MOODY'S INVESTORS SERVICE

Rating Action: Moody's affirms New Jersey's A3 GO rating; outlook revised to positive

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$40 billion of rated debt affected

New York, July 13, 2021 -- Moody's Investors Service has affirmed the A3 rating on New Jersey's outstanding general obligation debt, and revised the outlook to positive from stable. In addition, Moody's has affirmed the state's A3 rated bonds issued by the Garden State Preservation Trust, NJ; the Baa1 and Baa2 rated appropriation backed debt; Baa1 rated moral obligation debt issued by the South Jersey Port Corporation; the Baa1 rated New Jersey County College Enhancement Bond Program Chapter 12; the Baa1 rated New Jersey Municipal Qualified Bond Program and New Jersey Qualified School Bond Program intercept programs, and the Baa1 on the New Jersey Transportation Trust Fund Authority's (NJ TTFA) Federal Highway Reimbursement Revenue Notes (GARVEEs). The affirmations affect approximately $40 billion of outstanding rated debt.

The outlooks on all the bonds have been revised to positive from stable. The outlooks on the enhanced financing-level ratings for schools and local governments that issue under the intercept programs match the outlooks on the programmatic ratings.

Moody's has also affirmed the Baa2 (Sr lien) and Baa3 (Sub lien) ratings on New Jersey's $779 million of outstanding Motor Vehicle Surcharge bonds issued by the New Jersey Economic Development Authority (NJ EDA). The outlook on the bonds has been revised to stable from developing.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907253143 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

New Jersey's A3 general obligation rating reflects the state's large, diverse and wealthy economy offset by large, growing long-term liabilities and the burden of very large pension contributions, which are the result of substantial historic pension underfunding. The state has responded to a brightening revenue and liquidity picture with several actions reflecting a recent commitment to addressing more aggressively its liability burdens, demonstrating improved fiscal governance and management. These actions include debt reduction and avoidance and acceleration of pension contributions. However, increased spending on recurring programs in fiscal 2022, including education, creates structural budget gaps that make the state vulnerable to budget risks in a period of continued uncertainty and may challenge the state's ability to sustain its improving trajectory.

The A3 rating on the Garden State Preservation Trust bonds is based on the state's contractual obligation to transfer a constitutionally-dedicated portion of the state-wide sales tax (the first $98 million) to the trust for debt service, subject to annual appropriation. The GO-level rating is supported by the strong legal structure restricting the use of the allocation to debt service and ample coverage provided by the dedicated state-wide revenue source. However, the rating is capped at the state's GO due to the lack of structural and mechanical separation of the dedicated revenue stream from the state's General Fund and the technical requirement for annual appropriation.

The Baa1 ratings on the majority of the state's appropriation debt and the County College Enhancement Program Chapter 12 are notched off the State of New Jersey's A3 GO rating, reflecting the strong legal structure, the essential nature of the financed projects and the need for annual legislative appropriation of revenues to pay debt service. A large majority of the state's net tax-supported debt is subject to appropriation, and the importance of maintaining access to the capital markets provides strong incentive for the state to make these appropriations on essential assets.

The Baa2 rating on the state's appropriation debt issued through the New Jersey Sports & Exposition Authority reflects appropriation risk and the lower essentiality of the racetrack, convention center and stadium projects that were financed with bond proceeds.

The Baa1 ratings on the South Jersey Port Corporation senior lien and subordinate lien bonds are notched off the State of New Jersey's A3 GO rating and reflect the state's commitment, as established in the corporation's enabling act and bond resolutions, to consider appropriating funds to replenish the port's debt service reserve fund (DSRF) to match maximum annual debt service. The state has a strong, demonstrated commitment to making these appropriations, given its 34-year history of replenishing the corporation's reserve fund; the state's history of including broad appropriation language in the budget, which is historically adopted well in advance of the corporation's December 1 request date, and the state's non-impairment pledge. The state's replenishment commitment is equivalent for both liens, and state appropriations deposited into the subordinate lien DSRF cannot be transferred to the senior lien DSRF. Nothing requires the legislature to appropriate proportionately to the two liens' DSRFs. However, the risk of inequivalent appropriations does not warrant a full notch rating distinction.

