Investment Insights

State of the State: New Jersey

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Overview

The state of New Jersey continues to demonstrate fiscal strength and resilience. With five consecutive years of full pension contributions and strong levels of reserves, New Jersey continues to offer valuable opportunities for investors.

New Jersey's credit rating trajectory will depend on the state's ability to sustain balanced operations and adequate reserves.

This piece highlights Princeton University's revenue bonds, which are supported by the university's strong academic reputation, robust financial health, and effective leadership.

State overview

New Jersey continues to demonstrate near-term strength following its recovery from the COVID-19 pandemic. The improvement in credit quality earned the state rating upgrades by all three public agencies during the 2023 calendar year, as well as two further upgrades in 2025. This positive momentum has largely been the result of record levels of revenue, federal stimulus, and an economy that has rebounded exceptionally well post-pandemic. Combined with levels of inflation that have not been observed since the 1980s, sales tax receipts have been an important source of increased tax revenue that for the budgeted 2026 fiscal year is anticipated to reach over $14.4 billion alone, or 25% of budgeted revenues.[1] The state's undesignated fund balance has also risen as a result. Historically before the onset of COVID, New Jersey's fund balance as a percent of annual appropriations was low compared to other states at below 6%. For fiscal year 2026, that figure is projected at 13% of expenditures.[2] This level does represent a decline from the state's peak fund balance of 20% in fiscal 2023, a sign that stimulus efforts and revenue generation have begun to slow. This observation does not suggest that New Jersey is on the brink of a fiscal cliff; rather, it highlights the need for the state to exercise fiscal responsibility in managing its budget and costs effectively moving forward, especially in the absence of extraordinary federal support.

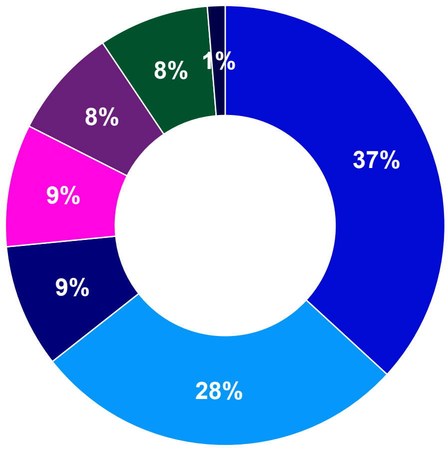
Encouragingly, New Jersey has used this opportunity to prioritize the overall fiscal health of its accounts and reserves, particularly as it relates to addressing the state's large liability burden. As part of that effort, the fiscal 2026 budget will represent New Jersey's fifth consecutive year of making its full actuarial contribution to the state's pension plans.[1] New Jersey also benefits from a large economy with high wealth levels, as illustrated by an average personal income that is 116% of the national average.[3] The state's close location to the New York City metro area offers access to a wide range of job opportunities, while the cost of living remains lower than living in Manhattan. For these reasons, we believe debt issued by the state of New Jersey has continued to offer opportunity for municipal investors.

New Jersey has made significant progress recently and is well-positioned to build on this momentum despite some long-term challenges related to its sizable debt and retirement liabilities. These challenges present an opportunity for the state to demonstrate strong fiscal management as it works to maintain balanced operations and healthy reserves. The state's credit outlook will positively reflect its ability to achieve a balanced budget through tax collections and other recurring revenues, while maintaining effective debt management policies. With these measures in place, New Jersey can avoid difficult choices such as cutting appropriations or increasing deficit financing, both of which could impact its credit standing. The governor's recent efforts to expand the budget for education and pension contributions highlight a commitment to addressing key priorities. While high tax rates limit the potential for additional revenue growth without continued economic recovery, New Jersey's future credit ratings will ultimately depend on its proactive and sustainable approach to managing these fiscal challenges.

