This Preliminary Official Statement and the information contained herein are subject to completion or amendment in a final Official Statement. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such an offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 1, 2009

New Issue — Book-Entry Only

Ratings: **Fitch:**
Moody's:
Standard & Poor's:

$209,150,000*
STATE OF NEW JERSEY
GENERAL OBLIGATION BONDS

$205,000,000* General Obligation Bonds
(Tax-Exempt) (Various Purposes)

$4,150,000* General Obligation Bonds
(Taxable for Federal Income Tax Purposes) (Various Purposes)

Dated: Date of Delivery **Due: June 1, as shown on the inside cover**

This Official Statement has been prepared by the State of New Jersey (the "State") to provide information with respect to its $209,150,000* aggregate principal amount of General Obligation Bonds (the "Bonds") consisting of $205,000,000* General Obligation Bonds (Tax-Exempt) (Various Purposes) (the "Tax-Exempt Bonds") and $4,150,000* General Obligation Bonds (Taxable For Federal Income Tax Purposes) (Various Purposes) (the "Taxable Bonds"). The cover page contains certain selected information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors must read the entire Official Statement, including all Appendices, to obtain information essential to making an informed investment decision.

Bid Date: Tuesday, December 8, 2009*

Tax Matters: In the opinion of Bond Counsel, subject to the conditions described in "TAX MATTERS" herein, under existing law, interest on the Tax-Exempt Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax. Interest on the Taxable Bonds is included in gross income for federal income tax purposes. Based upon existing law, interest on the Bonds and net gains from the sale thereof are exempt from the tax imposed by the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.

Redemption: The Tax-Exempt Bonds maturing on and after June 1, 2020 are redeemable at the option of the State, in whole or in part, at par, on any date on or after June 1, 2019. The Taxable Bonds are not subject to redemption prior to maturity.

Security: **The Bonds are direct and general obligations of the State, the payment of which is secured by a pledge of the faith and credit of the State.**

Purpose: The Bonds are being issued to fund various capital programs of the State.

Interest Rates: As shown on the inside cover.

Interest Payment Dates: Interest on the Bonds will accrue from the date of delivery of the Bonds and will be payable on December 1, 2010, and semiannually thereafter on June 1 and December 1 of each year to and including their respective dates of maturity.

Denominations: $5,000 or any integral multiple thereof.

Issuer Contact: New Jersey Office of Public Finance, (609) 984-4888.

Book-Entry Only: The Depository Trust Company ("DTC"), New York, New York.

The Bonds are offered for delivery when, as and if issued by the State, subject to the receipt of approving opinions of the Attorney General of the State and of McCarter & English, LLP, Newark, New Jersey, Bond Counsel to the State. It is expected that the Bonds will be available for delivery through the offices of DTC in New York, New York on or about December 17, 2009.

Official Statement Dated: , 2009

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* Preliminary, subject to adjustment in accordance with the Notices of Sale.

$205,000,000*
General Obligation Bonds (Tax-Exempt)

Year (June 1)	Principal Amount*	Interest Rate	Price or Yield	CUSIP**
2011	$ 1,835,000			
2012	6,655,000			
2013	6,985,000			
2014	7,335,000			
2015	7,700,000			
2016	8,085,000			
2017	8,490,000			
2018	8,915,000			
2019	9,360,000			
2020	9,830,000			
2021	10,320,000			
2022	10,835,000			
2023	11,380,000			
2024	11,950,000			
2025	12,545,000			
2026	13,170,000			
2027	13,830,000			
2028	14,520,000			
2029	15,250,000			
2030	16,010,000			

$4,150,000*
General Obligation Bonds
(Taxable for Federal Income Tax Purposes)

Year (June 1)	Principal Amount*	Interest Rate	Price or Yield	CUSIP**
2011	$1,000,000			
2012	1.050,000			
2013	1,050,000			
2014	1,050,000			

* Preliminary, subject to adjustment in accordance with the Notices of Sale.

** Registered Trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the State does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

The following Official Statement contains a general description of the Bonds and the State of New Jersey (the "State"), and sets forth provisions of the Acts (as defined herein). The descriptions and summaries herein do not purport to be complete and are not construed to be representations of the State. Persons interested in purchasing the Bonds should review carefully the Appendices attached hereto as well as copies of the documents described herein.

