Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION: Committee Room 9
State House Annex
Trenton, New Jersey

DATE: January 18, 2013
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

B. Carol Molnar, Chair
Anthony F. Annese, Vice Chair
Senator Paul A. Sarlo
Senator Steven V. Oroho
Assemblyman Angel Fuentes
Assemblyman Declan J. O'Scanlon Jr.
Thomas Neff
Steven Petrecca
Robert Romano
Beth Schermerhorn

ALSO PRESENT:

Thomas J. Solecki
Executive Director

Mary Alice Messenger
Assembly Majority Commission Aide

Brian Alpert
Senate Republican Commission Aide

Jerry Traino
Assembly Republican Commission Aide

Meeting Recorded and Transcribed by
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(The New Jersey Commission on Capital Budgeting and Planning held a teleconference meeting on January 18, 2013, at 10:00 a.m. Members of the Commission present via teleconference were Senator Paul A. Sarlo and Assemblyman Angel Fuentes.)

B. CAROL MOLNAR, Esq. (Chair): I'd like to call the meeting to order.

In accordance with the Open Public Meeting Law, the Commission has provided adequate notice of this meeting by giving written notice of the time, date, and location. The notice of the meeting has been filed at least 48 hours in advance by mail and/or fax to the Trenton *Times* and the *Star-Ledger*, and filed with the Secretary of State.

We'll take a roll call.

` MR. SOLECKI (Executive Director): Senator Sarlo.

SENATOR SARLO: I'm here.

SENATOR OROHO: Right here -- right next to me.

MS. MOLNAR: Yes; oh, good.

SENATOR OROHO: Hello, Senator. How are you doing?

SENATOR SARLO: Steve. (laughter)

MR. SOLECKI: Senator Oroho.

SENATOR OROHO: Here.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: I'm here.

MR. SOLECKI: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Here.

MR. SOLECKI: Deputy Treasurer Romano.

DEPUTY STATE TREASURER ROMANO: Here.

MR. SOLECKI: Assistant State Treasurer Petrecca.

MR. PETRECCA: Here.

MR. SOLECKI: Beth Schermerhorn, Governor's Office.

MS. SCHERMERHORN: Here.

MR. SOLECKI: Tom Neff, Executive Branch.

MR. NEFF: Here.

MR. SOLECKI: Joanne Cimiluca, public member. (no response)

Mr. Anthony Annese, Vice Chair.

MR. ANNESE: Here.

MR. SOLECKI: And Ms. B. Carol Molnar, Chair.

MS. MOLNAR: Here.

MR. SOLECKI: Madam, we have a quorum.

MS. MOLNAR: Thank you.

I'd like to welcome all of our newest members to the Commission -- Assemblymen Fuentes and O'Scanlon.

Our next item on the agenda is approval of the minutes of November 16, 2012. Do I hear a motion?

MR. ANNESE: So moved.

MS. MOLNAR: Second?

SENATOR OROHO: Second.

MR. SOLECKI: Senator Sarlo.

SENATOR SARLO: Are they the minutes?

MR. SOLECKI: Yes.

SENATOR SARLO: I abstain; I was not at the meeting.

MR. SOLECKI: Senator Oroho.

SENATOR OROHO: Yes.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: I'm sorry -- what was the question?

MR. SOLECKI: We're approving the minutes.

ASSEMBLYMAN FUENTES: Okay, yes.

MR. SOLECKI: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. SOLECKI: Deputy Treasurer Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Assistant State Treasurer Petrecca

MR. PETRECCA: Yes.

MR. SOLECKI: Beth Schermerhorn, Governor's Office.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Tom Neff.

MR. NEFF: Yes.

MR. SOLECKI: Joanne Cimiluca (no response); not here.

Mr. Anthony Annese.

MR. ANNESE: Yes.

MR. SOLECKI: And Ms. B. Carol Molnar.

MS. MOLNAR: Yes.

MR. SOLECKI: The motion is approved.

MS. MOLNAR: Thank you.

The next item is our Debt Report presentation. I'd like to welcome Jim Petrino.

Good morning.

J A M E S M. P E T R I N O: Good morning, Chairwoman and Commission members. My name is Jim Petrino, Director of the Office of Public Finance in the Department of the Treasury. And I'm here today to present to you the annual Debt Report for the Fiscal Year that ended June 30, 2012.

Seated next to me is Anthony Longo, a Manager in our Office of Public Finance, who is integral in assembling the data, compiling it, and putting it together into the report that you have before you. So I express my gratitude to him. Basically, he's the one who does the work on this.