Fiscal update: Revenues

As shown in Figure 1 on the following page, New Jersey revenues are heavily dependent on gross income and sales taxes, followed by the corporate business tax. Combined, these three income streams account for close to 75% of budgeted revenues.[2]

Figure 1: Fiscal year 2025 budgeted revenues (%)



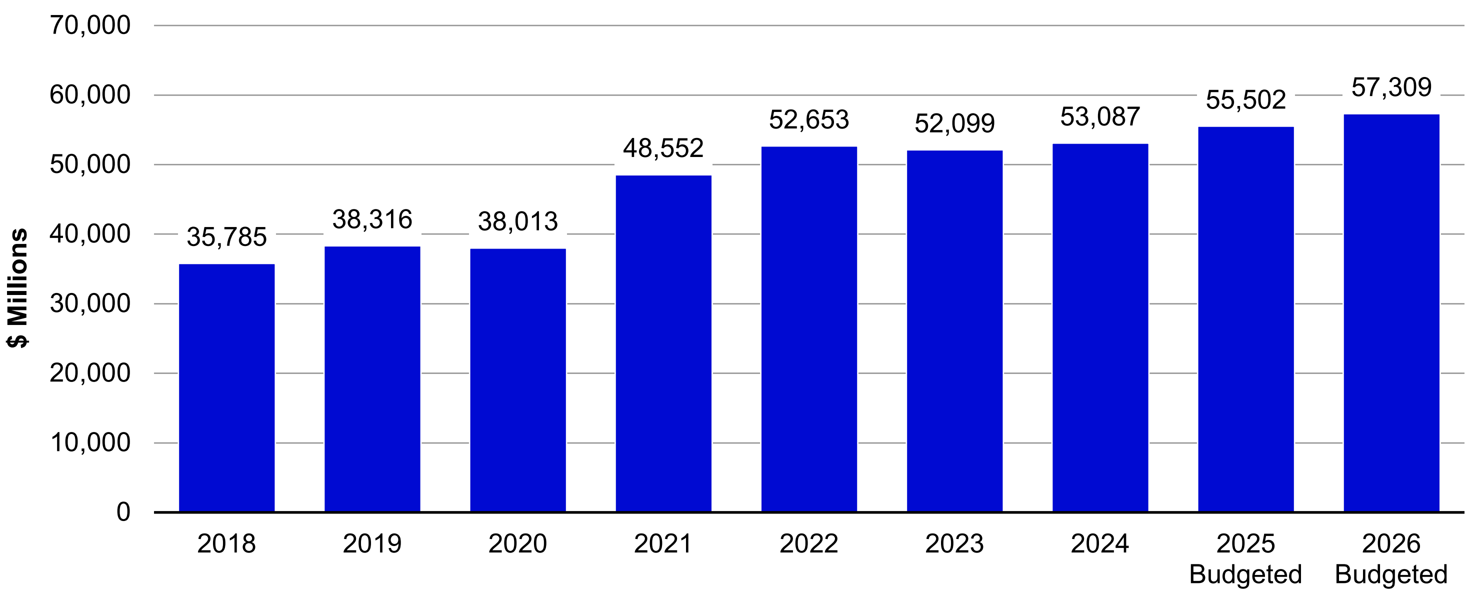
Gross Income Tax	**36.82**
Sales and Use Tax	**27.57**
Misc. Tax and Fees	**9.06**
Other Major Taxes	**9.00**
Corporation Business Tax	**8.12**
Pass-Through Business Alternative Income Tax	**8.11**
Casino Taxes and Fees	**1.30**

Source: Official Statement – Series 2024A New Jersey Transportation Trust Fund Authority, dated October 17, 2024.

As the economy continues to recover post-pandemic, the state's financial health is improving as well. However, revenue growth is beginning to slow after the rapid increases seen over the past three years. On a positive note, through the second quarter of fiscal 2026, revenues are tracking in line with budgeted figures and are projected to grow by 3.3% year over year.[4]

The year-over-year increase in estimated revenues is mainly driven by two of the state's largest sources: gross income tax and sales and use tax, which are tracking 13% and 3% higher than the same period in fiscal 2025, respectively. However, corporation business tax (CBT) revenues, the third largest source, are down 34% compared to last year. This decline is largely due to increased refunds for tax periods before 2022 and a sharp drop in estimated payments in September. As a result, the reduced CBT revenue will somewhat challenge the state's ability to maintain a structurally balanced budget.[5]