No dealer, broker, salesman or any other person has been authorized by the State to give any information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from the State and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information in this Official Statement concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been supplied to the State by DTC for inclusion herein. Such information has not been independently verified by the State and the State makes no representation as to the accuracy or completeness of such information. The information and the expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities, instrumentalities or political subdivisions as described herein since the date hereof.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such federal laws. In making an investment decision, investors must rely upon their own examination of the Bonds and the security therefore, including an analysis of the risks involved. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. The registration, qualification or exemption of the Bonds in accordance with the applicable provisions of the securities laws of the various jurisdictions in which the Bonds have been registered, qualified or exempted cannot be regarded as a recommendation thereof. Neither such jurisdictions nor any of their agencies have passed upon the merits of the Bonds or the adequacy, accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity will have passed upon the accuracy or adequacy of this Official Statement or approved the sale of the Bonds.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED

IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

References in this Official Statement to acts, statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive, and all such references are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications and exceptions to statements made herein. This Official Statement is distributed in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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OFFICIAL STATEMENT
of the
STATE OF NEW JERSEY
Relating to
$209,150,000*
GENERAL OBLIGATION BONDS
consisting of

General Obligation Bonds (Tax-Exempt)
consisting of
$200,000* Clean Waters Bonds (1976) (Series K)
$20,250,000* Water Supply Bonds (1981) (Series L)
$1,250,000* Pinelands Infrastructure Trust Bonds (1985) (Series D)
$3,000,000* Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989) (Series F)
$3,400,000* 1989 New Jersey Open Space Preservation Bonds (Series J)
$10,900,000* 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds (Series L)
$2,500,000* Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) (Series G)
$22,500,000* 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series C)
$141,000,000* 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds (Series A)

and

General Obligation Bonds
(Taxable for Federal Income Tax Purposes)
consisting of
$150,000* Clean Waters Bonds (1976) (Series L)
$4,000,000* 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series D)

INTRODUCTION

The Official Statement, which includes the cover page and the Appendices attached hereto (the "Official Statement") has been prepared by the State of New Jersey (the "State") to provide certain information relating to the State and the proposed delivery of $205,000,000* aggregate principal amount of its General Obligation Bonds (Tax-Exempt) consisting of nine separate series as shown above (the "Tax-Exempt Bonds") and $4,150,000* aggregate principal amount of its General Obligation Bonds (Taxable For Federal Income Tax Purposes) consisting of two separate series as shown above (the "Taxable Bonds") (collectively, the "Bonds").

The Bonds are being issued by the State pursuant to various laws enacted by the New Jersey State Legislature (the "State Legislature") and approved by the voters of the State (such acts, as they

* Preliminary, subject to adjustment in accordance with the Notices of Sale.

may be amended from time to time, hereinafter collectively referred to as the "Acts"). (See "THE BONDS - Authorization of the Bonds" herein.)

Pursuant to the Acts, the Bonds are direct and general obligations of the State and the faith and credit of the State are pledged for the payment of the principal thereof, the interest thereon and, if provided, the redemption premium thereon, if any, as the same become due. For financial information relating to the State and information relating to the outstanding indebtedness of the State, see "APPENDIX I- FINANCIAL AN OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY" and the Supplement dated November 23, 2009, to Appendix I attached hereto.

All references herein to the Acts are qualified in their entirety by reference to the complete text of the Acts, copies of which are available from the State, and all references to the Bonds are qualified in their entirety to the definitive forms thereof and the information with respect thereto contained therein.

THE BONDS

Authorization of the Bonds

The Bonds are authorized under the Acts which, together with the total amount of bonds authorized under each such Act and the principal amount of bonds issued thereunder, including the Bonds, are listed below:

Title of Bonds	Act	Bonds Offered*	Total Bonds Authorized	Total Bond Issued (Including Bonds Offered)*
Clean Waters Bonds	P.L. 1976, c. 92	$350,000	$120,000,000	$116,600,000
Water Supply Bonds	P.L. 1981, c. 261	$20,250,000	$350,000,000	$286,850,000
Pinelands Infrastructure Trust Bonds	P.L. 1985, c. 302	$1,250,000	$30,000,000	$23,250,000
Stormwater Management and Combined Sewer Overflow Abatement Bonds	P.L. 1989, c. 181, as amended by P.L. 1997, c. 225	$3,000,000	$50,000,000	$37,000,000
1989 New Jersey Open Space Preservation Bonds	P.L. 1989, c. 183	$3,400,000	$300,000,000	$277,400,000
1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds	P.L. 1992, c. 88	$10,900,000	$345,000,000	$332,120,000

* Preliminary, subject to adjustment in accordance with the Notices of Sale.

Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds	P.L. 1996, c. 70	$2,500,000	$300,000,000	$251,500,000
2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds	P.L. 2003, c. 162	$26,500,000	$200,000,000	$157,750,000
2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds	P.L. 2007, c. 119	$141,000,000	$200,000,000	$141,000,000

The Governor, the State Treasurer and, as applicable, the Comptroller of the Treasury or the Director of the Division of Budget and Accounting in the Department of the Treasury, or in their absence or incapacity, the persons authorized by law to act in their capacities, or any two of such officials, have been designated as the Issuing Officials for the Bonds (the "Issuing Officials"), pursuant to the provisions of the Acts. The Issuing Officials are authorized pursuant to the Acts to carry out the provisions thereof relating to the issuance of the Bonds and shall determine all matters in connection therewith subject to the provisions of such Acts.

Sources of Payment and Bondholder Remedies

The Acts make the following appropriations, to provide for the payment of the principal of, interest on and, if provided therein, the redemption premium, if any, of the Bonds, in the following order of priority;

(a) In the case of the Clean Waters Bonds (1976), Water Supply Bonds (1981), Pinelands Infrastructure Trust Bonds (1985), Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989), 1989 New Jersey Open Space Preservation Bonds, 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds, Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996), 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds and 2007 New Jersey Green Acres, Farmland, Blue Acres and Historic Preservation Bonds, revenue derived by the State from the tax collected under and by virtue of the provisions of the Sales and Use Tax Act, L. 1966, c. 30 (N.J.S.A. 54:32B-1, *et seq*.), as amended and supplemented (the "Sales Tax Revenues"), or so much thereof as may be required. The revenues from the taxes and fees referred to above are also appropriated to the payment of future bond issues of the State.

(b) If in any year or at any time the funds appropriated as described in (a) above are insufficient or not available to meet the interest and principal payments and, if provided,

redemption premium payments, if any, upon outstanding bonds issued under the Acts, a tax shall be assessed, levied and collected annually in each of the municipalities of the counties of the State on all real and personal property upon which municipal taxes are or shall be assessed, levied and collected sufficient to meet interest payable on outstanding bonds issued under the Acts and proposed to be issued under the Acts in the calendar year in which such tax is to be raised and principal of and interest on the Bonds falling due in the year following the year for which the tax is levied. The governing body of each municipality shall pay the amount of the tax assessed and levied to the respective county treasurer on or before December 15 in each year and the county treasurer shall pay the amount of the tax to the State Treasurer on or before December 20 in each year.

The Acts further provide that if on or before December 31 in any year, the Issuing Officials determine by resolution that there are moneys in the State's General Fund, beyond the needs of the State, sufficient to meet the principal of the Bonds falling due and all interest and, if provided, redemption premium, if any, payable in the ensuing calendar year, then the Issuing Officials shall by resolution so find and shall file such resolution in the office of the State Treasurer, whereupon the State Treasurer shall transfer such moneys to a separate fund to be designated by the State Treasurer and shall pay the principal, interest and, if provided, redemption premium, if any, out of such fund as the same shall become due and payable, and the other sources of payment of such principal, interest and, if provided, redemption premium, if any, described in subparagraphs (a) and (b) above shall not then be available for such payments of principal, interest and redemption premiums, if any. The Acts also provide that if by December 31 of any year the State Treasurer determines that there will be insufficient moneys available for the payment of principal of and interest on the Bonds coming due in the calendar year following the immediately ensuing calendar year, a tax shall be assessed, levied and collected in each county in the State in the immediately ensuing calendar year that is sufficient to pay such principal and interest.