Having said that, I think, with your permission, Chairwoman, I'd like to maybe give a little overview -- walk through -- of some of the key components of this report.

So to begin with, I think it's always important to remind or refresh the memories of the Commission of what is included in the report and also, importantly, of what's not included in the report. And in pages 1 through 3 it's described in more detail.

But, in short, what's included in this report are the obligations that are supported by the State of New Jersey and State revenues. There are many-- These are obligations of the State itself and its various Authorities that issue bonds and other obligations. Some of those Authorities issue obligations for client purposes, such as the Economic Development Authority; the Educational Facilities Authority issues bonds on behalf of colleges supported solely by revenues from the colleges. They don't run through the State of New Jersey, they are separate and they are not included in this; similarly, the New Jersey Turnpike Authority and other agencies of that nature, because they are not impacted or not supported by State revenues but they have their own revenue base.

There is a third category that is referred to as *moral obligation bonds* and I frequently get questions about this. This is-- There are three Authorities that issue obligations that, by statute, have what's known as a moral obligation. They issue bonds supported by revenues, and the three agencies are the Housing Mortgage Finance Agency, the Higher Education Student Assistance Authority, and the South Jersey Port Corporation. They issue obligations supported by their own revenues and, in the case of the Student Loan Authority, by student loan repayments; South Jersey Port Corporation by port revenues.

What also supports the debt that they issue are reserve funds funded from the proceeds of their bonds. And what happens is if their revenues end up being short in a particular year, they tap into a reserve fund. Where the moral obligation of the State comes into play is that the statute says, to the extent a reserve fund has been drawn down, the State has a moral obligation to replenish that reserve fund.

In the case of the Housing Mortgage Finance Agency and also the Student Assistant Authority, their revenues have always been sufficient to support their obligations and they've never drawn on that moral obligation. As such, we do not include those contingent liabilities, if you will, in this report.

South Jersey Port Corporation, on the other hand, has for many years-- Their revenues have been insufficient to cover their debt service. They've drawn on their reserve funds, and each year the State has, in fact, replenished that reserve fund. So given that pattern we have chosen to include the South Jersey Port Corporation obligations in this Debt Report since the State has been making partial payments against that debt.

So that's what a Debt Report is. We frequently get asked, "What is the State debt?" There is no one particular number, as this report, when you read it in its whole, will show. There are many categories of debt supported by different types of revenue support. There are dedicated revenues, there are general State revenues. So the General Fund supports some of it; others are constitutionally dedicated revenues -- support some of it.

You will also see in the repot there are accounting adjustments. We have a section called *CAFR Reconciliation* where accountants treat debt and other related items differently than one would think of debt. Yet under government accounting standards, they need to report that on the State's annual financial statements as a long-term obligation. So in order to match our Debt Report to the annual financial report of the State, we do a reconciliation between the two and we've added on those obligations into this report. And I'll explain that in a little more detail momentarily.

And finally, there are non-bonded obligations. As a result of an amendment to the statute requiring this Debt Report before the Commission, certain items were required to be added in, not the least of which are the pension obligations and the other post-employment medical obligations of the State; and they are contained in this report also, even though there is not a bond or a marketable security behind those.

So there is a compilation or a sundry list of types of obligations, and I think it's just important that the members understand that there are many debt numbers that could be quoted here. And I'll try to highlight what some of those are now.

If you turn to page 8, which is our first sort of summary table, you'll see what I mean here. In the upper portion there is a table headed "Aggregate Bonded and Non-Bonded Obligations." This is the gross accounting of the debt obligations. So there are general obligations of the State. Those are voter-approved obligations supported by the full faith and credit of the State.

Below that are obligations subject to appropriation. Now, what these are, are the bonds issued by the various State Authorities. The debt service on those obligations are supported by contracts with the State such that the State makes payments -- it could be a lease or just a general contract -- sufficient to pay the debt service on those obligations. Examples you'll see within the pages are the New Jersey Building Authority, Economic Development Authority, Transportation Trust Fund Authority, etc. There are a number of them. As of June 30, 2012, the amount of obligations subject to appropriation is $31,644,606,000. Below that is the CAFR Reconciliation that I referenced before, and I'll spend a moment on the detail of that later. That amounts to $4,765,000,000 as of June 30, 2012.

And finally there's the non-bonded obligations component, which, as of June 30, 2012, is $32,295,242,000.

In aggregate, those four categories of bonded and non-bonded obligations that we report to you today is $71,089,838,000. This is an increase of just over $6 billion from the amount outstanding as of June 30, 2011.

