
Commission Meeting

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: March 10, 2017
10:00 a.m.

MEMBERS OF COMMISSION PRESENT

B. Carol Molnar, Esq., Chair
Anthony F. Annese, Vice Chair
Senator Paul A. Sarlo
Senator Samuel D. Thompson
Assemblyman Declan J. O'Scanlon Jr.
Assemblywoman Shavonda E. Sumter
Steven Petrecca
Beth Schermerhorn
Jerry Traino



ALSO PRESENT:

Brian E. Francz
Executive Director

David F. Patella
Assistant Executive Director

Brian Onda
Budget Specialist

Eugene Lepore
*Senate Majority
Commission Aide*

Aaron Binder
*Assembly Majority
Commission Aide*

*Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey*



State of New Jersey

COMMISSION ON CAPITAL BUDGETING AND PLANNING

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Commission Meeting

In compliance with the Open Public Meeting Act, P. L. 1975, Chapter 231, please be advised that the next meeting of the New Jersey Commission on Capital Budgeting and Planning is scheduled for:

March 10, 2017

Friday at 10 a.m.

State House Annex, 4th Floor, Room 11

Trenton, New Jersey

For Commission Members Attending via Conference Call:

Phone Number: 1-888-273-3658

Access Code: 8590177

Agenda

1. Call to Order
2. Open Public Meeting Act Notice
3. Roll Call
4. Approval of the Minutes of January 20, 2017 – **Action**
5. Debt Report Presentation for Fiscal Year 2016 – **Action**
6. Other Business - **Action may be taken**
7. Adjournment

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(The New Jersey Commission on Capital Budgeting and Planning held a meeting on March 10, 2017, at 10:00 a.m. Members of the Commission present via teleconference were B. Carol Molnar, Esq., Anthony F. Annese, Senator Paul A. Sarlo, Senator Samuel D. Thompson, Assemblyman Declan J. O'Scanlon Jr., Assemblywoman Shavonda E. Sumter, Aaron Binder, and Eugene Lepore.)

MS. B. CAROL MOLNAR, Esq. (Chair): Let's get started.

I will call the meeting to order, and read the Open Public Meeting notice.

In accordance with the Open Public Meetings Act, 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 will now take a roll call.

MR. FRAN CZ (Commission Executive Director): Senator Sarlo. (no response)

Senator Thompson.

SENATOR THOMPSON: Here.

MR. FRAN CZ: Assemblywoman Sumter.

ASSEMBLYWOMAN SUMTER: Here.

MR. FRAN CZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Here.

MR. FRAN CZ: Mr. Neff. (no response)

Mr. Petrecca.

MR. PETRECCA: Here.

MR. FRAN CZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Here.

MR. FRAN CZ: Mr. Traino.

MR. TRAINO: Here.

MR. FRAN CZ: Ms. Cimiluca. (no response)

Mr. Rutala. (no response)

Mr. Annese.

ANTHONY F. ANNESE (Vice Chair): Here.

MR. FRAN CZ: And Ms. Molnar.

MS. MOLNAR: Present.

MR. FRAN CZ: Madam Chair, we have a quorum.

MS. MOLNAR: Thank you.

The first item is to approve the minutes of January 20, 2017.

Do I hear a motion to approve?

ASSEMBLYWOMAN SUMTER: So moved.

ASSEMBLYMAN O'SCANLON: Second.

MS. MOLNAR: Thank you.

Second?

ASSEMBLYMAN O'SCANLON: Seconded

MS. MOLNAR: Thank you.

MR. FRAN CZ: Okay, roll call on the motion to approve the minutes of January 20.

Senator Thompson.

SENATOR THOMPSON: As I was absent, I will abstain.

MR. FRAN CZ: Okay.

Assemblywoman Sumter.

ASSEMBLYWOMAN SUMTER: Yes.

MR. FRAN CZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. FRAN CZ: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. FRAN CZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. FRAN CZ: Mr. Traino.

MR. TRAINO: Yes.

MR. FRAN CZ: Mr. Annese.

MR. ANNESE: Yes.