See "APPENDIX I - FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY - OUTSTANDING BONDED INDEBTEDNESS OF THE STATE" for a description of future debt service requirements of General Obligation Bonds of the State.

The Acts pledge the faith and credit of the State to the payment of the principal of, interest and, redemption premium, if any, on the Bonds authorized by such Acts. If the State fails to pay the principal of, interest and, if provided, redemption premium, if any, on the Bonds, a holder of the Bonds has the right, among other legal and equitable remedies which may be available, to institute suit against the State for payment of the Bonds. A judgment against the State resulting from such suit will be payable from funds appropriated or otherwise provided for by the Acts.

Description of Bonds

The Bonds will be dated the date of delivery thereof, will bear interest at the respective rates per annum set forth on the inside cover hereof, and will mature on the dates and in the principal amounts set forth below. Interest on the Bonds is payable on December 1, 2010 and semi-annually thereafter on June 1 and December 1 in each year until maturity or prior redemption.

Each series of the Bonds will mature on June 1 in each of the years and principal amounts as follows:

Year	Clean Waters Bonds (1976) (K)	Water Supply Bonds (1981) (L)	Pinelands Infrastructure Trust Bonds (1985) (D)	Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989) (F)	1989 New Jersey Open Space Preservation Bonds (J)	1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds (L)
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						

Year	Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) (G)	2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (C)	2007 New Jersey Green Acres, Farmland, Blue Acres and Historic Preservation Bonds (A)	Clean Waters Bonds (1976) (L) (Federally Taxable)	2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (D) (Federally Taxable)
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					

Optional Redemption

The Tax-Exempt Bonds maturing on or before June 1, 2019 will not be subject to redemption prior to their respective stated maturity dates. The Tax-Exempt Bonds maturing on or after June 1, 2020 will be subject to redemption prior to their respective stated maturity dates, at par, at the option of the State, acting through the Issuing Officials, on any date on or after June 1, 2019, either in whole or in part by lot within a maturity from maturities selected by the State upon the payment of 100% of the principal amount thereof and accrued interest thereon to the date fixed for redemption.

The Taxable Bonds will not be subject to redemption prior to their respective stated maturity dates.

Notice of Redemption

Unless the State is the Paying Agent and Transfer Agent, written notice of its election to redeem any Tax-Exempt Bond shall be mailed by the State to the Paying Agent and Transfer Agent not less sixty (60) days prior to the redemption date. The Paying Agent and Transfer Agent shall mail notice of redemption in the name of the State, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date, to the registered owners of the Tax-Exempt Bonds to be redeemed at their addresses appearing on the registration books maintained by the Paying Agent and Transfer Agent. The Paying Agent and Transfer Agent, in addition to notice by mail, may publish or cause to be published once a week, for at least two successive weeks, notice of such redemption in a financial newspaper of general circulation in the City of New York, New York, the first such publication being not less than thirty (30) days nor more than sixty (60) days prior the redemption date. In no event will such publication be a condition precedent to redemption nor will the failure to publish or the failure of any registered owner of the Tax-Exempt Bonds to receive any redemption notice affect the validity of the redemption proceedings.

Paying Agent, Registrar and Transfer Agent

Initially, the State will act as "Paying Agent," "Registrar" and "Transfer Agent" for the Bonds. However, the State reserves the right to appoint one or more Paying Agents, Registrars and Transfer Agents.

The Bonds are issuable as fully registered bonds and are payable as to principal and redemption premium, if any, upon presentation and surrender thereof at the New Jersey Department of the Treasury, Trenton, New Jersey, as Paying Agent. Interest on the Bonds is payable by check or draft or wire transfer mailed or wired, as applicable, by the State to the registered owners appearing in, and mailed to the addresses appearing on, the registration books of the State on the respective November 15 and May 15 prior to each interest payment date. As is more fully described herein under "Book-Entry-Only System," DTC (hereinafter defined) shall be the only initial registered owner of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

The following description of The Depository Trust Company ("DTC"), New York, New York, and the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and premium, if any, of and interest and other payments with respect to the Bonds to Direct Participants (as defined below) or Beneficial Owners (as defined below), confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and among DTC, the Direct Participants and the Beneficial Owners is based solely on information provided by DTC, and the State assumes no responsibility therefor. Accordingly, no representations can be made concerning these matters and neither the Direct Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. Information concerning DTC and the Book-Only-Entry System has been obtained from DTC and is not

guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the State.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners (the "Book-Entry-Only System"). Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that the use of the Book-Entry-Only System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct Participants and Indirect Participants and not of DTC or its nominee, the State or its Paying Agent, if any, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the State or its Paying Agent, if any. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

