ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4175

STATE OF NEW JERSEY

DATED: JUNE 1, 2020

The Assembly Budget Committee reports favorably Assembly Bill No. 4175.

This bill, entitled the "New Jersey COVID-19 Emergency Bond Act," authorizes the issuance of $5,000,000,000 in State general obligation bonds to be used for the purpose of responding to the fiscal exigencies caused by the COVID-19 Pandemic. The bill also authorizes the Governor to apply for and receive federal stimulus loans for the benefit of the State, to apply for and receive federal stimulus loans for the benefit of local government units, and authorizes the issuance of refunding bonds and emergency liquidity notes.

The COVID-19 Pandemic has had a severe impact on the State's economy. The long-term and short-term capital markets have experienced significant deterioration in value and increased volatility, which can affect the liquidity and results of operations of businesses in the State and the State economy as a whole and which has significantly and materially adversely affected and continues to significantly and materially adversely affect the State's financial resources for Fiscal Year 2020 and Fiscal Year 2021.

The impact of COVID-19 on the State, its economy, budget and finances is unpredictable and rapidly changing, but events surrounding COVID-19 will severely and negatively impact the State's economy and financial condition. Some of the negative impacts that the State has currently identified include:

(1) The State expects precipitous declines in revenues in Fiscal Year 2020 and Fiscal Year 2021, which include significant reductions in gross income tax revenues, corporate business tax revenues, and sales tax revenues due to required business shutdowns, motor fuels taxes due to mandated "stay-at home" orders, casino-related taxes due to casino closures, and lottery sales which have already started to decline;

(2) The State expects that it will need to significantly revise the estimated revenues and projected appropriations for Fiscal Years 2020 and 2021 contained in the Governor's Budget Message for Fiscal Year 2021 on February 25, 2020, which was delivered before the outbreak of COVID-19 within the State; and

(3) The State may encounter future increases in the State's actuarially recommended contributions to the State's pension plans

to the extent that the valuation of pension plans is affected by the deterioration in value in the investment markets.

Events surrounding COVID-19 have caused and will continue to cause severe and negative impacts on the economy and financial condition of the State's local government units and has increased and will continue to increase volatility in long-term and short-term capital markets on which local government units rely to meet operating expenses.

It is necessary for the State to take action to ensure the continued viability of the State's and local government units' financial condition and to assist the State's population in dealing with the financial and economic problems resulting from the COVID-19 Pandemic through the issuance of general obligations bonds, and borrowings from the federal government pursuant to this act to provide financial resources for the State budget and for local government units' budgets.

This act authorizes the issuance of bonds, and borrowing from the federal government in accordance with Article VIII, Section II, paragraph 3, subparagraph e. of the Constitution of the State to respond to the fiscal exigencies caused by the COVID-19 Pandemic and to maintain and preserve the fiscal integrity of the State and its local government units.

FISCAL IMPACT:

The Office of Legislative Services (OLS) cannot project the total debt service cost the State will incur from issuing different forms of indebtedness to address State and local government funding needs related to the COVID-19 pandemic. This is so because the final debt service cost will be a function of the amounts, structures, and terms of the authorized debt instruments, of which many elements remain to be determined. While the bill authorizes the issuance of $5 billion in general obligation bonds, the amount of short-term borrowing it allows, including from the federal government, is unrestricted.

Additional State and local government fiscal impacts will materialize if the State exercises its authority under the bill to borrow an unspecified amount from the federal government to provide financial assistance to certain local governments to address their funding needs related to the COVID-19 pandemic. The financial assistance may be in the form of either loans to or the purchase of securities issued by qualifying local governments.

The Department of Community Affairs would incur indeterminate expenditures in administering the program. Whether the State would fully recover its cost of capitalizing and operating the relief program, incur losses, or achieve gains cannot be foreseen because of uncertainty regarding certain key variables. Apart from the requirement that the Department of Community Affairs secure local government repayment obligations, the bill does not set forth the terms and conditions of providing the financial assistance. Moreover, the State would bear the credit risk in the event of a payment default by a local government, but the OLS cannot forecast the scale of any such defaults.

The impact of the bill on debt service expenditures of local governments participating in the financial assistance program is indeterminate, as the impact will depend on each entity's specific circumstances. Debt service expenditures would increase for local governments that absent the program would not issue debt to manage the fiscal fallout of the COVID-19 pandemic. On the other hand, local governments that otherwise would access capital markets at conditions less favorable than those offered by the State would lower their debt service payment obligations as a result of program participation.