Figure 2: Historical and estimated revenues

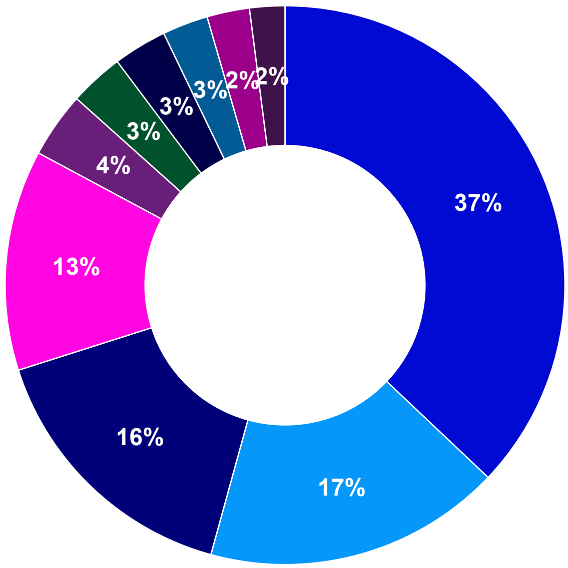


Source: Official Statement – Series 2025AA New Jersey Transportation Trust Fund Authority, dated October 22, 2025 for fiscal 2022 – 2026; Official Statement – Series 2022CC New Jersey Transportation Trust Fund Authority, dated November 29, 2022 for fiscal 2019 – 2021; Official Statement – Series 2020AA New Jersey Transportation Trust Fund Authority, dated December 2, 2020 for fiscal 2018.

Fiscal update: Expenses

Except for fiscal 2023, which saw a 2% decline, the state's budgeted appropriations have increased year over year as far back as fiscal 2015. For context—the state's annual pre-pandemic budget in fiscal 2019 was approximately $38 billion. Fiscal 2025's budget of more than $53 billion represents material growth of 40%. While annual spending continues to flow to several areas, education remains the largest component of the proposed budget and is reported to have a 5-year compound annual growth rate of 6%.[2] Total spending for education is expected to top $21 billion, or approximately 36% of total 2025 budgeted appropriations. Other significant expense drivers include employee benefits and human services, the ramp-up of which is the result of New Jersey's increased pension contributions in recent years.[2]

Figure 3: Fiscal year 2025 budgeted expenses (%)

