

NEW JERSEY SENATE

SENATE REPUBLICAN OFFICE

NEW JERSEY STATE HOUSE
P.O. Box 099
TRENTON, NJ 08625



SENATENJ.COM

NJSENREPS@NJLEG.ORG
P: (609) 847-3600
F: (609) 984-8148

October 23, 2023

Jacquelyn Suarez
Acting Commissioner
Department of Community Affairs
101 South Broad Street
PO Box 0800
Trenton, NJ 08625-0800

Local Finance Board
Department of Community Affairs
101 South Broad Street
Trenton, NJ 08625-0803

Dear Commissioner Suarez and Members of the Local Finance Board,

I respectfully request that you use whatever authority you may have to reject the Jersey City Municipal Utility Authority (the Authority) application to issue \$182 million of debt. The proposal papers over large fiscal deficits in Jersey City, and with the addition of interest payments and professional fees, those deficits stand to get even worse. As bad as this is for the people of Jersey City, I am primarily concerned as a member of the State Senate Budget and Appropriations Committee, because the City's reckless financial games could ultimately end up sticking the State's taxpayers with the bill through a City takeover or bailout when future local officeholders, taxpayers, and ratepayers become unable to pay for the growing financial mess the current Mayor and his Administration is leaving them.

In four fundamental ways, the application as initially filed flies in the face of sound budgeting advanced by State laws that the Local Finance Board enforces. I understand the Board is considering a modified application for a lesser amount -- with perhaps one of these four fundamental objections addressed -- but I want the record, and hopefully your findings -- to be clear on the problems with the application that was submitted.

1. The City would effectively issue more than \$50 million in new debt through a sister agency to paper over, and make worse, existing deficit spending.

The Local Bond Law prohibits, with very few exceptions, local governments from borrowing for anything but capital projects. This law, and the Local Finance Board which enforces it, generally ensures that municipal budgets are balanced and that emerging imbalances are addressed quickly to prevent them from getting worse and causing State bailouts, takeovers, or bankruptcies. The Authority's application seeks your approval to facilitate an end-run around these protections by proposing, in part, to have its shadow Authority borrow \$50 million and turn over \$30 million to the City in the current fiscal year ending this December 31, and the rest in the two succeeding years.

The proposal is especially offensive, because Jersey City ran a more than \$100 million deficit in various funds in its recent 2021 budget which is generally prohibited. The City's 2022 Calendar Year audit was only recently released, and it shows, among other things: most of the prior year deficit remains; an over-expenditure of budgeted funds; and a recurring practice of borrowing up to \$10 million to pay accumulated vacation and sick payments (known as "boat payments") the City can't otherwise afford to pay. And it would appear the 2023 City budget may be on course for ending the 2023 year with significant imbalances again, which would explain the intense pressure for this transaction to be considered so quickly -- so the City can receive borrowed money and paper over the problems.

When deficits (generally prohibited) arise from time to time, municipalities are required to address them quickly by budgeting to pay them down and making changes that prevent them from recurring. However, this City's desperate reliance on this proposal amounts to flaunting balanced budget requirements. It's a game of Enron style accounting by having a sister agency borrow money on the City's behalf and parking the City's problems on another set of books so the Mayor and his Administration can avoid making difficult budget decisions. The day of reckoning where past deficits are paid down and corrected would be delayed with the new proposed debt, which is not how local finance is supposed to work under our laws. Worse, the City's financial problems will grow by millions of dollars over the next 30 years with this new debt that will almost certainly carry an interest rate of close to 7%. And the problems will grow due to exorbitant professional fees paid to banks and professional vendors selected outside of public bidding.

2. The proposal would borrow up to \$25 million at high, taxable interest rates (payable over 30 years) to pay off \$22.5 million of lower interest rate debt (payable in the next few years.)

I understand this part of the City's application may have been abandoned by the City and will not be considered. Thanks to any of you for efforts that may have helped prevent it from moving forward.

However, if this proposal comes back, the record should be clear. The proposal is awful. It's like paying a fee to get a high interest credit card and then using the credit card to "pay" lower interest rate mortgage bills for a couple of years. It avoids making responsible payments for a while, but an even higher bill comes due in the end.

Whoever thought that was a good idea should be removed from any position of financial responsibility or trust.

3. The proposal would borrow \$88 million for capital improvements the application claims -- without explanation -- were ineligible for funding from the State Infrastructure Bank.

Borrowing for capital improvements is appropriate, but the application summarily lists a number of projects and estimated costs without any meaningful explanation. And it seeks approval to fund them with very expensive debt without explaining the projects themselves, and without substantiating a claim that the projects can't be undertaken through the State's less expensive Infrastructure Bank.

In light of the other outrageous proposals in the application and the City's grossly unbalanced budgets, the Board should delay a final review until you have received a written explanation of the projects themselves and reason each of them can allegedly not be undertaken by the Infrastructure Bank.

I would encourage the Board to examine the documents with any eye to ensuring the projects are actually capital projects with long useful lives -- not operating expenses which should not be funded with 30-year debt.

And In light of the City's unfunded deficits and imbalances, I encourage the Board to examine whether the projects are: truly needed; reasonably priced; and financed in a responsible way.

4. The application seeks to borrow an extra \$12 million -- not for any actual project at all -- but to make debt service payments on the new debt that comes due in the next few years.

The application indicates that annual debt service would be as high as extra money to make early payments on the new debt is just one more way for this Administration to pass the buck and leave someone else with the responsibility to actually pay down the debt -- without issuing more debt to do it.

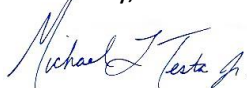
Former Governor James McGreevey and others in the City have reportedly publicly opposed this transaction, in part because it will saddle future taxpayers and ratepayers with financial distress that future Jersey City officeholders, taxpayers and ratepayers will have to fix. My concerns aren't all that different.

But again, my reason for opposing the application is in my capacity as a member of the State Budget and Appropriations Committee. It digs the City's obvious and glaring budget holes so much deeper that it exposes State taxpayers to a future bail-out when gimmicks like this have been exhausted.

Indeed, State taxpayers have already felt the impact of the City's failure to align its spending with their own resources in recent years. The City borrowed \$10 million to advance a French Arts Museum they wanted to build 6 years ago through its Redevelopment Authority. The French Museum costs have ballooned to more than \$200 million according to the NJ Department of State. The City was unable or unwilling to pay down any of the \$10 million of debt which is currently outstanding at a staggering interest rate of 6.5%. Due to poor planning and excessive spending, the City begged for, and the State Legislature funded, \$58 million for the project. This proposal is more of the same -- enabling no fiscal discipline, lots of borrowing, and a bailout lurking in the background.

I will lobby my colleagues against any State bailout of Jersey City should the City, though its sister agency, move forward with this \$182 million debt. The Board should do what it can to stop this borrowing and make the problems with the application clear in any findings. The City is wrecking its long-term financial position -- all so the current Mayor can get a pass on making difficult decisions responsible local government leaders make every day.

Sincerely,



Michael L. Testa, Jr.

Copy: Mayor and Council of Jersey City

Jersey City MUA

Members of the Senate Budget and Appropriations Committee

Moody's