



State of New Jersey

DEPARTMENT OF THE TREASURY

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INVESTORS RECOGNIZE VALUE OF LOTTERY ENTERPRISE CONTRIBUTION ACT

TRENTON – The bipartisan Lottery Enterprise Contribution Act (LECA), a proposal announced by Governor Christie in February and enacted in July, has bolstered the solvency of the State’s Retirement System and lowered New Jersey’s borrowing costs. The State’s issuance of “2017 School Bonds” serves as a clear indication that institutional and retail investors recognize that LECA is working as promised and New Jersey’s fiscal outlook has improved.

Last week, the State issued \$350 million in New Jersey Economic Development Authority School Facilities Construction Bonds, 2017 Series DDD (“2017 School Bonds”) and received \$3.4 billion in orders from investors which allowed the State to reduce spreads by an average of 64 basis points compared to the average spreads on its last two State appropriations-backed bond sales that occurred prior to LECA’s enactment. New Jersey thus realized a gross debt service savings of \$32 million on account of LECA.

“Investors from Wall Street to Main Street, who take risk in the market and are therefore the final arbiters of LECA, recognize that New Jersey has turned the corner,” said State Treasurer Ford M. Scudder. “As evidenced by the strong response to the 2017 School Bonds issuance, the bipartisan Lottery Enterprise Contribution Act is clearly viewed as ‘credit positive’ for New Jersey.”

During the last six years, the State has issued an average of \$3.7 billion in refunding and new money debt per year. Moving forward, assuming the State continues to issue \$3.7 billion of debt with 25-years of level debt service on an annual basis, LECA’s impact is estimated to save the State approximately \$191 million in net present value debt service costs for each year of debt issuance. Under a five-year scenario, the State could save \$960 million in net present value debt service costs.

Governor Christie and the State Legislature enacted the bipartisan Lottery Enterprise Contribution Act on July 4, 2017. LECA furthers the viability of the State's Retirement System by authorizing the contribution of the Lottery Enterprise to the Teacher's Pension and Annuity Fund, the Public Employees' Retirement System and the Police and Firemen's Retirement Systems. This Contribution of the Lottery Enterprise will help protect more than 760,000 State employees and retirees, and substantially reduce unfunded liabilities. LECA, which improves solvency through the 30-year Contribution of the Lottery Enterprise, does not impact Lottery Enterprise operations or personnel.

The Contribution will immediately reduce the pension plans' unfunded liability and elevate its statutory funded ratio to approximately 59% from its July 1, 2016, level of 45%. The Contribution is anticipated to generate roughly \$37 billion in pension funding over the 30-year term. The net proceeds generated by the Lottery Enterprise post-contribution will increase liquidity and thus reduce the need to prematurely sell pension plan investments solely to meet regular payments to retirees.

On September 27, in accordance with the Pension Contribution Act, the State made its first quarterly pension payment of \$377 million for FY18. The FY18 contributions appropriated in the State budget combined with net Lottery proceeds will result in \$2.5 billion in total contributions, the largest pension payment in New Jersey's history. This will bring the Christie Administration's total contributions to \$8.8 billion, more than two and a half times the combined total contributions of all New Jersey governors since 1995.

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