MR. FRAN CZ: And Ms. Molnar.

MS. MOLNAR: Yes.

MR. FRAN CZ: The motion moves.

MS. MOLNAR: Thank you.

Now, before we move on to the next item, the Debt Report, I'm moving "Other Business" ahead of that.

I would like to suggest to the Commission members that, in a month or so, that we reconvene to discuss the capital process and the Debt Report process, going forward.

I am very frustrated on the process; I don't know about anyone else. So if the other members are agreeable, we could reconvene telephonically, perhaps in a month or so; perhaps after the holidays.

SENATOR THOMPSON: I would agree in having the Debt Report-- As of this morning, I have not thoroughly reviewed it.

MS. MOLNAR: Yes; less than 12 hours is not-- I have to admit, it's very voluminous.

Okay, so we will try to find an agreeable time, in a month or so, to talk about the two processes: capital planning and the Debt Report process.

Having said that, let's move on to the Debt Report presentation.

ASSEMBLYMAN O'SCANLON: May I just interject, really quickly?

MS. MOLNAR: Yes.

ASSEMBLYMAN O'SCANLON: I meant to abstain on the minutes. I was absent as well.

MS. MOLNAR: Okay.

ASSEMBLYMAN O'SCANLON: Sorry about that.

MS. MOLNAR: Okay.

MR. FRAN CZ: No problem.

ASSEMBLYMAN O'SCANLON: I'm a little distracted here.

MS. MOLNAR: Okay; thank you.

All right; I'm not sure who is presenting from Treasury; will our Executive Director let us know?

DAVID K. MOORE: This is David Moore--

MR. FRAN CZ: Yes; we have David Moore here, from the Office of Public Finance. He will be presenting today.

MS. MOLNAR: Okay.

MR. MOORE: Good morning, Chairwoman Molnar, and the Commission members.

I am David Moore, the Acting Director of the Office of Public Finance, in the Department of Treasury.

Sitting alongside of me is Anthony Longo, the Acting Deputy Director of the Office of Public Finance.

We're here, today, to present the State of New Jersey's Debt Report for Fiscal Year 2016.

Also with me in the audience are John Megariotis, Deputy Director of Finance for the Division of Pensions and Benefits; and Jim Kelly, Manager of Financial Reporting for the Office of Management and Budget. John is here to assist with any pension-related questions, and Jim is here to assist with any accounting-related questions.

As you know, the Office of Public Finance is the Treasury agency responsible for managing the process of borrowing funds for capital purposes, primarily through the issuance of bonds, notes, and other obligations in the capital markets. The purpose of the report is to assist the Commission, by its acceptance of the report, in meeting its legislative mandate to include such a report in its State Capital Improvement Plan.

In addition, the report provides a data resource document to the finance and investment communities.

I will now turn it over to Anthony Longo to present the report.

ANTHONY M. LONGO: Thank you, David.

This year's report is generally consistent in its format with that of prior years; that is, the report comprises eight sections: an introduction with a discussion of what types of obligations are covered and not covered by the report; a link to the legislative requirement for the report; a section on outstanding obligations, which includes summary tables and charts;

changes in long-term obligations; a 10-year history of outstanding obligations; and a listing of legislatively authorized, but unissued, debt.

Section 4 provides the annual debt service associated with outstanding obligations, with summary tables and charts, followed by more detailed data.

In Section 5, we provide obligation profiles for each bond issuer; and further, for each major bond issue of a program funded with bonds.

This is followed by selected debt statistics, which compare New Jersey's standing relative to the other states.

Section 7 contains a glossary of terms and headings used throughout the report and in the bond community, generally.

Finally, we include a section containing supplemental information, including certain pension and benefits data.

I'd like to remind the Commission that some of the data contained in the report is taken directly from the Comprehensive Annual Financial Report, or CAFR. As we clearly note in the Debt Report, the Fiscal Year 2016 CAFR has not yet been issued, pending completion of the audit. We presently expect the CAFR will be approved within the next week or two; however, rather than delay the presentation of the report to coincide with the release of the CAFR, Treasury's Office of Management and Budget has provided us with the necessary Fiscal Year 2016 year-end debt data that will appear in the CAFR. While it is Treasury's belief that the data provided here is accurate and not expected to change, it must be noted that such data is still subject to final confirmation via the audit process.