If you were to-- I refer to the summary just below that -- the Aggregate Bonded Obligations Supported by State Revenues. This is what our Office of Public Finance is most involved in because we manage the bonded obligations of the State; we oversee the issuance of bonds by these various State Authorities. So this is what many people think of as the true debt number; it's not an accounting adjustment, it's not other obligations like sick leave payable or pension obligations. It's the actual securities. So the general obligation, you can see, year over year there was a reduction of $182 million; obligations subject to appropriation an increase of $492 million over the prior year. In aggregate, that's an increase of $309,858,000. That represents a 0.9 percent increase from the prior year .

Lastly, the table on that same page at the bottom part of the table breaks up that bonded component into its two general categories: general State revenues, or what I would call the General Fund of the State. That change from the prior year was a reduction of $514,341,000. In the dedicated revenues category -- again, these are revenues that are either constitutionally or statutorily dedicated to the purposes and the debt associated with them, examples being the Transportation Trust Fund, Garden State Preservation Trust. There we see the increase of $824 million, year-over-year, and then again in aggregate it is the increase of $309,858,000.

Pages 9 through 12 provide great detail of these summary tables. I don't intend to go through them page-by-page, but I'll offer the Commission -- if they have any question at the end of my presentation, I'll be happy to go into any of the details that you wish.

But I would like to refer you to page 13 next, just to show you some of the categories in this *CAFR Reconciliation* -- that I call -- because it is a substantial figure. Obligations not supported by State revenues -- one of the items here that I speak of, year-to-year, is the Tobacco Settlement Financing Corporation with an outstanding debt of $3.374 billion. Those were bonds issued and supported by the payments from the master settlement agreement with the tobacco companies. The State, in the prior decade, issued several series of bonds effectively selling its right to receive those payments. And then the Corporation pledged the receipt of those payments to the bond holders. The State of New Jersey has no obligation -- legal, moral, or otherwise -- to support that debt. However, because the Tobacco Settlement Financing Corporation is a creation of the State -- it was created by the State and has appointed a majority of the board of that Commission -- governmental accounting standards would dictate that it is a related entity of the State and thus its obligations must be reported in the State's annual financial reports. Notwithstanding that, again there is no legal, moral, or otherwise support by the State to those bonds. So if they were to default, the State has no obligation to step in -- yet, it's reported here.

So I just wanted to point that out as an example, and you can run down some of the others. There are some obligations issued by some of these authorities for which there are a sharing of the debt service payments. For instance, Educational Facilities Authority issues some bonds that support college construction costs. Colleges are required to pay a portion of that debt service, therefore the accountants do not include all of that debt on the State's books. We do because the State is ultimately responsible for the payment of the debt; yet the obligation to repay the State is on the colleges' books, so the accountants don't like to double-count a debt obligation on both the State and the colleges' financial statements. So the State backs that off of theirs; I don't, in our Debt Report, again because the State is required to pay that. So there's a mismatch. So again, that's part of the reconciliation between the Office of Public Finance Debt Report and the Comprehensive Annual Financial Statements.

The total at the bottom is $4.7 billion. And when you add that into the bonded obligations previously reported that takes the number up to $38.794 billion outstanding as of June 30, 2012.

On the following page are the non-bonded obligations. This is a large number -- $32.295 billion. It's primarily the net pension obligation of $12.8 billion and other post-employment benefit obligation of $16.8 billion, outstanding as of June 30, 2012. So that is, in large part, the debt figure. When you add that total into the previous subtotal of bonded obligations and the CAFR Reconciliation, you arrive at the total of $71.089 billion outstanding as of June 30, 2012 that I referred to before in the summary tables.

One last item I should point out -- and then I'll take a breath and see if you have any questions -- is on the following page, page 15. And here is reported pension and other post-employment benefits on an actuarial basis. Again, the statute requires that this be included in the Debt Report. And these numbers, I have to point out, lag by a year. The figures for June 30, 2012 -- the actuarial reports are not finished yet so it's a little bit of a mismatch in comparison, but what we're showing here is 2010 versus 2011. So as of June 30, 2011, the total State pension plan unfunded actuarial accrued liability for the State administered retirement systems was $30.1 billion, and the unfunded actuarial accrued liabilities for post-retirement medical benefits was $48.949 billion. In aggregate, those two figures amount to $79.057 billion.