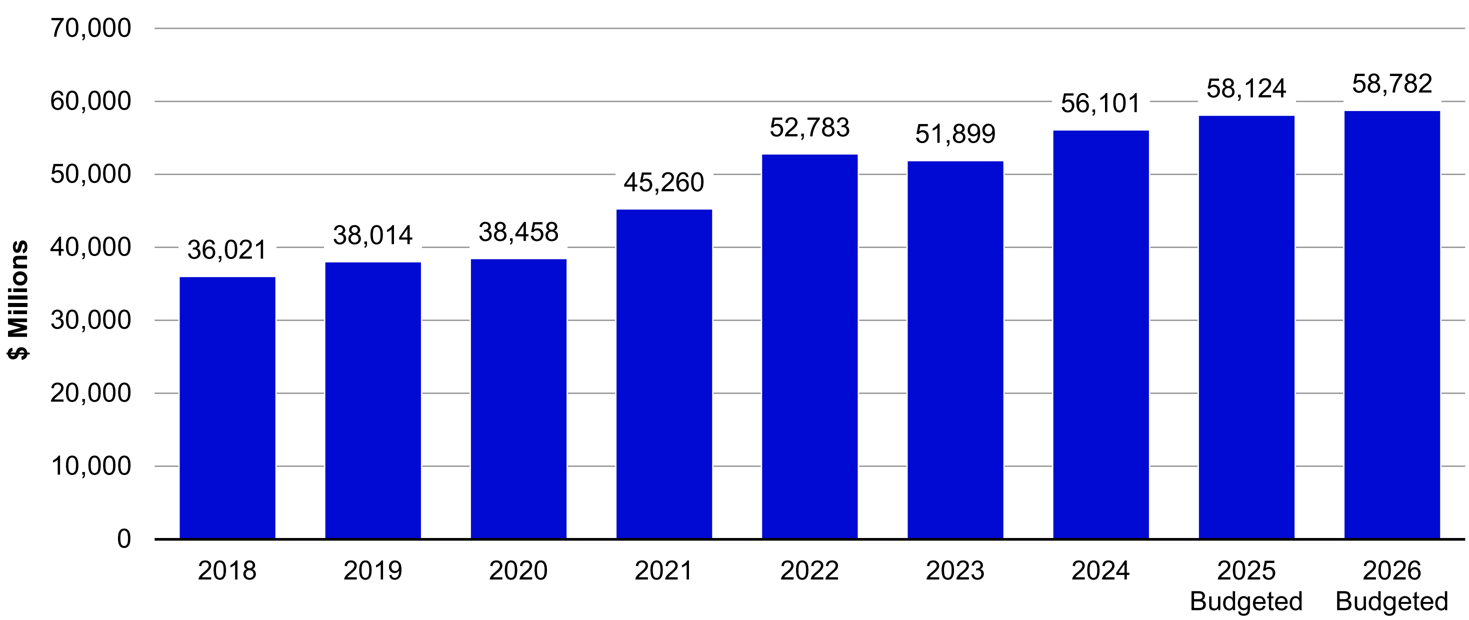


Education	**37.08**
Other	**17.19**
Human Services	**15.81**
Employee Benefits (Health)	**12.77**
State	**3.79**
Transportation	**3.14**
Treasury	**3.10**
Children & Families	**2.64**
Health	**2.46**
Corrections	**2.03**

Source: Official Statement – Series 2024A New Jersey Transportation Trust Fund Authority, dated October 17, 2024

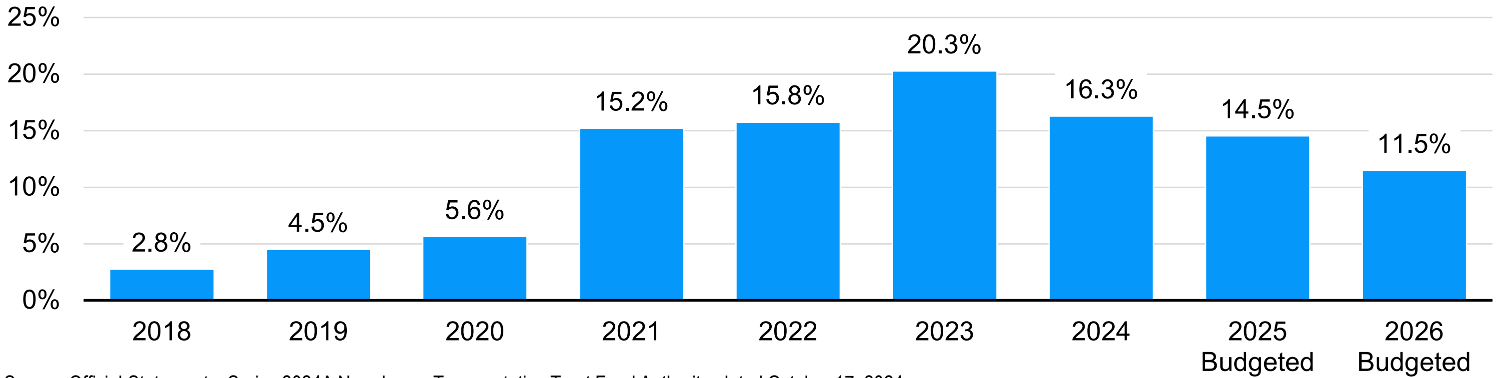
New Jersey is well-positioned to manage potential slower revenue growth in the coming years, with its fund balance remaining significantly stronger than pre-pandemic levels. Since our last update, the fiscal 2025 budget is projected to be $5.1 billion, or about 9% of budgeted expenditures—a solid level that is more than double the fund balance from 2019, reflecting a five-year compound annual growth rate of 19%.[2] While recent estimates indicate some moderation ahead, the state's continued focus on conservative budgeting and aligning revenues with expenditures will be essential to maintaining its strong creditworthiness moving forward.

Figure 4: Historical and estimated expenses



Source: Official Statement – Series 2025AA New Jersey Transportation Trust Fund Authority, dated October 22, 2025 for fiscal 2022 – 2026; Official Statement – Series 2022CC New Jersey Transportation Trust Fund Authority, dated November 29, 2022 for fiscal 2019 – 2021; Official Statement – Series 2020AA New Jersey Transportation Trust Fund Authority, dated December 2, 2020 for fiscal 2018.

Figure 5: Historical budgetary fund balance as a % of expenses



Source: Official Statement – Series 2024A New Jersey Transportation Trust Fund Authority, dated October 17, 2024.