THE STATE OR ITS PAYING AGENT, IF ANY, CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (i) PAYMENTS OF PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OF OR INTEREST ON THE BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC,

DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE STATE OR ITS PAYING AGENT, IF ANY, WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DIRECT PARTICIPANT, OR ANY OTHER PERSON WHO IS NOT SHOWN IN THE REGISTRATION BOOKS OF THE STATE AS BEING A BONDHOLDER. THE STATE AND ITS PAYING AGENT, IF ANY, SHALL HAVE NO RESPONSIBILITY WITH RESPECT TO (i) ANY OWNERSHIP INTEREST IN THE BONDS; (ii) THE PAYMENT BY DTC TO ANY PARTICIPANT OR BY ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY TO ANY PARTICIPANT OR ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE RESOLUTION; (iv) THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR CEDE & CO. AS BONDHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Discontinuance of Book-Entry-Only System. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or its Paying Agent, if any. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

APPLICATION OF BOND PROCEEDS

The proceeds from the sale of the Bonds are intended to be applied to ongoing capital expenditure programs of the State as described below. In certain cases, these programs have been funded on a temporary basis by general fund moneys or other available moneys. In these cases, the proceeds from the sale of the Bonds will be used to reimburse the funds advanced. Pending disbursements by the State, the proceeds of such Bonds will be invested in accordance with applicable State statutes and federal law.

In the case of the Clean Waters Bonds (1976), the enabling legislation provides that said bonds are authorized for the purpose of researching, planning, acquiring, developing, constructing and maintaining water supply, waste water treatment and water quality plans, facilities and programs.

In the case of the Water Supply Bonds (1981), the enabling legislation provides that said bonds are authorized for the purposes of providing loans for State or local projects for the rehabilitation, repair or consolidation of antiquated, damaged or inadequately operating water supply facilities, and to plan, design, acquire and construct State water supply facilities.

In the case of the Pinelands Infrastructure Trust Bonds (1985), the enabling legislation provides that said bonds are authorized for the purpose of providing grants and loans to any local unit in the pinelands area for infrastructure capital projects necessary to accommodate development in the regional growth area.

In the case of the Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989), the enabling legislation provides that said bonds are authorized for the purpose of providing grants and loans to local government units for the costs of stormwater management and combined sewer overflow abatement projects.

In the case of the 1989 New Jersey Open Space Preservation Bonds, the enabling legislation provides that the bonds are authorized for the purposes of (i) providing moneys to meet the cost of public acquisition and development of lands by the State for recreation and conservation purposes; (ii) providing State grants and loans to assist local government units to acquire and develop lands for recreation and conservation purposes; (iii) providing State matching grants to assist qualifying tax-exempt nonprofit organizations to acquire lands for recreation and conservation purposes; (iv) providing for the preservation of farmland for agricultural use and production through the provision of grants to counties and municipalities for the acquisition of development easements on farmland, provided that any funds received for the transfer of a development easement shall be dedicated to the future purchase of development easements, the purchase of fee simple absolute title to farmland which shall be offered for resale with agricultural deed restrictions, the acquisition of development easements on farmland and the provision of grants for soil and water conservation projects on farmland; and (v) providing for the costs of funding development potential transfer banks.

In the case of the 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds, the enabling legislation provides that said bonds are authorized for the purposes of (i) providing moneys to meet the cost of public acquisition and development of lands by the State for recreation and conservation purposes; (ii) providing State grants and loans to assist local government units to meet the cost of acquiring and developing lands for recreation and conservation purposes; (iii) providing State matching grants to assist qualifying tax-exempt nonprofit organizations to meet the cost of acquiring lands for recreation and conservation purposes; (iv) the preservation of farmland for agricultural use and production; (v) providing State matching grants to assist State agencies or entities, local government units, and qualifying tax-exempt nonprofit organizations to meet the historic preservation project cost of historic preservation projects for historic properties, structures, facilities, or sites owned or leased on a long-term basis by those agencies, entities, units or organizations; (vi) dam restoration projects and inland waters projects; and (vii) financing wastewater treatment system project costs.

