State of New Jersey
Office of the State Treasurer
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Philip D. Murphy
Governor

Sheila Y. Oliver
Lt. Governor

Elizabeth Maher Muoio
State Treasurer

May 17, 2018

Mr. Frank Haines
Legislative Budget and Finance Officer
Office of Legislative Services
State House Annex
P.O. Box 068
Trenton, NJ 08625

Dear Mr. Haines:

Pursuant to your letter dated April 18, 2018, it was requested that I provide a written response to the questions posed by Assemblywoman Egan Jones, Assemblyman DiMaio and Chairwoman Pintor Marin following the April 11, 2018 hearing of the Assembly Budget and Appropriations Committee. The questions and their subsequent answers are as follows:

<u>Assemblywoman Egan Jones</u>:

Please discuss the impact of the downgrades in the State's credit rating on debt issued by the Transportation Trust Fund Authority.

The Transportation Trust Fund Authority issues two different types of bonds. The first and largest type of issuance of debt is backed by TTFA dedicated revenues and by the State's General Fund. The Transportation Trust Fund Authority also issues a second type of bond which is backed by the pledged revenues that the State receives from Federal Highway Reimbursements (also known as Garvee Bonds). As a general matter, both of these types of bonds share the overall credit profile and credit ratings of State appropriation backed debt.

Both types of the Authority's bonds, and other State appropriation backed debt, have been negatively impacted by the multiple downgrades in the State's rating. In each case, because the Authority's bonds are linked to the State's rating, they have been downgraded in line with the rating actions impacting the State's rating. These downward rating changes have increased the cost of debt issued by the Authority by increasing the credit spread paid by the bonds over AAA bonds issued by other municipal entities. In order to reduce the current spread on both State general obligation debt and State appropriation debt, the Governor's budget attempts to improve the perception of the State by rating agencies and investors.

New Jersey's credit ratings have been on a downward trajectory since the early 1990s, including 11 credit downgrades in the prior administration alone. The Governor and other administration officials met with each of the major credit rating agencies and discussed their concerns about the State's fiscal position. The administration and the rating agencies agree that there is no quick fix to these problems as they have been developing for decades. Nevertheless, Governor Murphy has presented a fiscal plan which should begin to improve the State's credit rating and investor perception.

The Governor understands that we cannot improve the State's credit rating without economic growth. The first piece of the Governor's plan is focused on growing the State's economy through targeted investment in New Jersey's assets and its people. Proposed investments include increased infrastructure funding for New Jersey Transit and increased funding to community colleges and vocational training to increase the pool of appropriately trained workers.

The second piece of the plan addresses the major credit rating agency fiscal concerns which should begin to improve the State's credit ratings. This piece of the plan includes conservative revenue forecasting; the gradual increasing of the State's fiscal reserves; a significant reduction in the use of one-shot, non-recurring revenue sources; the expansion and enhancement of the State's tax base to support long-term spending requirements; mitigation of the current structural rigidities between the General Fund and the Property Tax Relief Fund; and funding the State's required pension payment under the 1/10 plan.

The Governor believes it is important for the administration and the legislature to agree on these priorities and for the administration to communicate them to the public (i.e., investors) in order to assure current and future bondholders that the entire government is intent on addressing these concerns.

The administration believes that the combination of these efforts will, over time, result in an improvement in the State's credit ratings and a decrease in the State's credit spread over AAA rated debt. This improvement in credit profile should also flow to the Transportation Trust Fund Authority's and to the State's other appropriation backed credits, reducing the cost of their outstanding debt as well.

Assemblyman DiMaio:

Please provide a list of property tax relief initiatives and programs in the Governor's proposed FY 2019 budget.

Please refer to page H-2 of the Fiscal 2019 Governor's Budget Recommendation which contains a chart displaying property tax relief programs. School aid is funded at over $14 billion, municipal aid is funded at over $1.5 billion, various local aid programs are funded at over $951 million, and direct property tax relief programs are funded at over $402 million. Additionally, the Governor has proposed increasing the deduction amount available for the Property Tax Deduction Act from $10,000 to $15,000, which is estimated to cost approximately $82 million; including this change, total property tax deductions and credits are projected to be $673.6 million in fiscal 2019.

Chairwoman Pintor Marin:

Please provide a list of provider contracts affected by the Governor's proposed increase in the State minimum wage from current level of $8.60 per hour to $11.00 in FY 2019 and please quantify the impact on theprovider.

There are thousands of fee-for-service contracts with vendors who provide services to the State. The State procurement contract attached for both the Re-Entry Substance Abuse Program (RESAP) and Stages to Enhance Parolee Success Program (STEPS) is just one example of many. As the cost of providing such services can increase for a particular provider, the cost to the State can too. The impact by provider is indeterminate, but the Governor's proposed budget includes an additional $10.8 million for all service contracts related to the inmate and parolee populations.

As it relates to Personal Care Assistants (PCAs) in the FY19 budget, we set the minimum reimbursement to providers for PCA services at $16 per hour via budget language, which was built into the managed care organization rates. In light of this,, funding to provide that level of hourly payment was included as growth in the Medicaid budget for fiscal 2019.

Finally, regarding the Division of Developmental Disabilities (DDD), which has by far the largest population of direct care workers, the fee-for-service provider rates already assume an hourly rate of $11.50 per hour for direct care, so again, funding for these payments is already included in the budget as part of DDD's normal growth assumptions.

Sincerely,

Elizabeth Maher Muoio
State Treasurer

c: Cathy Brennan, Deputy State Treasurer
David Ridolfino, Acting Director, Office of Management and Budget