At this point, I can begin a brief dive into the numbers, focusing on some of the major totals and subtotals.

Please turn to page 5 of the report.

If you look at the fourth line down in the top table, you can see that the total CAFR reconciled bonded obligations decreased by \$507.8 million -- or 1.17 percent -- from Fiscal Year 2015 to Fiscal Year 2016.

Non-bonded obligations increased \$18.5 billion to \$128.8 billion. The two numbers together sum to a report total of \$171.6 billion of aggregate bonded and non-bonded obligations, as of June 30, 2016.

You can see in the Percent of Total column that the non-bonded obligations now account for over three-quarters of the State's aggregate outstanding obligations.

If you turn to page 7, you'll see the outstanding General Obligations of the State. You can also see, on this page, that General Obligations went down, year over year, by \$381 million. The State's total outstanding General Obligations, on June 30, 2016, were a little less than \$2 billion.

If you look at the next page, you can see the State's Subject to Appropriation Bonds supported by general State revenue. These obligations also went down, year over year, by \$238 million. The total outstanding amount of these obligations on June 30, 2016, was \$15.6 billion.

If you turn to the next page, you can see the State's Subject to Appropriation bonds supported by dedicated State revenues. These obligations also went down, year over year, by \$21.6 million. The total

outstanding amount of these obligations on June 30, 2016, was \$18.1 billion. Also on this page is a subtotal of the three previous sections.

If you turn to the next page, you can see the total CAFR reconciliation, which consists of obligations not supported by State revenues, obligations recorded on other entities' books, and other bond adjustments. The total CAFR reconciliation increased \$132.9 million, year over year, by (*sic*) \$7.1 billion.

If you sum the four previous sections, you will arrive at the aggregate bonded obligations figure of \$42.7 billion; which, again, was a decrease of \$507.8 million.

If you turn to the next page, you can see the Non-Bonded Obligations, which totaled \$128.8 billion on June 30, 2016, an increase of \$18.5 billion. And if you add the aggregate bonded obligations figure from the previous page to the total non-bonded obligations from the page, you arrive at the report total of \$171.6 billion of aggregate bonded and non-bonded obligations as June 30, 2016, an increase of just over \$18 billion.

I will end my presentation there.

Are there any questions about the report?

MS. MOLNAR: Okay; that's all you're presenting on the report, correct?

MR. LONGO: Yes.

MS. MOLNAR: Okay; I had a few questions.

I think towards the end of the report, you rate all the states. It shows the New Jersey rating as A2; is that correct? Is that our latest credit rating?

MR. LONGO: Yes, from Moody's Investors Service.

MS. MOLNAR: Yes. When was the last time we got that rating? When did New Jersey get that rating?

MR. LONGO: From Moody's? It was in--

MS. MOLNAR: Yes; is that a downgrade?

MR. MOORE: We were downgraded at one point. But these ratings are as of June 30, 2016.

SENATOR SARLO: (arrives at meeting) I apologize.

MS. MOLNAR: Thank you; thank you for joining.

We're just starting to ask questions about the report.

Those ratings, as of June 30, 2016 -- was that a downgrade, do you know; or is that -- have we kept the rating the same, year to year?

MR. MOORE: It's generally the same. We can provide you with a rating's history, if you'd like.

MS. MOLNAR: All right; that would be helpful.

MR. MOORE: Sure.

MS. MOLNAR: Also, towards the end of the report, you mentioned new bonds that were issued. And one bond -- it says *bond defeasance*. Could you summarize for the Commission members what you mean by that, when a bond -- a *bond defeasance*?

MR. MOORE: Typically, a bond defeasance is when you escrow money to pay off an obligation.

MS. MOLNAR: So you void the bond; and then you have enough money set aside to pay off the bond. Is that it?

MR. MOORE: Yes.

MS. MOLNAR: So you're taking the bond off the record as being a bond?