New Jersey pension funding

New Jersey's retirement obligations remain a significant hurdle and account for a far greater portion of the state's long-term liabilities than its outstanding bonds. According to Moody's investor service, the pension liability alone represents about half of the state's total long-term liabilities, increasing to over 80% when including post-employment benefit costs (OPEB).[6] Funding ratios remain low but improved year-over-year at approximately 47% for state and local employees,[7] and New Jersey has made progress in addressing this liability in the form of contributing its full annual pension payment since fiscal 2022 and is expected to contribute its full annual pension payment in fiscal 2025.[8] These payments represent the first full contributions to the plans in 25 years. The state's ability and willingness to sustain this practice of full funding will be a credit risk to monitor moving forward, especially amid rising costs and slowing revenue growth. The plans' assets also remain vulnerable to swings in market performance as has been experienced in both positive and negative directions over the past three years (see Figure 6).

Figure 6: Historical state pension funding

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Valuation Date	7/1/16	7/1/17	7/1/18	7/1/19	7/1/20	7/1/21	7/1/22	7/1/23	7/1/24
Assets	75,348	79,313	81,433	82,293	79,867	98,110	90,055	96,857	105,485
Liabilities	243,591	221,601	209,560	207,123	208,173	195,927	200,139	205,513	210,521
UAAL*	(168,243)	(142,289)	(128,127)	(124,830)	(128,307)	(97,817)	(110,084)	(108,655)	(105,036)
Percent Funded	30.9%	35.8%	38.9%	39.7%	38.4%	50.1%	45.0%	47.1%	50.1%

Source: Official Statement – Series 2025AA New Jersey Transportation Trust Fund Authority, dated October 22, 2025
*UAAL: Unfunded Actuarial Accrued Liability

Economic update

A major factor supporting New Jersey is the state's significant wealth characteristics, as reflected in the state's per capita personal income (PCPI) that is 116% of national levels (See Figure 7).[3] This level, which is among the highest in the nation, is supported by the state's proximity to the New York City metro area as a major employment center. While New Jersey's tax structure is high, especially for earners making above $1 million per year, housing remains more affordable than comparable New York City options.

Figure 7: Historical per capita personal income

	2016	2017	2018	2019	2020	2021	2022	2023	2024
NJ Per Capita Personal Income	62,213	64,410	67,142	69,626	73,460	74,805	78,700	80,724	84,071
US Per Capita Personal Income	49,812	51,811	54,098	56,047	59,510	63,444	65,423	68,531	72,425
NJ/US PCPI	125%	124%	124%	124%	123%	118%	120%	118%	116%

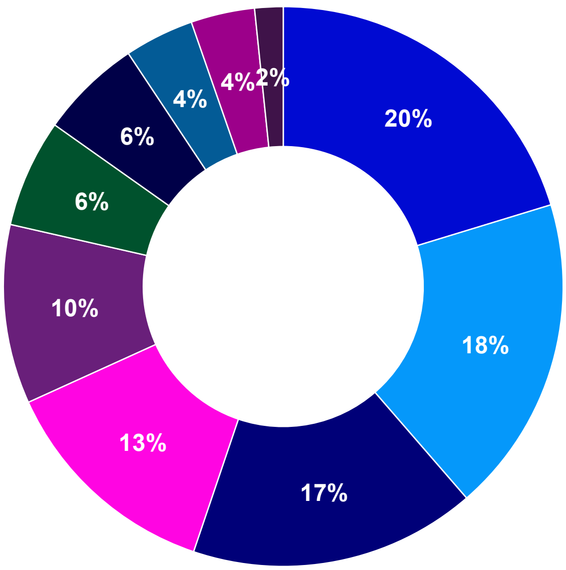
Source: Bureau of Economic Analysis, as of December 31, 2024

Labor and unemployment

New Jersey's employment base is generally diverse, with no sector representing greater than 21% of the whole. Leisure and hospitality, a sector that was particularly vulnerable to pandemic-related job losses, has now effectively fully recovered and represents 9.3% of employment as of February 2025. This level illustrates a rebound from a low of 3.1% reported in June 2020. Unemployment remains significantly lower than at the height of the pandemic but has been steadily increasing recently. As of February 2025, the unemployment rate stood at 4.6%.[9]

The overall economic recovery following the onset of the COVID-19 pandemic has been strong. This positive momentum has been supported by an improving job market and a strong demand for workers. Easing pandemic restrictions has also allowed for a return to in-office work for many businesses, as well as domestic and international travel.

