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New Jersey May Borrow \$450 Mln to Protect Schools From Guns.

- **Borrowing is part of \$1 billion sale, including expansion**
- **It could boost state's general-obligation debt by 50 percent**

New Jersey voters in November may decide to raise \$1 billion in the bond market, about half of which would be used to protect schools against shootings.

The borrowing initiative — which will also fund expansion programs at vocational institutions — has received widespread support in the legislature, which earlier this month approved putting it on the ballot by a nearly unanimous vote, with just one senator dissenting. Governor Phil Murphy is reviewing the bill and his office declined to say whether he would sign it.

If approved, the borrowing would allow New Jersey to increase its outstanding general-obligation debt by 50 percent to \$3 billion, according to the state's latest debt report. Historically, New Jersey has relied on appropriation-backed debt sold through various agencies, with about \$33 billion outstanding.

The voter-approved bonds would probably draw strong interest from investors because such securities are scarce and debt service doesn't rely on annual legislative appropriations, said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages \$20 billion of state and local debt, including some issued by New Jersey.

"For people looking for higher quality, looking for not having to worry about the appropriation, they'd probably get good reception," Solender said.

Student Safety

About \$450 million would finance school facility security grants to improve entryways and security systems to defend public schools from mass shootings or attacks.

More than 215,000 students have experienced gun violence at a school since 1999, according to a database of such shootings compiled by The Washington Post. The issue attracted renewed attention after several deadly incidents this year, including one in Parkland, Florida, in February that left 17 dead and another in Santa Fe, Texas, that killed 10 people.

"The safety of the students is paramount," Republican state Senator Steve Oroho, a co-sponsor of the bond bill, said in an interview.

Another \$400 million would help vocational institutions expand their facilities and buy equipment to accommodate more students. County vocational school districts had to turn away about 17,000 students in 2017 because of a lack of facilities, according to the legislation.

Employers in the state are seeking more skilled workers, Oroho said. Fulfilling the needs of people

who want to pursue a skill and providing employers with more qualified employees will benefit New Jersey in the long run, Oroho said.

“Not all debt is bad debt as long as you get the proper rate of return,” Oroho said. “And education will always have a high rate of return.”

Increasing the debt means the state will need to pay more principal and interest every year. About 7.5 percent of New Jersey’s fiscal 2019 budget, or \$2.8 billion, will go toward debt service, not including payments on school-construction bonds, according to state budget documents. Adding another \$1 billion of general-obligation debt will increase principal and interest payments by as much as \$72.3 million per year, according to a fiscal analysis of the bond bill.

Pension Predicament

While the borrowing initiative would add to New Jersey’s debt load, the bigger credit concern for the state is its retirement obligations, said Baye Larsen, an analyst at Moody’s Investors Service. New Jersey has about 56 percent of the funds needed to pay current and future retirees enrolled in its state pension plans, as of July 1, 2017. It has an unfunded pension liability of nearly \$41 billion.

“The growth in their adjusted net pension liability is going to significantly outweigh the growth in their bonded debt and that is really going to continue to be more of a credit driver for the state,” Larsen said.

New Jersey general obligations maturing in 2028 traded Wednesday at an average yield of 2.7 percent, or about 74 basis points more than top-rate municipals, according to data compiled by Bloomberg.

Debt sold in the state gained 0.9 percent this year through Wednesday, beating the 0.05 percent advance in the broader municipal-bond market, according to Bloomberg Barclays indexes.

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