MR. MOORE: Correct. If you do it correctly, it's considered no longer outstanding for legal purposes.

MS. MOLNAR: All right -- because you have money escrowed.

MR. MOORE: Yes.

MS. MOLNAR: Okay.

The other point I have is -- you mentioned that the-- Our bylaws do say that our State Capital Improvement Plan shall provide a report on the State overall debt. This is wonderful; you did provide this report. But every year, number 8 in our bylaws is totally ignored. It says "8: the report shall provide an assessment of the State's ability to increase its overall debt and a recommendation on the amount of any such increase."

In years back, we've always had some kind of assessment or recommendation; I did not see one this year or last year. Is there some reason why we're not getting this piece for the State Capital Improvement Plan?

MR. MOORE: The Office of Public Finance doesn't provide that assessment. We just provide the historical debt information.

MS. MOLNAR: So in prior years, perhaps, the Treasurer's Office provided it? Someone provided it. I don't have a report from a prior year readily accessible.

MR. MOORE: I'd have to look into that.

MS. MOLNAR: Could someone determine who, in prior years, provided this assessment?

MR. FRAN CZ: Yes, Chair, we'll find that information and distribute it to the Commission.

MS. MOLNAR: Yes, it's required by the bylaws that it be included in the Capital Improvement Plan.

All right; those are the questions I had.

Are there any other questions from the other members?

ASSEMBLYWOMAN SUMTER: We said we were going to come to the report in another meeting?

MS. MOLNAR: No, we're going to talk about the process.

ASSEMBLYWOMAN SUMTER: Okay.

MS. MOLNAR: This specific report -- do you have any questions or comments? (no response)

The bylaws of the Commission -- they were revised, and the statute was revised by the Legislature; I want to say, 10 years ago. So the Legislature felt it was necessary to include these sorts of things in the Capital Improvement Plan. I'm sure we can look at the legislative history and see.

So it would be helpful if you could let us know why the assessment is not being done, and when we can expect an assessment and recommendation as part of the State Capital Improvement Plan.

SENATOR SARLO: I have just two quick questions.

MS. MOLNAR: All right.

SENATOR SARLO: And I am not actually sure who's actually testifying; can you just clarify who is testifying?

MR. MOORE: David Moore--

MS. MOLNAR: We have David Moore and Anthony Longo.

SENATOR SARLO: Okay.

So essentially the aggregate bonded and non-bonded obligations we've increased by about \$18 billion -- a little over \$18 billion?

MR. LONGO: Eighteen billion; yes.

SENATOR SARLO: A little over \$18 billion; yes, \$18 billion from June 30, 2015 to June 30, 2016.

MR. LONGO: Right.

SENATOR SARLO: And what is the past -- is that percent consistent with where we were in the past, you know, going back and looking at past fiscal years? I mean, do you have any data on that?

MR. LONGO: I have last year's--

SENATOR SARLO: The increase.

MR. LONGO: I have last year's report with me.

Last year, the increase was \$9.9 billion.

SENATOR SARLO: Okay. And the large increase this year was due to -- the larger increase this year was due to--

MR. LONGO: The net pension liability and the other post-employment benefits.

SENATOR SARLO: Got you.

ASSEMBLYMAN O'SCANLON: So that would be expected to swing fairly wildly with investment performance, right -- year on year?

MR. MOORE: We're not in a position to answer that.

ASSEMBLYMAN O'SCANLON: I'm sorry; I didn't hear that.

MR. MOORE: The Office of Public Finance is not in the position to answer that.

SENATOR SARLO: I think I kind of concur; I think you're correct on that.

I'm not sure if you're able to do this.

The status of the higher education Build America Bonds -- the entire package. Has all of that money gone out the door, at this point in time?

MR. MOORE: Yes.

SENATOR SARLO: Has all the money been earmarked for projects at our institutions around the State of New Jersey? Can you give us, kind of, a snapshot of where we stand with those Build America Bonds?

MR. MOORE: They've all been issued, and they've all been assigned to different projects. I don't have a list of the projects.

SENATOR SARLO: I understand.

But at this point in time, there is no capacity left in those bond acts?