Well, I could take a breath there. The other tables you may find of interest are: There is a 10-year history of the outstanding obligations as reported in the CAFR; we repeat that table here for you. Page 18 provides a list of legislatively authorized but unissued debt as of June 30, 2012. And Section 4, which begins on page 19, discusses the annual debt service, or the amount of principal and interest payments made each year to service the debt obligations that were recorded in the previous sections. That is followed by, then, Section 5, where we give you much more detail of all of these obligations, page by page, issue by issue -- or issuer by issuer over the years, and a graph of the upcoming debt service for the current fiscal year and the succeeding five fiscal years.

Finally, in Section 8 in the back is a list of long-term obligations issued since the reporting period, which is as of the year ending June 30, 2012. And you'll be able to see we have issued a number of refunding and new money bonds since June to the present date.

So that would bring me to the conclusion of my remarks. I'll now see if anyone has any questions or would like any additional information.

ASSEMBLYMAN FUENTES: Madam Chair, I do have some questions.

MS. MOLNAR: Yes.

ASSEMBLYMAN FUENTES: This is Assemblyman Fuentes.

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN FUENTES: Okay, great. Thank you.

Jim, thank you for that report. Jim, I have a couple of questions and if you could just bear with me; I'm finding the code here. The report shows an overall increase in debts from June 30, 2011 to June 30, 2012 of $6 billion. And, again, I (indiscernible) learn the process. Can you please walk, I guess, all of us through the categories of debt in the (indiscernible) on the top of page 8, particularly what is included in the non-bonded obligations category.

MR. PETRINO: Certainly. What I would refer you to especially in the non-bonded obligations, the detail of which is provided on page 14-- And in there you'll see governmental activities; accumulated sick and vacation payable. These are accounting entries as of the end of the fiscal year -- obligations of the State -- but in no way are they securitized or supported by bonds or any type of tradable obligation. These are items payable that need to be reported in the State's financial statements. That figure is $606 million as of June 30, 2012. Followed by capital leases -- these are long-term leases for State facilities around the State. Loans payable -- $1.279 billion. That I think is a loan remaining from auto insurance reform from many years ago.

UNIDENTIFIED MEMBER OF COMMISSION: The early 1990s.

MR. PETRINO: Yes, from the 1990s, I believe.

Net Pension-- I'm sorry?

ASSEMBLYMAN FUENTES: Going back to 1990?

MR. PETRINO: Yes, I think it was the 1990s -- mid 1990s.

ASSEMBLYMAN FUENTES: Okay, okay.

Jim, on page 15, the chart "Unfunded Actuarial Accrued Liability for State-Administered Retirement Systems," a footnote indicates that 2012 actuarial reports have not yet been issued. So the data shown is for Fiscal Year 2010 and Fiscal Year 2011.

MR. PETRINO: That's correct.

ASSEMBLYMAN FUENTES: My question: How does this data relate to the unfunded obligations data in the chart on page -- I believe on page--

MR. PETRINO: Yes, the answer to that is that it doesn't. These figures are what the actuaries would say represent assets of the retirement system minus the liabilities of the retirements system -- the present value of that, in actuarial terms. So the actuaries, in their reports, determine -- make various assumptions as to the future of retirees: salaries, deaths, etc.; figures that out over -- I think they go 30 or 40 years. I'm not a pension expert so I apologize for not having all the facts on this. And then a present value of that at a discount rate brings you to a number. Now, the number here, the unfunded actuarial accrued liability, means that the liabilities exceed the assets as of June 30, 2011, for the State pension plan, by $30.1 billion.

ASSEMBLYMAN FUENTES: Okay. Again, this is my first year as a-- I guess, from my understanding, the Debt Report statute requires the report to contain, I believe, an assessment of the State's ability to increase its (indiscernible) debt and a recommendation on the amount of any such increase. I do not see that analysis in this report. So my question is: Where is that analysis?

MR. PETRINO: Some of the information to achieve those conclusions is contained in Section 6 where we draw a number of comparisons based on the Moody's -- Moody's being one of the major rating agencies-- Moody's Investor Service issues a State Debt Medians Report each year where you can make a comparison of where the State is relative to other states. And we choose to provide this information -- and I'll be happy to go through some of that with you; it begins on page 69 of this report.

ASSEMBLYMAN FUENTES: Okay, I appreciate that.

My last question: The Governor has already laid out a Transportation Trust Fund scheme that relies on the assurance (*sic*) of substantial additional debt. Is the impact of that included in this report? If not, why not?

MR. PETRINO: It is not. Future obligations are not projected in this report. This is a report-- It's more of a historical report, or a moment-in-time report, for the year ended June 30, 2012 -- albeit six months later or slightly more than six months later. It does not incorporate any projections of future issuances.

ASSEMBLYMAN FUENTES: Was it included in the last fiscal--

MR. PETRINO: Yes.