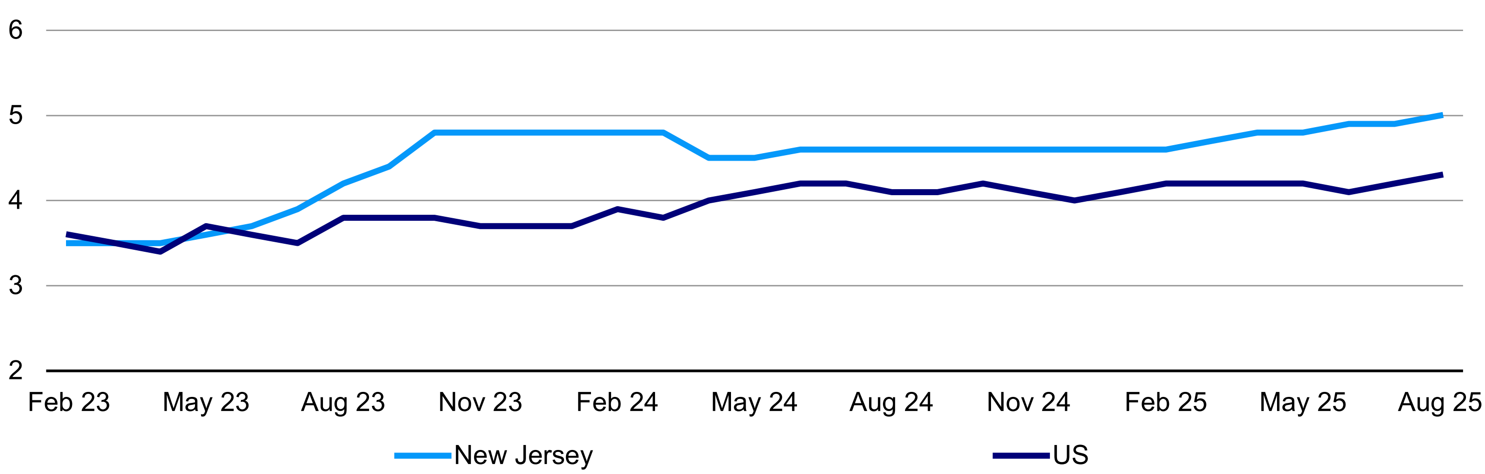
Figure 8: New Jersey employment by industry



Trade, Transportation, Utilities	**20.3**
Education and Health Services	**18.3**
Professional and Business Services	**16.6**
Federal, State, Local Government	**13.0**
Leisure and Hospitality	**10.3**
Financial Activities	**6.2**
Manufacturing, State	**5.9**
Other Services	**4.0**
Logging, Mining & Construction	**3.7**
Information	**1.6**

Source: Bureau of Labor Statistics, as of February 28, 2025

Figure 9: Historical seasonally adjusted unemployment rate (%)



Source: Bureau of Labor Statistics, as of August 31, 2025

New Jersey General Obligation Update

Moody's: Aa3 / Stable as of September 17, 2025
S&P: A+ / Stable as of August 11, 2025
Fitch: A+ / Stable as of November 27, 2024

In September of 2025, Moody's upgraded New Jersey's general obligation bond rating from A1 with a positive outlook to Aa3 with a stable outlook. This improvement in the credit rating reflects the state's strong financial performance in recent years, characterized by consistently robust budget surpluses. Additionally, New Jersey has demonstrated fiscal responsibility by making full actuarial contributions to its pension system, ensuring long-term sustainability. The state's careful and prudent management of expenditures further contributed to the enhanced rating, signaling increased confidence in New Jersey's overall financial health and creditworthiness.[10]

S&P upgraded New Jersey's general obligation bond rating from A to A+ in August of 2025. This positive change was driven by the state's strengthened balance sheet, which reflects improved financial stability and resilience. Furthermore, the upgrade acknowledges the state management's ongoing commitment to reducing its fixed cost obligations, demonstrating a strategic approach to fiscal discipline. These factors combined to enhance S&P's confidence in New Jersey's creditworthiness and overall financial outlook.[11]

