come Sunday risks hitting the state and its transportation system while they're already down.

The New Jersey Transportation Trust Fund Authority, which finances road and rail projects throughout the Garden State, has had expenses exceed revenue by an average of \$1 billion in each of the last three years.

As of July 1, the state will have exhausted its \$8 billion capital budget for roads and mass transit, and no replacement plan is in place. Democratic lawmakers want to reduce future shortfalls by raising the gasoline tax, a proposal Republican Governor Chris Christie has resisted.

New Jersey is the most densely populated U.S. state and its economy relies on a network of superhighways, airports and ocean terminals. A strike from the nation's second-biggest commuter railroad would strand tens of thousands of Manhattan-bound workers. It would mark the latest strain on a state whose credit rating has tumbled to the second-worst in the U.S. and has a swelling \$83 billion unfunded pension liability, even though its residents pay the highest property-tax rate nationwide.

"People generally who live in New Jersey are not happy about their tax situation and the services they're getting," said Howard Cure, director of municipal research in New York at Evercore Wealth Management, which oversees \$6.2 billion of assets. "This is just going to be another frustration."

Spreads Widen

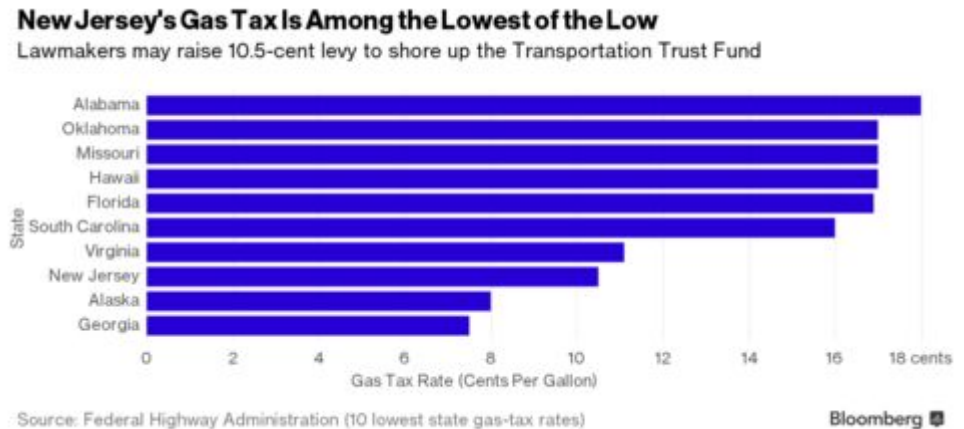
Pension and benefit payments, plus debt costs, have diminished New Jersey's ability to pay for infrastructure improvements, including on its rail line, where trains break down four times more than the U.S. average. To help cover shortfalls in the past three years, the agency issued a net \$2.4 billion of bonds. The transportation authority has about \$16 billion of securities outstanding, making it one of the 20 most-indebted borrowers in the municipal market.

In the authority's most-recent bond offering in November, 30-year debt priced to yield 5 percent, or 1.78 percentage point more than benchmark munis, data compiled by Bloomberg show. That spread is twice as wide as when it issued similarly dated bonds in May 2011. Moody's Investors Service and Standard & Poor's have lowered their credit ratings by two steps since then.

The most-traded Transportation Trust Fund securities on Friday were zero-coupon bonds due in 2035 that changed hands at an average 35.9 cents on the dollar, the lowest price since December, Bloomberg data show.

Christie pledged to use more cash and less debt for highway and bridge repairs in 2011. Instead, he put no money into the transportation fund for three years and borrowed \$1 billion more than promised. That's left Democrats, who control the legislature, supporting a raise in the state's 10.5-

cent gasoline tax, which is the third-lowest in the U.S. and hasn't been increased since 1988.



The levy brings in about \$500 million annually to the trust fund, its largest pool of money. Yet in the 2015 fiscal year, the agency's total revenue wasn't enough to cover transportation costs, let alone \$825 million in bond payments.