ASSEMBLYMAN FUENTES: It was? Okay. Thank you (indiscernible), Jim.

Thank you, Madam Chair,

MS. MOLNAR: Okay.

Senator.

SENATOR OROHO: Yes, thank you very much. And Jim, thanks for the report. Senator Sarlo and I, I think we're the sponsors-- I think, Senator, we asked for a more comprehensive report, including the unfunded pension liabilities and the post-employment benefits.

MR. PETRINO: Yes.

SENATOR OROHO: One question: One of the things that, as we get further away from the significant pension reforms and health benefit reforms we had, was -- as we get further years away -- what the impact of that is on what this report would have been. Does anybody know, per se, how much of an impact they have on what these numbers would have been?

MR. PETRINO: Well, one might draw a conclusion -- on page 15 it is--

SENATOR OROHO: Right, right.

MR. PETRINO: --where it is depicted -- the change from the prior year. We believe that that is -- there's a reduction in the amount outstanding of the medical liability, for instance, of over $10 billion. That reflects-- Because, remember: the unfunded actuarial liability, as of a date, is the present value of all future--

SENATOR OROHO: Of all future, and discounted back.

MR. PETRINO: So the reforms, having been factored into the actuarial report that year, show a reduction -- or an expected future reduction in obligations of, in this case, over $10 billion.

SENATOR OROHO: And even further, I think there was-- As I remember last year, and maybe if-- It probably has to be in the range of close to $20 billion on the pensions, and probably another $11 billion by the post-employment benefits. But you know, maybe that is something we can take a look at to see what-- And I know in over 30 years it's going to be about $120 billion. But as we go each year it's going to continue to be significant.

Thank you.

MS. MOLNAR: Anthony.

MR. ANNESE: Madam Chair--

SENATOR SARLO: I have a question, whenever the Chair would like me to go.

MS. MOLNAR: Sure -- Senator Sarlo, yes.

SENATOR SARLO: Okay. May I go now?

MS. MOLNAR: Yes.

SENATOR SARLO: Okay, thank you, Chair.

Two quick questions, actually: When will the actual actuarial analysis be done for 2012? When will that be done?

MR. PETRINO: I can't say, Senator. I don't know. I believe draft reports are in process, but I think they are still with the actuaries. I believe-- I don't like to guess, but I believe they typically come out around February.

SENATOR SARLO: I always thought, though, by law, they had to be done to be included in the Debt Report. I mean, that's how I always understood it from the years I served on this Capital Commission. Doesn't it have to be included in the Debt Report? I mean, I think that's required by law.

MR. PETRINO: Well, the amount-- Yes, the unfunded actuarial liabilities-- Yes, as a result of the amendment. However, I can only report what's available. I can't speak to the timing of the release of the reports.

SENATOR SARLO: Okay. So it was not-- On this particular year it was not done for-- It was not completed in time for the issuance of this Debt Report then -- correct?

MR. PETRINO: Yes -- and every year since we've begun including it. We've always lagged by a year, Senator.

SENATOR OROHO: We've always lagged by a year.

MR. PETRINO: Yes.

SENATOR SARLO: The definition in the report of a net pension obligation doesn't include the public employee retirement system -- the PERS. What is the reason for that? Is there any reason why that's not included in that net definition of a debt pension obligation?

MR. PETRINO: Yes, let me--

MR. SOLECKI: On page 15?

MS. MOLNAR: Page 15 -- it is.

SENATOR SARLO: Maybe I'm reading it wrong, but the way I see it--

MR. SOLECKI: Page 15, I think, the top line I think, Jim.

SENATOR OROHO: I thought it was.

MR. PETRINO: Yes, under-- I believe that's correct, and I believe that's an accounting requirement. I don't know if anyone from our OMB is here today to explain that. That is how it's reported in the CAFR; we take it right from there and we take that definition right out of the CAFR as well. It's part of what we get from our OMB on that. And I apologize that I don't have the answer to that.

SENATOR SARLO: And then finally, I know there are different ways of looking at the charts; they have different categories. But the bottom line is this year from June 30, 2011 to June 30, 2012 our debt has increased by about $6 billion. Is that correct -- from $65 billion to $71 billion?

MR. PETRINO: Correct. That's the bonded and non-bonded obligations -- yes.

SENATOR SARLO: Right -- those are the different categories. So it's about a 9.2 percent increase?

MR. PETRINO: Yes, sir.

SENATOR OROHO: That includes the benefit plans that, quite frankly, we put on to make sure we show correctly.

