

## NEW JERSEY Budget Report Card



NEW JERSEY RECEIVED an average of D-minus in legacy costs for fiscal 2016 through 2018, the lowest mark possible. The grade shows how a precipitous drop in pension funding can compromise a state's ability to balance its budget and threaten its fiscal sustainability.

New Jersey's public worker pensions were over 100 percent funded in the first three years of the twenty-first century, partly because of the sale of \$2.8 billion in pension obligation bonds in the 1990s. But the state slipped into underfunded territory in fiscal 2004, with a liability of \$5.5 billion and a funded ratio of 93 percent. Pension funding slid relentlessly over the next thirteen years. Though New Jersey is one of the nation's wealthiest states, trailing only Connecticut and New York in personal income per capita, by June 30, 2017, its unfunded pension liability had reached \$142.3 billion. That left it with only 35.8 percent of the assets needed to pay promised benefits.

The decline was exacerbated by the state's chronic underfunding of annual pension contributions and badly timed issuance of the pension bonds, which were sold at an annual interest rate of about 8 percent before the stock market plunge of 2000-02. The rout consumed part of the borrowed cash and left New Jersey to pay about \$500 million annually in debt service costs through 2029.

In the face of its struggle to meet pension obligations, the state has resorted to one-time actions to keep budgets balanced. As a result, New Jersey scored a D average in budget maneuvers. While it did not defer recurring expenditures in 2018, it was one of only two states – alongside Illinois – to use planned asset sales to maintain budgetary balance that year. The 2018 budget included \$321 million from the sale of excess broadband capacity, among other scheduled transactions. New Jersey also received a D average in budget forecasting for its lack of consensus revenue estimates and multiyear expenditure and revenue forecasts.


### MID-ATLANTIC STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18


	BUDGET FORECASTING	BUDGET MANEUVERS	LEGACY COSTS	RESERVE FUNDS	TRANSPARENCY
New Jersey	D	D	D-	B	B
New York	A	D	B	B	B
Pennsylvania	B	D-	D	C	B
US AVERAGE	C	B	C	B	B


**NOTE** States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at [VolckerAlliance.org](http://VolckerAlliance.org).


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BUDGET FORECASTING					
	2016	2017	2018		
	CATEGORY GRADE	D	D	D	
	Consensus Revenue Forecasts	X	X	X	
	Multiyear Expenditure Forecasts	X	X	X	
	Multiyear Revenue Forecasts	X	X	X	
	Revenue Growth Projections	✓	✓	✓	
3-YEAR AVERAGE		D	3-YEAR TREND		—

BUDGET MANEUVERS					
	2016	2017	2018		
	CATEGORY GRADE	D	D	C	
	Deferring Recurring Expenditures	✓	X	✓	
	Revenue and Cost Shifting	X	X	X	
	Funding Recurring Expenditures with Debt	X	X	✓	
	Using Asset Sales and Up-Front Revenues	X	✓	X	
3-YEAR AVERAGE		D	3-YEAR TREND		↗

LEGACY COSTS					
	2016	2017	2018		
	CATEGORY GRADE	D	D	D	
	Public Employee OPEB Funding	X	X	X	
	Public Employee Pension Funding	X	X	X	
	Public Employee Pension Funded Ratio*	31%	36%	36%	
3-YEAR AVERAGE		D	3-YEAR TREND		—

RESERVE FUNDS					
	2016	2017	2018		
	CATEGORY GRADE	B	B	B	
	Positive Reserve or General Fund Balance	✓	✓	✓	
	Reserve Funds Disbursement Policy	✓	✓	✓	
	Reserve Funds Replenishment Policy	✓	✓	✓	
	Reserves Tied to Revenue Volatility	X	X	X	
3-YEAR AVERAGE		B	3-YEAR TREND		—

TRANSPARENCY					
	2016	2017	2018		
	CATEGORY GRADE	B	B	B	
	Consolidated Budget Website	✓	✓	✓	
	Provides Debt Tables	✓	✓	✓	
	Discloses Deferred Infrastructure Replacement Costs	X	X	X	
	Discloses Tax Expenditures	✓	✓	✓	
3-YEAR AVERAGE		B	3-YEAR TREND		—

### KEY

✓	Followed best practice
X	Did not follow best practice

**BUDGET FORECASTING** evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

\* SOURCE Bloomberg; 2017 data also used for 2018.