SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 1905

with Senate committee amendments

STATE OF NEW JERSEY

DATED: APRIL 17, 1997

The Senate Budget and Appropriations Committee reports without recommendation Senate Bill No. 1905 of 1997 with amendments.

Senate Bill No. 1905, as amended, authorizes the New Jersey Economic Development Authority ("EDA") to issue bonds and refunding bonds to provide funds for paying, in full or in part, the unfunded accrued pension liability of the State in each State pension fund, as certified by the State Treasurer, and for any issuance costs of those bonds. These bonds would be special and limited obligations of the EDA, and would not be a debt or liability of the State. Debt service on the bonds would be paid though annual appropriations by the Legislature. The bonds will be issued to yield an amount of $2.75 billion, plus additional bonds may be issued to pay for the costs of issuance.

The proceeds from the sale of the bonds will be paid by the EDA to the Teachers' Pension and Annuity Fund, the Judicial Retirement System, the Prison Officers' Pension Fund, the Public Employees' Retirement System, the Consolidated Police and Firemen's Pension Fund, the Police and Firemen's Retirement System and the State Police Retirement System to be applied to the payment of the unfunded accrued pension liability of the State under these funds as directed by the State Treasurer.

COMMITTEE AMENDMENT

The committee amended the bill to set the amount that may be borrowed at $2.75 billion plus bonds for the costs of issuance; to limit the duration of the bonds to 38 years; and to alter the repayment schedule in a manner that will increase the debt payments in years two through seven and reduce payments in the later years.

FISCAL IMPACT:

A fiscal note prepared by the Office of Legislative Services (OLS) on the unamended version of this bill along with its companion bill (Senate Bill No. 1906) outlines the information provided to date by the Department of Treasury on the impact of these bills if enacted. The department states that the unfunded accrued liability of the State

pension systems is $3.2 billion, with an additional $1.0 billion projected future liability for cost-of -living adjustment (COLA) benefits payable to active employees. Under this bill as amended, the EDA would issue $2.75 billion in Pension Obligation Bonds (POBs) to "refinance" most of the $3.2 billion unfunded accrued liability of the State retirement systems; the $2.75 billion in bond proceeds would be deposited in the various pension funds. The principal and interest (debt service) on the proposed $2.75 billion POB issuance are estimated to total $12.1 to 12.3 billion, if the bonds are repaid with interest over 36 years. Refinancing the liability is estimated to result in savings of $45.5 billion to taxpayers in the years 2034 through 2056.

The debt service interest rate on the $2.75 billion in POBs is estimated to average 8.1 percent over the 36-year amortization period. The repayment schedule for the 2.75 billion in POBs is to be structured in a manner wherein the annual debt service on the POBs would "mirror" the annual State contributions that are to be provided to the retirement systems under current law. However, to reduce the level of debt service payments after fiscal year 2020, which are capped at an estimated $500 million annually, debt service payments in fiscal year 1999 through 2004 are required to be $25 million more than the annual State contributions to the retirement systems under current law.

An estimated $450 million of the $2.4 billion in "surplus assets" created by the change to "full-market" value of assets under the companion bill will be used to pay the portion of the $3.2 billion unfunded accrued liability not funded with the proceeds of the POBs ($3.2 billion - $2.75 billion = $450 million); $1.0 billion of the $2.4 billion in "surplus assets" will be used to pay the $1.0 billion projected future liability for cost-of-living adjustment (COLA) benefits payable to active employees; and an estimated $647 million of the "surplus assets" would be applied to reduce the normal State contributions to fund the retirement systems in FY 1997 and FY 1998. In addition to the $2.75 billion in bonds for the pension system, the bill permits borrowing for the cost of issuance which is estimated to be $15 million.