MR. PETRINO: That includes the non-bonded obligations which include the net pension obligation and the other post-employment benefits obligation. Not the unfunded actuarial obligation, but the amount as of the end of the year that is owed -- that's the actual amount owed. Basically, that's the unfunded piece to date.

SENATOR OROHO: It includes the account payable to the plan.

MR. PETRINO: As of now.

SENATOR OROHO: Right.

MR. PETRINO: Yes, the not the actuarial amount due; that's a different calculation.

SENATOR SARLO: Thank you, Chair. I have no further questions.

MS. MOLNAR: Okay.

Mr. Annese-- Oh, Senator.

SENATOR OROHO: One other quick thing, if I could.

With respect to the actuarial unfunded -- there are other things that go into that -- we get the final report -- for example, the discount rate. We talked about that it's a present value. Didn't we also lower the discount rate because it was too high?

MR. PETRINO: I believe that's the case. I think it is now 7.95?

SENATOR OROHO: Yes. It used to be--

MR. PETRINO: It used to be in the 8s.

SENATOR OROHO: Yes, and it used to be in the 8s -- because that has a significant impact on the present value.

MR. PETRINO: Yes, it certainly does.

SENATOR OROHO: So responsibly, the Administration reduced that discount rate. Okay, thank you.

MS. MOLNAR: Mr. Annese.

MR. ANNESE: Through you, Madam Chair, and I'm not really sure who to direct this to so I'll let you do that. And I'm not trying to point any fingers.

But last night I received this report at 5 o'clock -- which means I had to review it last night before this morning. And fortunately I had set aside enough time to do it. But in the future, I think it would be very beneficial to all of us if we had a little bit more time to review this report before we have our meeting. That's more a comment than a question.

I do have one question, though. The statute does obligate us to make a recommendation as far as any future debt to the State. Director, do you have any comments about that?

MR. PETRINO: Well, in New Jersey and under the present structure of statutes that authorize bonded debt by the various authorities and the State in general -- with the general obligations bonds -- many of those items are capped; in other words, there is a bonding limit. Many of those, there are no bonding limits. Why we refer to some of the rating agency statistics there is because we still have highly rated obligations by the rating agencies. So what the comparisons give you is sort of a sense as to where we stand relative to some of the other states. There are some states with more debt per capita that are even more highly rated. So you try to infer from some of that information how much more debt could the State incur before you have a negative impact of an overburdened debt portfolio. You have to take that into account against the revenue base of the State and the revenue supporting this. There are constitutionally dedicated revenues behind much of the debt; in fact, no new laws authorizing debt can be affected unless there is a dedication of revenues behind them. Why I make these remarks is that it makes it very difficult to develop a number that would be "this is too high" and "this is not." It has to be weighed against the future revenues of the State; it has to be weighed against the comparable burdens -- what the rating agencies would say to our debt. And we don't want to impede our access to capital markets when we need -- for the various purposes for which we finance. So all of that we keep in mind in terms of our strategic management of the debt. In order to keep our burdens as low as we can, we continuously monitor markets and outstanding bonded obligations for opportunities to refund or refinance those bonds at lower interest rates. And, in fact, that's been most of our activity over the last couple of years and it is a very, very low interest rate environment. In Fiscal Year 2012 I believe we managed seven issues of bonds; five of those were refinanced and only two were new money bond issues.

I may not have answered your question directly, but there are many factors involved and I think it would require some scientist to develop a number for you. All I can say is that we manage the process, I think, very effectively. I'm proud of the job that my office does with the support of the State Treasurer's Office in keeping track of all of our obligations and trying to minimize the impact on current and future State budgets in terms of the debt service.

MR. ANNESE: Thank you.

MS. MOLNAR: Just to take off from what Mr. Annese said. The statute is very specific. It says that the "Debt Report should provide an assessment of the State's ability to increase its overall debt and a recommendation on the amount of any such increase." Now, I notice from 2010 to 2011 the debt increased by $1 billion, and then from 2011 to 2012 the debt increased $800 million -- to $38.8 billion. So it keeps climbing.

And then I noticed-- I don't know if this bill passed. There is a bill to put $100 million public bond referendum on the ballot next year to fund the Blue Acres Flood Plain Protection Bond Act. So there are things in the works. Is the State able to absorb all these referendums that the taxpayer puts on? I think we need some guidance; that's why that's in the statute. In prior years we used to get some sort of a number. Is your department prepared to give any kind of recommendation at this time?