Fitch also affirmed the state's general obligation at A+ with stable outlook as of its report dated April 26, 2024. Fitch notes that "state has effectively leveraged recent fiscal momentum to accelerate progress on its long-term fiscal and liability challenges. Economic and revenue performance remains solid despite slowing from the pace immediately following the pandemic. More rapid revenue growth helped New Jersey to shrink its liabilities and maintain ending balances well in excess of recent historical experience. Despite recent improvements, high liabilities and elevated carrying costs are likely to remain longer-term constraints on its budget choices."[12]

Spotlight on a New Jersey revenue bond: Princeton University

Moody's: Aaa / Stable as of April 8, 2025
S&P: AAA / Stable as of May 7, 2025

Princeton University is a private, non-profit, and non-sectarian institution of higher education. Originally chartered in 1746 as the Trustees of the College of New Jersey, it was the fourth college established in British North America. The institution was renamed Princeton University in 1896. Initially located in Elizabeth, New Jersey, and later in Newark, New Jersey, the university was relocated to Princeton, New Jersey in 1756.[13]

Princeton University is overseen by the Trustees of Princeton University and boasts the highest endowment per student of any institution in the United States. The university offers both undergraduate and graduate programs across a wide range of disciplines, including the humanities, social sciences, natural sciences, and engineering. Its main campus spans 600 acres and features over 200 buildings. Graduate education is provided through specialized schools such as the Princeton School of Public and International Affairs, the School of Engineering and Applied Sciences, the School of Architecture, and the Bendheim Center for Finance.[14]

Princeton reached a full-time equivalent enrollment level of 9,077 students at the close of fiscal year 2025, which was an increase of 2.3% over the previous fiscal year. The university has maintained a highly selective admissions process with a 5% acceptance rate, and an impressive matriculation rate of 75% during fiscal year 2025. Incoming first-year students demonstrated strong academic credentials, with an average SAT score of 1,530 and an average ACT score of 35.6. The first-year retention rate has been consistently high, averaging 97% over the past four years (fiscal years 2022 through 2025). Additionally, the six-year graduation rate has remained robust, averaging 98% during the same period.[15]

Princeton University benefits from an experienced senior leadership team responsible for setting and implementing the institution's strategic goals. This leadership has effectively steered the university through a challenging higher education environment, maintaining solid profitability metrics and a strong balance sheet compared to its peers in the sector.

We place significant emphasis on monitoring the financial performance of credits, especially as borrowers continue to face operational and economic challenges stemming from the pandemic. Key strengths such as a strong liquidity position, access to financial markets, and seasoned leadership are expected to help Princeton University successfully navigate economic fluctuations. The university's underlying credit quality remains strong, supporting its AAA bond rating. Overall, Princeton University's rich history, strong academic reputation, robust financial health, and effective leadership position it well for continued success and stability in the years ahead.

Sources:

1. State of New Jersey Budget in Brief, Fiscal 2026, as of February 25, 2025
2. Official Statement – Series 2024A New Jersey Transportation Trust Fund Authority, dated October 17, 2024
3. Bureau of Economic Analysis, as of December 31, 2024
4. New Jersey Department of the Treasury, October 16, 2025
5. Official Statement – Series 2025AA New Jersey Transportation Trust Fund Authority, dated October 22, 2025
6. Moody's, as of April 12, 2023
7. Official Statement – Series 2024A New Jersey Educational Facilities Authority, dated November 20, 2024
8. Moody's, as of November 1, 2024
9. Bureau of Labor Statistics, as of February 28, 2025
10. Moody's, as of September 17, 2025
11. S&P, as of August 11, 2025
12. Fitch, as of November 27, 2024
13. Official Statement – Series 2025A New Jersey Educational Facilities Authority, dated May 20, 2025
14. Princeton University, as of November 30, 2025
15. Merritt Research, as of June 30, 2025

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Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest.

Junk bonds involve greater risk of default or price changes due to changes in the issuer's credit quality.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

All fixed income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/ or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. .

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Past performance does not guarantee future results.

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For more information on Standard and Poor's rating methodology, please visit www.standardandpoors.com and select 'Understanding Credit Ratings' under 'About Ratings' on the homepage.

For more information on Moody's rating methodology, please visit https://ratings.moodys.io/ratings and select 'Rating Methodologies' on the homepage.

For more information on Fitch Ratings rating methodology, please visit www.fitchratings.com and select 'Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

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