

## State of New Jersey

### New Jersey COVID-19 General Obligation Emergency Bonds

#### Report to the Select Commission on Emergency COVID-19 Borrowing

As required by the New Jersey COVID-19 Emergency Bond Act (L.2020, c. 60) (the “Act”), the Issuing Officials hereby submit this report (the “Report”) to the Select Commission on Emergency COVID-19 Borrowing (the “Commission”) for approval to issue New Jersey COVID-19 General Obligation Emergency Bonds (the “Bonds”) for the purpose of addressing the State of New Jersey’s (the “State”) financial problems that have arisen as a consequence of the COVID-19 pandemic. The decision of the Issuing Officials to issue bonds pursuant to subsection a. of section 4 of the Act is set forth in the enclosed Resolution of Intent of the Issuing Officials to Sell and Issue New Jersey COVID-19 General Obligation Emergency Bonds.

**Issuer:** The State will be the issuer of the Bonds.

**Security:** The Bonds will be a general obligation of the State, and the faith and credit of the State are pledged for the payment of the debt service on the Bonds.

**Par Amount of Bonds:** The State intends to issue Bonds for Fiscal Year 2021 in an amount not to exceed \$4,500,000,000 for the “Uses of the Proceeds” as described below.

**Method of Sale and Purchasers:** The State expects to sell all or a portion of the Bonds to the Municipal Liquidity Facility (the “MLF”) established by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and all or a portion of the bonds to the public capital markets through a negotiated sale. The allocation of Bonds to be sold to the SPV (as defined below) and to the Underwriter (as defined below) for sale to investors in the public capital markets shall be determined by the Issuing Officials (as defined under the Act) in a manner to provide cost effectiveness and flexibility to the State.

With respect to the sale of all or a portion of the Bonds to the MLF, the Federal Reserve has established the Municipal Liquidity Facility (the “MLF”) pursuant to which a special purpose vehicle known as the Municipal Liquidity Facility LLC (the “SPV”) was created pursuant to Section 13(3) of the Federal Reserve Act enacted by the United States Congress as part of the Coronavirus Aid, Relief, and Economic Security Act, P.L. 116-136 (the “CARES Act”). The State will sell all or a portion of the Bonds to the SPV.

With respect to the sale of all or a portion of the Bonds to be sold to the public capital markets through a negotiated sale, the New Jersey Department of the Treasury, Office of Public Finance has, through a competitive request for proposals process, selected BofA Securities, Inc. to serve as senior managing underwriter (the “Underwriter”). The State will sell all or a portion of the Bonds to the Underwriter, which will sell the Bonds to investors in the public capital markets.

**Use of the Proceeds:** The State will use the proceeds of the Bonds to address the revenue shortfall resulting from the COVID-19 pandemic in Fiscal Year 2021. For more information on the use of Bond proceeds, see Exhibit A.

**Term of the Bonds:** For the portion of the Bonds to be sold to the SPV, the State intends for the Bonds to have a final maturity of 36 months, which is the maximum term permitted by the Federal Reserve for borrowings under the MLF.

For the portion of the Bonds to be sold in the public capital markets via a negotiated sale to the Underwriter, subject to market conditions, the State currently intends for the Bonds to have an approximate final maturity of twelve years from the date of issuance.

**Amortization:** For the portion of the Bonds to be sold to the SPV, the State intends to have a single bullet maturity at the date of final maturity. The State will retain the right to amortize (or redeem at par) Bonds sold to the SPV on dates earlier than stated final maturity. For the portion of the Bonds to be sold in the public capital markets via a negotiated sale to the Underwriter, subject to market conditions, the State currently intends to have an amortization schedule for the Bonds that, based upon market conditions, will be most fiscally advantageous to the State.

**Interest Rate on the Bonds:** For the portion of the Bonds which will be sold by the State to the SPV, the interest rate on the Bonds, shall be determined pursuant to a prescribed formula provided in the regulations promulgated by the Federal Reserve. As of September 21, 2020, the interest rate is estimated to be 2.19%, based upon a three year final maturity. The rate of interest on the Bonds sold to the SPV shall not exceed 6.0%<sup>1</sup>. Final determination of the interest rate on the portion of the Bonds to be sold to the SPV will be determined on the date of pricing.