MR. MOORE: No.

SENATOR SARLO: That would be our Building Our Future, right? That was our Building Our Future bonds, 2012?

MR. MOORE: Yes.

SENATOR SARLO: That's that one.

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

Okay. The process, in the past, was to accept the report. Now, I'd like to offer two alternatives. We can accept the current report; or we can accept the report, pending receipt of the final piece that is required by the statute: an assessment of the State's ability to increase its overall debt, and a recommendation on the amount of any such increase.

SENATOR SARLO: I'll make a motion on that.

ASSEMBLYWOMAN SUMTER: Second.

MS. MOLNAR: All right. We accept it, pending receipt of item 8 of our bylaws.

SENATOR SARLO: Right; we're not *approving* it; we're *accepting* it. We're accepting what they're presenting to us, but we're not approving.

MS. MOLNAR: Right. We're accepting what they are presenting, but the acceptance is contingent on item 8 being provided to the Commission: an assessment of the State's ability to increase its overall debt and a recommendation on the amount of any such increase.

SENATOR SARLO: Okay.

MS. MOLNAR: And if necessary, once we receive that material, if any Commission member feels it's necessary to have a call to discuss it, we can arrange that.

All right; any questions from Commissioners regarding this motion? (no response)

If not, we'll take a roll.

MR. FRAN CZ: Okay.

On the motion to accept the Debt Report, pending bylaw number 8's information, Senator Sarlo.

SENATOR SARLO: Yes.

MR. FRAN CZ: Senator Thompson.

SENATOR THOMPSON: Yes.

MR. FRAN CZ: Assemblywoman Sumter.

ASSEMBLYWOMAN SUMTER: Yes.

MR. FRAN CZ: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. FRAN CZ: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. FRAN CZ: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. FRAN CZ: Mr. Traino.

MR. TRAINO: Yes.

MR. FRAN CZ: Mr. Annese.

MR. ANNESE: Yes.

MR. FRAN CZ: And Ms. Molnar.

MS. MOLNAR: Yes.

I have one question: timeline. Do we have a timeline for getting item 8, that is required in the report?

MR. FRAN CZ: I cannot offer one right now; I need to find out who, in the past, produced that. I can give you an update within -- early next week.

MS. MOLNAR: Okay; is that okay with Commission members?

UNIDENTIFIED MEMBER OF COMMISSION: Fine with me.

MS. MOLNAR: Okay; wonderful. Thank you.

"Other Business" we already chatted about -- that we will reconvene-- I think Senator Sarlo, you were not here.

I suggested that we reconvene in a month or so to discuss the capital planning process and the Debt Report process, as some of us had, literally, an hour to review this report.

So review the process -- capital and Debt Report process -- going forward, so we will--

SENATOR SARLO: Agreed.

MS. MOLNAR: --reconvene regarding it.

Wonderful.

Is there anything else to come before this Commission today?

SENATOR SARLO: Just for the record, when was the actual Debt Report -- the Debt Report actually-- When did it become a public document -- issued? What was the actual -- was it yesterday?

MR. MOORE: Yes.

SENATOR SARLO: What time yesterday?

MR. MOORE: It was round 4:00 p.m.

SENATOR SARLO: It was 4:00 p.m. yesterday?

MR. MOORE: Approximately.

MS. MOLNAR: Well, we were e-mailed at 5:00, so it became public before us.

SENATOR SARLO: Okay. When was it actually completed; when was the document actually completed? I mean, was it sitting around, or was it completed earlier in the week? Was it--

MR. MOORE: I think it was submitted to the printer earlier in the week.

MR. LONGO: Yes, last week it was sent to the printer.

SENATOR SARLO: It took them a week? We need a new printer, guys. (laughter)

MR. LONGO: Treasury print shop.

SENATOR SARLO: I'll find you a better printer.

MR. MOORE: We use the Treasury print shop, so--

MS. MOLNAR: Wonderful.

SENATOR SARLO: All right; thank you.

MS. MOLNAR: All right. If there is no other business to come before the Commission, the meeting is adjourned.

Thank you for attending.

(MEETING CONCLUDED)