State of New Jersey
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CHRIS CHRISTIE
Governor

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ANDREW P. SIDAMON - ERISTOFF
State Treasurer

April 6, 2015

Dr. David J. Rosen
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex, P.O. Box 068
Trenton, NJ 08625-0068

Dear Dr. Rosen:

Pursuant to your letter dated March 31, 2015 it was requested that I provide a written response to a question posed by Assemblyman Schaer at a meeting of the March 30 hearing of the Assembly Budget Committee. The question was as follows:

The major credit ratings agencies have downgraded the State of New Jersey's credit ratings several times in recent years. Lower credit ratings typically lead to higher interest rates being charged. The State now intends to borrow an additional $600 million in support of Transportation Trust Fund projects. All other factors being held constant, could you please quantify, compare, and contrast the expected interest rate and payments for the anticipated $600 million debt issuance: a) with the State's current credit ratings, and b) with the State's credit ratings in effect as of December 31, 2009.

It is important to note that current market conditions are creating a very strong demand for investment grade municipal bonds. Using market data as of March 31, 2015, Treasury estimates that principal and interest payments would be substantially similar, if not identical under financings undertaken at the variable credit ratings referenced in your question. Why? Investors are demanding premium bonds. Therefore, a bond structure showing 5.00% coupons for all bond maturities is the current market convention. Another reason is that investors have such a strong demand for investment grade municipal bonds, that even where ratings differ by two or three notches within the investment grade category, they are willing to buy bonds from an issuer such as New Jersey where our reputation amongst buyers has been strong for many years.

However, this is not to suggest the rating differences would not have an impact. The difference between the two scenarios requested would be reflected in the bond yields associated with each financing. Unfortunately, it is virtually impossible to calculate with any certainty the extent to which our bond premium would be impacted. Market spreads change on a daily basis due to many factors. Some factors include market timing, a crowded or empty financing calendar, the level of demand for New Jersey paper, the level of supply of New Jersey paper, and the stability of general interest rates. Current market spreads show that there could be up to a 30 basis point differential if the Transportation Trust Fund were to issue bonds today. Given this spread differential, it is not unreasonable to believe that the Transportation Trust Fund would forego as much as $15 million of lost premium at the time of issuance.

Importantly, I would note that Governor Christie has advanced a Fiscal Year 2016 budget and related initiatives that will help to strengthen the State's long-term financial position and credit profile. In particular, the Governor has:

- Proposed making the largest pension payment in State history while pursuing reforms to bring public employee pension, health, and post-retirement benefits more in line with benefit levels offered in the private sector;
- Built a budget based on conservative revenue estimates while continuing to reduce the State's reliance on non-recurring resources;
- Controlled the growth in bonded indebtedness while reducing the State's exposure to risky derivatives;
- Restrained the growth in core State spending; and
- Avoided punitive corporate and income tax increases that would undermine New Jersey's competitive economic position as a place for businesses to invest, grow, and create jobs.

We anticipate that you will understand how these and other measures are critical to strengthening the State's long-term financial position and look forward to your enthusiastic support.

Sincerely,

Andrew P. Sidamon-Eristoff
State Treasurer