The Baa1 programmatic ratings on the Qualified School Bond Program and the Municipal Qualified Bond Program are notched off the State of New Jersey's A3 GO rating. The one notch distinction reflects the programs' strong position in the state's hierarchy of debt and spending priorities and strong program mechanics, including the direct payment of aid to the debt service trustee.

The Baa1 rating on the NJ TTFA Federal Highway Reimbursement Revenue Notes (GARVEEs) incorporates the appropriation requirement for pledged revenues, satisfactory coverage by pledged federal highway aid, a strong 3x additional bonds test and a requirement that pledged revenues first fulfill all annual debt service requirements, once appropriated. The Baa1 rating also incorporates the relatively long final maturity that spans multiple authorizations of the federal aid highway program and, similar to most GARVEE programs, the lack of structural protection against disruption in federal highway aid, such as a debt service reserve fund. NJ TTFA's GARVEEs are capped at the same level as the state's other appropriation debt, due to the requirement that pledged revenues be appropriated by the New Jersey state legislature to pay debt service together with the lack of legal constraints on the use of federal reimbursements. Certain characteristics of the GARVEE credit and structure, including the motivation to maintain the existing federal reimbursement funding and spending cycle, provide the state with a strong incentive to appropriate. Other similarly-structured GARVEE bonds with no requirement for legislative appropriation are rated in the mid- to high A category.

The Baa2 (Sr) and Baa3 (Sub) ratings on the NJ EDA Motor Vehicle Surcharge bonds reflect the weak pledged revenue trends and debt service coverage, driven by coronavirus related closures of department of motor vehicle (DMV) locations and courthouses. Significant pledged revenue declines starting in November 2020 have lead the Governor to request an appropriation in the general fund budget to support the July 1 debt service payment. Based on the state's extraordinary support provided in 2021 and its strong connection to this debt, New Jersey's response to the potential revenue shortfall has been similar to an authorized moral obligation debt of a state. However, the recent appropriations do not commit the state to further support in future years.

The Baa2 (Sr) and Baa3 (Sub) ratings on the NJ EDA Motor Vehicle Surcharge bonds also reflect i) the need for legislative appropriation of pledged revenues and ii) relatively weak pledged revenue fundamentals including a very narrow revenue base and steadily declining revenue trend that is somewhat balanced by the statewide tax base and the closed lien. The weaker subordinate lien coverage is somewhat balanced by the turbo feature on the last five maturities that will likely decrease future debt service and reduce revenue risk, as well as an Advance Account that provides liquidity against a timing mismatch between revenue collection and debt service payments.

RATING OUTLOOK

The revision to the positive outlook reflects the state's better-than-expected financial position and improved governance profile that will enhance budget flexibility during the coronavirus recovery. Over the next 1-2 fiscal years, a key rating consideration will be continuation of governance and financial improvements that restore structural budget balance.

The outlooks on all GO-related and notched debt listed above, and the outlook on the NJ TTFA GARVEE bonds, are positive, reflecting the outlook on the state GO. This includes the enhanced financing-level ratings for schools and local governments that issue under the intercept programs.

The stable outlook on the NJ EDA Motor Vehicle Surcharge bonds reflects the uncertainty around the pledged revenue recovery and the actions the state will take to support debt service after fiscal 2022 if necessary.

Revenue stability and growth, or indications of likely recurring state support, would provide positive pressure to the outlook, while a lack of both would be negative drivers.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

For the GO rating:

- Implementation of structurally balanced actions to close budget gaps

- Articulated strategy for sustained full funding of pension contributions

- Maintenance of budgetary balances and liquidity above historic averages

- Relatively stable debt and pension metrics, and fixed cost increases that remain affordable

For the appropriation-backed and notched debt:

- Upgrade of the state's GO rating

For the NJ EDA Motor Vehicle Surcharge rating:

- Upgrade of the GO rating

- A sustained increase in pledged revenue collections that bolsters debt service coverage, and/or substantially shortens final maturity

For the NJ TTFA GARVEE rating:

- Both an upgrade of the state's G.O. rating and an increase in MADS debt service coverage

- The addition of stronger indenture covenants limiting additional bond issuance

- The addition of structural protections to bridge a potential federal authorization gap

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

For the GO rating:

- Lower-than-planned pension contributions that do not maintain the 1/10 schedule

- Failure to address large structural imbalance with recurring actions

- Significantly reduced liquidity levels and/or increased liquidity support (cash-flow borrowing and other cash management tactics)

- A significant increase in unfunded pension liabilities or other debt that elevates fixed costs

For the appropriation-backed and notched debt:

- Downgrade of the state's GO rating

- Indications that the state's incentive to make annual appropriations has diminished

For the NJ TTFA GARVEE rating:

- A downgrade of the state's G.O. rating

- Discontinuation or reduction in federal transportation grant program

- Lapse in reauthorization of transportation spending

- Sharp decline in underlying HTF revenues caused by economic stress, tax inefficiency or redirection of fuel taxes to general fund

- Significant additional leverage that reduces coverage materially from historical levels

For the NJ EDA Motor Vehicle Surcharge rating:

- Either a downgrade of the state or accelerated declines in pledged revenues, beyond current baseline projections, that deteriorate coverage

LEGAL SECURITY

New Jersey's G.O. bonds are general obligations of the state, secured by the full faith and credit of the state.

The Garden State Preservation Trust bonds are secured by the state's contractual obligation to transfer a constitutionally-dedicated portion of the state-wide sales tax (the first $98 million) to the trust for debt service, subject to annual appropriation.

The state's various appropriation-backed bonds, including the Chapter 12 intercept bonds, are payable solely from anticipated state payments made pursuant to a contract, lease or funding agreement, subject to annual legislative appropriation. Once the legislature has appropriated the funds, the state's payment obligations are absolute and unconditional.

The South Jersey Port Corp senior and subordinate lien bonds are secured first by a senior and subordinate lien, respectively, on net revenues of the port corporation's operations. All senior and subordinate bonds are additionally secured by - and primarily paid from - the state's commitment to annually appropriate amounts sufficient to restore the debt service reserve fund (DSRF) to the required level. The state's replenishment commitment is equivalent for both liens, and state appropriations deposited into the sub lien DSRF cannot be transferred to the senior lien DSRF. While the state's replenishment commitment is equivalent for both liens, nothing requires the legislature to appropriate proportionately to the two liens' DSRFs.

The Qualified School Bond Program and the Municipal Qualified Program intercept programs provide credit enhancement to participating schools and municipalities through the diversion of state aid revenues directly to a trustee to ensure timely debt service payments, and thereby prevent debt service obligations from competing with other local expenditure priorities.

The NJ TTFA GARVEE bonds' source of pledged revenues is Federal Title 23 funding received by the state under the Federal Aid Highway Program, subject to state legislative appropriation. The HTF receives revenues from national excise taxes on gasoline and other vehicle taxes established under periodic reauthorization by Congress. HTF funds are used to reimburse states for eligible road and transportation capital project costs according to formulas that take into account population and other factors.

The senior and subordinate lien NJ EDA motor vehicle surcharge bonds are secured by motor vehicle surcharges and unsafe driver surcharges, subject to legislative appropriation. After appropriation, the pledged revenues will be transferred monthly to the EDA by the state Treasurer pursuant to state statute and a contract between the two parties.

PROFILE

New Jersey is the 11th-largest state by population in the United States. Its gross domestic product per capita ranks 8th among the states (in current dollars).

METHODOLOGY

The principal methodology used in the general obligation ratings was US States and Territories published in April 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1084466. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . The principal methodology used in the Garden State Preservation Trust bonds was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1274696 , and the additional methodology was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . The principal methodology used in the appropriation, moral obligation bonds and NJ County College Enhancement Program Chapter 12 was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1274696 . The principal methodology used in the intercept programs was State Aid Intercept Programs and Financings published in December 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM907253143 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Rating Solicitation

- Issuer Participation

- Participation: Access to Management

- Participation: Access to Internal Documents

- Disclosure to Rated Entity

- Endorsement

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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