In the case of the Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996), the enabling legislation provides that said bonds are authorized for the purposes of (i) financing, in whole or in part, the cost of the construction of subaqueous pits and a containment facility or facilities for the disposal of dredged material from the port region, the cost of projects related to the decontamination of dredged material, and the cost of dredging the Kill Van Kull, the Arthur Kill and other navigation channels located in the port region; (ii) paying or financing costs incurred by the State for the remediation of hazardous discharge sites and for the construction of water supply facilities to replace potable water supplies determined to be contaminated or threatened by a discharge; (iii) financing the cost of dredging of navigation channels not located in the port region; (iv) financing the cost of the purchase of real property, equipment, and any building, construction, and miscellaneous site improvements associated with an economic development site; and (v) financing the cost of lake restoration projects.

In the case of the 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds, the enabling legislation provides that said bonds are authorized for the purposes of financing the costs of dam restoration and repair projects, lake dredging and restoration projects, stream cleaning and desnagging projects, State flood control projects, water resources projects and wastewater treatment system projects.

In the case of the 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds, the enabling legislation provides that said bonds are authorized for the purposes of (i) providing moneys to meet the cost of public acquisition and development of lands by the State for recreation and conservation purposes; (ii) providing State grants and loans to assist local government units to meet the cost of acquiring and developing lands for recreation and conservation purposes; (iii) providing State matching grants to assist qualifying tax-exempt nonprofit organizations to meet the cost of acquiring lands for recreation and conservation purposes; (iv) the preservation of farmland; (v) providing moneys to meet the Blue Acres cost of acquisition by the State for recreation and conservation purposes of lands in the floodways of the Delaware River, Passaic River, or Raritan River, and their respective tributaries, that have been damaged by, or may be prone to incurring damage caused by, storms or storm-relating flooding, or that may buffer or protect other lands from such damage; and (vi) providing State matching grants to assist State agencies or entities, local government units, and qualifying tax-exempt nonprofit organizations to meet the cost of preservation of historic properties.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") have assigned long-term ratings of "___," "___" and "___," respectively, to the Bonds. These ratings reflect only the view of Fitch, Moody's and S&P, respectively, and an explanation thereof may be obtained only from Fitch, Moody's and S&P. There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by Fitch, Moody's and S&P if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

LEGAL OPINION

In the opinion of the Attorney General of the State of New Jersey and of McCarter & English, LLP, Newark, New Jersey, Bond Counsel to the State, the Bonds are valid and legally binding direct and general obligations of the State, the payment of which is secured by a pledge of the faith and credit of the State. Such opinions will be substantially in the form attached to this Official Statement as Appendix II.

TAX MATTERS

Exclusion of Interest on the Tax-Exempt Bonds from Gross Income for Federal Tax Purposes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Tax-Exempt Bonds in order to assure that interest on the Tax-Exempt Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Such requirements include requirements relating to private use limitations and the yield restriction of certain funds. Failure of the State to comply with such requirements may cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Tax-Exempt Bonds. The State will make representations in the Tax Regulatory Agreement, which will be executed on the date of issuance of the Tax-Exempt Bonds, as to various tax requirements. The State, in executing the Tax Regulatory Agreement, will represent that the State expects and intends to comply, and to the extent permitted by law, will comply with the provisions and procedures set forth in the Tax Regulatory Agreement and will do all things necessary to assure that the interest on the Tax-Exempt Bonds will be excluded from gross income under Section 103 of the Code. McCarter & English, LLP, Bond Counsel to the State, has relied upon the representations made in the Tax Regulatory Agreement and has assumed continuing compliance by the State with all applicable federal income tax law requirements in rendering its federal income tax opinion with respect to the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

Based upon the foregoing, Bond Counsel is of the opinion that, under existing law, interest on the Tax-Exempt Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax.

Additional Federal Income Tax Consequences

Prospective purchasers of the Tax-Exempt Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Tax-Exempt Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty companies, foreign corporations and certain S corporations.