MR. PETRINO: I would have to say “no” to that question. We are not prepared at this time. And we can undertake any kind of analytical work the Commission would like with regard to our current obligations and planned obligations. I mean, one could look at, for instance, the legislatively authorized but unissued debt which appears on page 18. There you will see that as of June 30, 2012, there is $9.4 billion -- rounded to $9.5 billion of bond authorization already on the books. Now, a portion of that-- Yes, most of that, again, is for Transportation Trust Fund which legislation was enacted this summer reauthorizing that for a number of years. So that is reflected here, as well as the balance of the school construction program which was authorized going back to 1999 or 2000, with an additional $3.95 billion authorized sometime in the 2000s.

So yes, I hear your concern and I understand that there is additional projects to be financed -- primarily roads and schools, which are your typical -- your most traditional of all capital projects. Space acquisition has been another area of bond issue, mostly through the general obligation program and the Garden State Preservation Trust.

So again, I’m happy to try to provide whatever analytical support we can. But I think to develop a number you would have to put some sort of group together that would also be able to simultaneously do analyses of future revenues and revenue growth in the State to support the debt -- to make an assessment of what the State can currently support.

MS. MOLNAR: So every year we will always have some -- the EDA, the School Construction and the Transportation bonds. But how does our Legislature-- They keep approving these bonds; how do they know whether, when they approve these bills, we can even support or pay for it? Do they come to you for any recommendations? How do they feel comfortable about passing these bills?

MR. PETRINO: Not typically. Our office may-- Sometimes we are asked to provide bill comments and we mostly comment on the mechanics of the bill relative to how the bonds are issued, and what supports the bonds and that nature.

MS. MOLNAR: Does anyone know if this bill was passed: the Blue Acres Flood Plain Protection Bond Act? It's a $100 million bond referendum.

MR. PETRINO: It has not. There was a referendum passed in 2009 for Green Acres and Blue Acres bond purposes. And then in the last year on the ballot was the Building Our Future bonds, I think they're called, which is $750 million for higher education purposes. We've not issued any bonds under either of those authorities yet, but we are planning to do so.

MS. MOLNAR: I'm just in a quandary. How does our Legislature-- Maybe I can ask one of our Senators. How do they know that the State can absorb these new bonds that keep getting approved? Is there any process you go through?

SENATOR OROHO: Well, one, as far as-- Those numbers -- obviously want to see our debt lower, but the bills are getting put in by anybody in the Legislature; obviously, the Office of Legislative Services will comment on those bills. The debt capacity I guess goes to the question of credit rating versus obviously the interest cost -- the interest rate that's charged on it. So the issue being, obviously, it has to go before the voters as well. So you're asking a question that obviously there are a lot of different variables to it. One that I would answer-- Jim, our current credit rating, when you had a number of refinancings and whatnot, were those refinancings over-subscribed?

MR. PETRINO: Yes, substantially.

SENATOR OROHO: So there's a-- Madam Chair, there's a number of issues that go into how much your debt capacity happens to be; obviously how you're economy is going and your gross domestic product. There are a number of things that your credit ratings would use. I couldn't give you-- I'd be making a lot more money if I could tell you exactly how much we have from Wall Street or something.

MS. MOLNAR: Has our credit rating remained the same since last year? I can't remember.

MR. PETRINO: Yes.

ANTHONY LONGO: There was a downward -- Fitch--

MR. PETRINO: During the Fiscal Year?

Okay, yes. I'm sorry.

MS. MOLNAR: I'm sorry, I didn't hear.

MR. PETRINO: I forgot the timing. Fitch Ratings brought us to A-plus.

MS. MOLNAR: That's a downgrade?

MR. PETRINO: Double-A-minus.

MS. MOLNAR: Moody's kept us the same?

MR. PETRINO: They are Aa3 for the general obligations and A1 for the subject to (indiscernible) appropriation obligations.

MS. MOLNAR: Is that a downgrade, too, from last year?

MR. PETRINO: No.

MS. MOLNAR: No? That stayed the same? So Fitch went down and Moody's-- Okay.

All right, thank you. I have no other questions.

Any other questions?

ASSEMBLYMAN O'SCANLON: Just quickly--

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN O'SCANLON: --on the same topic. Thank you, Madam Chair. I appreciate it.