For the portion of the Bonds which will be sold in the public capital markets via a negotiated sale to the Underwriter, the interest rates on the Bonds shall be determined on the day of the sale of the Bonds based on market conditions. As of September 21, 2020, the net interest cost is estimated to be 2.50%, based upon an amortization schedule with a twelve year final maturity. The net interest cost on the Bonds sold in the public capital markets via a negotiated sale to the Underwriter shall not exceed 6.0%<sup>2</sup>. Final determination of the interest rate on the portion of the Bonds to be sold in the public capital markets via a negotiated sale to the Underwriter will be determined on the date of pricing.

**Interest Payable on the Bonds:** The State expects to pay interest on the Bonds on a semi-annually basis.

**Redemption Provisions of the Bonds:** With respect to the Bonds to be sold to the SPV, the Bonds may be prepaid and redeemed by the State at any time prior to final maturity (i) at par if issued at par or (ii) at par plus the unamortized premium if issued at a premium, plus in all cases accrued interest due thereon.

With respect to the Bonds to be sold in the public capital markets via a negotiated sale to the Underwriters, the redemption provisions of the Bonds will be determined on the date of pricing.

**Tax Status:** The State intends to issue the Bonds on either a tax-exempt or taxable basis, subject to market conditions.

**Rating Requirements on the Bonds:** The Bonds sold to the SPV will be accompanied by letters from Fitch Ratings, Moody's Investors Service, Standard and Poor's, and Kroll Bond Rating Agency (the "Rating Agencies") acknowledging the current general obligation rating of the State with consideration of the issuance of the Bonds. The Bonds sold to the Underwriter will be rated by the Rating Agencies.

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<sup>1</sup> The difference between the current estimated rate on the Bonds to be sold to the SPV and the not to exceed rate is intended to provide flexibility for market movements.

<sup>2</sup> The difference between the current estimated net interest cost on the Bonds to be sold to the public capital markets and the not to exceed rate is intended to provide flexibility for market movements.

**EXHIBIT A**  
**Report of Issuing Officials Pursuant to P.L.2020, c.60**  
**Proposed Appropriation Line Items \***  
**FY2021**  
**(in thousands)**

<b>Department/Category</b>	<b>Approp Line Item/Program</b>	<b>Amount</b>
Education	Equalization Aid	\$2,331,796
Education	Nonpublic Security Aid Per Pupil Increase	\$3,250
Education	Grants for After School & Summer Activities for At-Risk Children	\$1,000
		<u>\$2,336,046</u>
Children & Families	Children's System of Care In-Home Behavioral Health Services	\$61,934
		<u>\$61,934</u>
Corrections	Earn Your Way Out Act	\$5,917
		<u>\$5,917</u>
Health	Hospital Subsidies - Graduate Medical Education	\$163,350
Health	Health Care Subsidy Fund Payments	\$51,715
Health	Maternal, Child and Chronic Health Services	\$34,359
		<u>\$249,424</u>
Human Services - Medicaid	Medical Day Care	\$45,000
		<u>\$45,000</u>
Human Services - DDD	DDD Individual Supports & Community Programs	\$314,408
		<u>\$314,408</u>
Human Services - MHAS	Mental Health Community Care & Case Management Services	\$241,242
		<u>\$241,242</u>
Human Services - DFD	Substance Use Disorder Initiatives	\$15,012
Human Services - DFD	Work First New Jersey Support Services	\$11,534
Human Services - DFD	Work First New Jersey Work Activities	\$8,350
Human Services - DFD	Code Blue	\$2,500
Human Services - DFD	SSI Attorney Fees	\$1,367
		<u>\$38,763</u>
Law & Public Safety	State Police Non-Salary Operating Expenses	\$31,260
		<u>\$31,260</u>
Higher Education	Senior Public Colleges Operating Aid & Outcomes Based Allocation	\$394,973
Higher Education	Tuition Aid Grants	\$334,887
		<u>\$729,860</u>
NJ Transit	NJ Transit Subsidy	\$386,146
		<u>\$386,146</u>
Environmental Protection	Drinking Water Infrastructure	\$60,000
		<u>\$60,000</u>
<b>GRAND TOTAL *</b>		<u><u><b>\$4,500,000</b></u></u>

\* Subject to appropriation and enactment of the FY2021 Appropriations Act.