

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: NJ Proposal Aims to Stabilize Finances; Challenges Remain.

Fitch Ratings-New York-01 September 2020: New Jersey's budget proposal for the shortened nine-month fiscal 2021 year marks a further step toward fiscal stabilization since the coronavirus pandemic upended the state's economic and budgetary situation earlier this year, according to Fitch Ratings. Fitch downgraded New Jersey's Issuer Default Rating to 'A-'/Rating Outlook Negative on April 21 given the narrow fiscal resilience the state had available to confront the emerging crisis, relative to most other states. Since then, swift action by the Governor and Legislature and the presence of federal response funds appear to be laying the groundwork for the state to steady its finances. However, multiple uncertainties weighing on New Jersey's credit quality have yet to be clarified, including the ultimate course of the pandemic, its economic and fiscal ramifications and whether additional federal support emerges. Moreover, the significant one-time actions necessary to address the downturn now, including planned deficit borrowing, may temporarily derail the state's progress in recent years in addressing its many fiscal challenges, including its persistent structural imbalance, high liabilities and limited reserves.

The Governor's proposed budget for the shortened, nine-month fiscal 2021 period reflects the state's progress toward stabilizing its finances. It forecasts that fiscal 2020 (12 months through June 2020) will have ended with a revenue gap of only \$1.4 billion relative to the January 2020, pre-pandemic forecast; this compares with the \$2.7 billion gap expected as of the May financial condition report.

Better performance in fiscal 2020 partly reflects economic trends before the pandemic, which have supported recent income tax collections, but withholding has not deteriorated as sharply as expected since the pandemic began and enhanced federal unemployment benefits have shored up sales tax receipts. More than \$1 billion in planned fiscal 2020 appropriations were also held back by the state early in the crisis, which appears to have offset most of the estimated fiscal 2020 revenue gap, enabling the state to end the year with a fund balance now estimated at over \$1.7 billion.

The projected revenue decline in fiscal 2021 remains more of a challenge, despite the improved outlook. Prior to any tax law changes, New Jersey is forecasting a \$5.6 billion revenue gap relative to the pre-pandemic forecast, compared with a \$7.2 billion gap in the May fiscal update. The governor's proposal targets ending fiscal 2021 with a fund balance exceeding \$2.2 billion, a potentially critical cushion against the many uncertainties the state faces through the remainder of the fiscal year.

The revenue gap identified by the state is addressed most notably by \$4 billion in deficit borrowing, either via General Obligation bonds or through the Federal Reserve's Municipal Liquidity Facility, in lieu of deeper spending cuts. Additionally, \$1 billion in revenue actions are in the proposal, the largest of which is raising the top rate on taxable income over \$1 million to 10.75%; the Legislature has rejected this proposed increase several times before. The proposal cuts a range of spending but preserves the state's ramp up schedule to full actuarial contributions (ADC) for pensions with a payment equal to 80% of the ADC, an important signal of the state's commitment to stabilizing its pension funding and addressing a source of credit weakness. The Governor and the Legislature have

only a few short weeks to reach consensus on a final budget, but their quick agreement at several critical junctures since the start of the pandemic raises expectations for a smooth process.

Yet, even as state finances appear to be solidifying, significant risks remain for the state beyond the current fiscal year. Economic recovery is likely to be slow, and thus the rebound of tax revenues in fiscal 2022 is unlikely to fully recoup the lost revenues being offset in fiscal 2021 through deficit borrowing and other one-time actions. Moreover, future baseline spending will have to rise both to cover debt service on the operating debt and the next scheduled increase in pensions contributions.

Contact:

Douglas Offerman
Senior Director
+1 212-908-0889
Fitch Ratings, Inc.
Hearst Tower, 300 West 57th Street
New York, NY 10019

Marcy Block
Senior Director
+1 212-908-0239

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com