Just getting back to-- Trying to get a picture of what we were just talking about. First off, I think it's important for us to understand we're two budget years behind, really, in our pension obligation. And it's, I think, informative to understand that those are critical budget years. We started making payments, phasing them in, the one-sevenths, and it's a total of just over $1.5 billion I think that we have pledged between this budget year and last towards this. And the Governor's committed to following that schedule that the Legislature agreed to. Also, I think our present pension obligations is around 4 percent -- I'm sorry -- about 12 percent of our budget; $4 billion and change, I think. And I worked with OLS, I worked with someone to come up with a projection, which I think that's to the Senator's question of what we could have expected before reforms versus what we could expect now. And that was telling. We went from a projection of going from 12 percent to 25 percent of our budget over the next 30 years. And with the reforms we go from 12 to 15, and then back to 12 at the end of that. Without the reforms it went up to 25 and kept going up from there. And this report, just by the nature of when it has to be timed, doesn't reflect any of that. So I think that's, big picture, something that we ought to pay attention to. We, in a bipartisan way, have gotten -- moved in the general direction of being responsible, I think you'd agree with. I think it ought to be said here so we understand the direction that we're heading in.

Thank you.

MS. MOLNAR: Okay. Any other questions or comments? (no response)

If not, our Commission usually just moves to accept the report. Is there a motion to accept the report?

SENATOR OROHO: So moved.

MR. ANNESE: Second.

MS. MOLNAR: Okay, we'll take a roll call -- vote.

MR. SOLECKI: Senator Sarlo.

SENATOR SARLO: Yes.

MR. SOLECKI: Senator Oroho.

SENATOR OROHO: Yes.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: Madam Chair.

MS. MOLNAR: Yes.

ASSEMBLYMAN FUENTES: I'm going to abstain on this report today. I believe there is statutorily required information missing and I'm not sure that this report provides a big picture of the State's debt situation. So I want to take more time to review this information and seek additional information on it. I know Jim offered to assist as well. So I will probably be reaching out.

MS. MOLNAR: Okay, thank you.

ASSEMBLYMAN FUENTES: So I abstain.

MS. MOLNAR: Okay, thank you.

MR. SOLECKI: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. SOLECKI: Rob Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Steven Petrecca

MR. PETRECCA: Yes.

MR. SOLECKI: Beth Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Tom Neff.

MR. NEFF: Yes.

MR. SOLECKI: Joanne Cimiluca. (no response)

Anthony Annese.

MR. ANNESE: Yes.

MR. SOLECKI: And B. Carol Molnar.

MS. MOLNAR: Yes.

MR. SOLECKI: Madam Chair, we have a quorum. The action has been approved.

MS. MOLNAR: Thank you.

Okay, thank you. Thank you for coming.

MR. PETRINO: Thank you very much, Commission members and Chairwoman.

MS. MOLNAR: Could you share-- I'm sorry; could you share, when you get the 2012 actual pension numbers, with the Commission? Is that possible?

MR. PETRINO: Absolutely. I think when the reports are completed and approved by the boards they are posted on the pension's website. But I'll make a note to have them sent to the Commission members if you'd like to see them.

MS. MOLNAR: Perfect. Thank you so much.

SENATOR OROHO: I think all the media looks for it every year, too. (laughter)

MS. MOLNAR: Yes.

Okay. We do have capital recommendations to make today. There are not a lot. Last year we just voted on the whole thing in total; we did not do them department-by-department. Whatever your pleasure is this year, I'm flexible.

SENATOR OROHO: I can do them all at one time.

ASSEMBLYMAN O'SCANLON: Yes, I can do them all at once.

MS. MOLNAR: Okay. Do I hear a motion to approve the staff's recommendations that you received recently?

ASSEMBLYMAN O'SCANLON: So moved.

SENATOR OROHO: Second.

MS. MOLNAR: Okay. Any questions or comments? (no response)

If not, we'll take a vote.

MR. SOLECKI: Senator Sarlo.

SENATOR SARLO: Yes.

MR. SOLECKI: Senator Oroho.

SENATOR OROHO: Yes.

MR. SOLECKI: Assemblyman Fuentes. (no response)

Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. SOLECKI: Rob Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Steven Petrecca

MR. PETRECCA: Yes.

MR. SOLECKI: Beth Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Tom Neff.

MR. NEFF: Yes.

MR. SOLECKI: Joanne Cimiluca is not here.

Anthony Annese.

MR. ANNESE: Yes.

MR. SOLECKI: B. Carol Molnar.

MS. MOLNAR: Yes.

MR. SOLECKI: Madam Chair, we have a quorum and it has been approved.

MS. MOLNAR: Okay, thank you.

Now, under other business: As I mentioned, there are some bills chugging through the Legislature. If any of them are approved and are going on to the ballot in November, this Commission has to approve placing them on the ballot. So we might have to meet during the summer telephonically like we did last year. So I'm giving you all a head's up.

Any other questions or comments? (no response)

If not, meeting's adjourned.

(MEETING CONLCUDED)