"Even a doubling or tripling of the gas tax doesn't solve all their problems, it only makes a dent," said Adam Weigold, who runs a \$166 million New Jersey mutual fund at Eaton Vance Management in Boston. "They need billions of dollars, not hundreds of millions of dollars."

Christie, who ended his campaign for president last month, said in a radio interview that it's up to the legislature to make the first move and put forward a proposal to raise the gasoline levy. He didn't say whether he'd support the measure, just that he'd "react to it."

Christie and his administration "refuse to renew the Transportation Trust Fund and have failed to recognize the critical importance of the state's infrastructure to the economic conditions for working people in New Jersey," New Jersey Senate President Steve Sweeney, a Democrat, said this week. "The years of indifference to the state's transportation needs now threaten to cripple transit and choke off economic activity."

Contract Negotiations

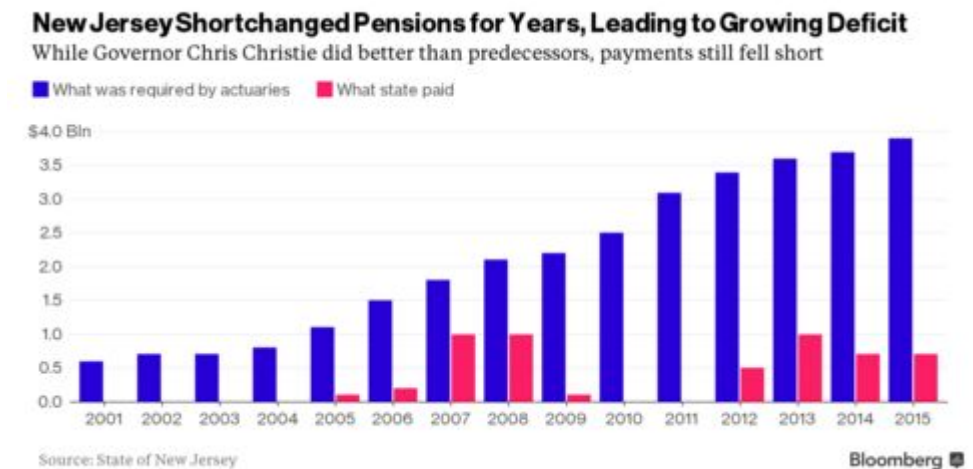
The potential transit strike would be the first since 1983. It stems from the expiration of contracts for 4,200 unionized rail workers in 2011. New Jersey Transit's negotiator said that there was nothing to report as of Thursday, when talks resumed after a day-long break for each side to review the latest proposals.

An emergency negotiating board appointed by President Barack Obama had recommended that New Jersey Transit adopt the final offer made by the union group, at a cost of \$183 million. It called for a six-and-a-half-year contract with annual raises of 1.5 percent to 3.5 percent and a maximum 5 percent annual health-care contribution, according to the presidential board report.

New Jersey Transit said the state couldn't afford the recommendation. The agency had offered a seven-and-a-half-year contract that had annual increases of 1 percent to 2.5 percent and employees covering as much as 20 percent of medical costs.

Capital investment in New Jersey Transit has declined 19.4 percent since 2002, even as ridership

jumped 20.2 percent, according to a report released this month by New Jersey for Transit, a coalition pushing for more spending. To offset the lack of funding, the system has raised fares five times in the past 14 years and diverted money for capital projects to cover day-to-day costs, the group said.



Raising the gasoline-tax rate would be a good first step to bolster the transportation trust fund, according to the report. That, in turn, would allow New Jersey Transit to focus on capital projects.

For investors, who see the money flow through New Jersey's coffers before reaching the transportation fund, the underfunded pensions are a bigger concern than lack of infrastructure spending. Over the past decade, the state put about \$24 billion less than it should have into the funds, skipping payments as a one-time solution to close budget shortfalls and avoid tax increases.

"The gas tax seems to be the last bastion of reasonable taxation in New Jersey," Weigold said. But even with a higher levy, "we don't see the trends turning around. We see the state's financial underperformance continuing for the foreseeable future, with the pension issue being the biggest overhang."

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