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N.J. Suffering Sandy Decides Biggest College Bond: Muni Credit

By Elise Young and Michelle Kaske on November 01, 2012

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New Jersey Governor Chris Christie and lawmakers are pushing for the state's first general- obligation bond issue for higher education in almost 25 years in a bid to staunch the nation's biggest exodus of college students.

Voters in the 11th-most populous state, devastated by Hurricane Sandy this week, are set to decide Nov. 6 on a \$750 million bond for college construction. The Republican governor and legislators of both parties say it would create almost 10,000 jobs and add \$715 million to a state economy that ranked 47th in terms of growth last year by the federal Bureau of Economic Analysis.

Residents go to the polls as the state's borrowing costs are close to record lows, data compiled by Bloomberg show. For investors, the bond would have appeal as New Jersey has the second-highest tax burden among U.S. states and has been an infrequent issuer of general obligations, said Matt Dalton at Belle Haven Investments Inc. in White Plains, New York.

"You won't have any trouble seeing that deal get placed," said Dalton, who manages \$1.2 billion in munis as chief executive officer at Belle Haven.

Record Authorization

The bond vote comes after Sandy slammed into the New Jersey coast Oct. 29, damaging seaside resort towns and railroads and causing at least eight deaths in the state. While President Barack Obama has declared a "major disaster" in the state, clearing the way for federal assistance, the storm's cost is still being tallied.

The state constitution requires voter approval for general- obligation debt, which amounts to \$2.6 billion,

compared with \$31.2 billion in appropriation borrowings as of June 30, 2011, according to a state debt report. This will be the biggest general-obligation bond ever submitted to voters, according to Andrew Pratt, a spokesman for the state treasurer.

Debt of New Jersey issuers has trailed a rally in top-rated munis in the past year. Yet at about 2.48 percent, yields on 10- year securities of the state and its localities are within a quarter-percentage point of a record low set in February, Bloomberg data show.

“We need to do this,” Christie said at a town-hall meeting Oct. 25 in Washington Township, Warren County. “I am very reluctant. I am not a guy who’s been borrowing a lot of money in this job.”

Leaving Home

New Jersey exports more first-year college students than any other state, with almost 35,000 leaving in 2010, according to the National Center for Education Statistics.

“We don’t help them finish their lives here,” Senate President Steve Sweeney, a Democrat from West Deptford, said Oct. 22 in Trenton, at a conference of the New Jersey Bankers Association. “When they leave, most don’t come back.”

Christie signed legislation to put the spending on the ballot after it passed in the assembly 76-1 and in the senate, 38-1. Both dissenters were Republicans. Democrats control both houses.

The lawmakers see the borrowing as a way to stimulate the economy in New Jersey, where unemployment reached 9.9 percent in August, a 35-year high. The state faces revenue shortfalls and a possible credit downgrade from Standard & Poor’s.

New Jerseyans typically approve capital expenditures. In 2009 they authorized \$400 million for open space and historic preservation. In 2007 they agreed to a similar \$200 million issue and rejected a \$450 million proposal to fund stem-cell research, even though polls showed it was favored to pass.

Poll Support

The college borrowing is favored in surveys affiliated with Fairleigh Dickinson University, Rutgers University and Richard Stockton College.

In a survey released Oct. 18, the Stockton Polling Institute, at Richard Stockton College in Galloway Township, New Jersey, found 72 percent of 811 likely voters supported the spending. The poll was conducted Oct. 12-18 and had a margin of error of 3.5 percent.

The school bond is opposed by the New Jersey chapter of Americans for Prosperity, which seeks less taxes and smaller government, and Senator Michael Doherty, a Republican from Washington Township, Warren County.

The New Jersey Educational Facilities Authority, formed in 1966 to facilitate borrowing for public and private colleges, has \$411.4 million in state-backed financings, 87 percent for capital improvements, according to its website.

‘Not True’

“Colleges have been doing a lot of building, a lot of borrowing, over the past 20 years,” Doherty said by phone Oct. 26. “For them to say the state’s done nothing for 24 years is just not true.”

The state’s most recent general-obligation borrowing for college capital projects, in 1988, was \$350 million. The \$750 million issue, available to more than 50 public and private colleges, would be limited to classroom construction and purchases of laboratory and technical equipment.

In the \$3.7 trillion tax-exempt market yesterday, yields on benchmark 10-year munis were little changed at 1.69 percent, data compiled by Bloomberg show.

Following is a pending sale:

DISTRICT OF COLUMBIA plans to sell \$775 million in income- tax revenue bonds as soon as Nov. 14, according to Moody’s Investors Service, which rates the debt Aa1, second-best. (Added Nov. 1)

To contact the reporters on this story: Elise Young in Trenton at eyoung30@bloomberg.net; Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editor responsible for this story: Stephen Merelman at smerelman@bloomberg.net

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