Bond Counsel expresses no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the Tax-Exempt Bonds from gross income

pursuant to Section 103 of the Code and the treatment of interest for purposes of the alternative minimum tax. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Tax-Exempt Bonds.

The Taxable Bonds

Federal Tax Matters

General

The following discussion is a summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of the Taxable Bonds by original purchasers of the Taxable Bonds who are U.S. Holders (as defined below). This summary is based on the Code, Treasury regulations, revenue rulings and court decisions, all as now in effect and all subject to change at any time, possibly with retroactive effect. This summary assumes that the Taxable Bonds will be held as "capital assets" under the Code, and it does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a "hedge" or "straddle" for United States federal income tax purposes, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar. Each prospective purchaser of the Taxable Bonds should consult with its own tax advisor concerning the United States federal income tax and other tax consequences to it of the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Taxable Bond that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

U.S. Holders – Interest Income

Interest on the Taxable Bonds is not excludable from gross income under Section 103 of the Code for federal income tax purposes.

U.S. Holders – Disposition of Taxable Bonds

Except as discussed above, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such U.S. Holder's adjusted tax basis in the Taxable Bond. A U.S. Holder's adjusted tax basis in a Taxable Bond generally will equal such U.S. Holder's initial investment in the Taxable Bond, decreased by the amount of any

payments, other than qualified stated interest payments, received. Such gain or loss generally will be long-term capital gain or loss if the Taxable Bond was held for more than one year.

U.S. Holders – Defeasance

U.S. Holders of the Taxable Bonds should be aware that, for federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the Acts (a "defeasance"), could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for federal income tax purposes, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected. U.S. Holders of the Taxable Bonds are advised to consult with their own tax advisors regarding the consequences of a defeasance for federal income tax purposes, and for state and local tax purposes.

U.S. Holders – Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate U.S. Holders with respect to payments of principal, payments of interest, and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding at a rate of 28% for the years 2005-2010 and at a rate of 31% for the year 2011 and thereafter, will apply to such payments unless the U.S. Holder (i) is a corporation or other exempt recipient and, when required, demonstrates that fact, or (ii) provides a correct taxpayer identification number, certifies under penalties of perjury, when required, that such U.S. Holder is not subject to backup withholding and has not been notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its United States federal income tax returns.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the Internal Revenue Service.

IRS Circular 230 Disclosure

To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel informs you that (i) any United States federal tax advice related to the Taxable Bonds and contained in this offering material (including any attachments) is not intended or written by Bond Counsel to be used, and that it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code; (ii) such advice is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the written advice; and (iii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

State Taxation

Bond Counsel is of the opinion that, based upon existing law, interest on the Bonds and net gains from the sale thereof are exempt from the tax imposed by the New Jersey Gross Income Tax Act.

CONTINUING DISCLOSURE

The Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934, as amended and supplemented (the "Securities Exchange Act"), has adopted amendments to its Rule 15c2-12 ("Rule 15c2-12") effective July 3, 1995 which generally prohibit a broker, dealer, or municipal securities dealer ("Participating Underwriter") from purchasing or selling municipal securities, such as the Bonds, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and material event notices to the Municipal Securities Rulemaking Board (the "MSRB").

On the date of delivery of the Bonds, the State will enter into an Agreement with Respect to Continuing Disclosure (the "Continuing Disclosure Agreement") for the benefit of the beneficial holders of the Bonds pursuant to which the State will agree to comply on a continual basis with the disclosure requirements of Rule 15c2-12. Specifically, the State will covenant in the Continuing Disclosure Agreement to provide certain financial information and operating data relating to the State by not later than March 15 of each year with respect to the fiscal year of the State ending the preceding June 30, commencing with the fiscal year of the State ending June 30, 2009 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The form of the Continuing Disclosure Agreement is included as Appendix III to this Official Statement. The information to be provided in each Annual Report generally will be information pertaining to the finances and operating data of the State substantially of the type captioned as follows in Appendix I to this Official Statement: "STATE FINANCES," "FINANCIAL RESULTS AND ESTIMATES," "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE," "TAX AND REVENUE ANTICIPATION NOTES," "OTHER OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION," "MORAL OBLIGATION FINANCING," "STATE EMPLOYEES," "FUNDING PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS," "LITIGATION" and the State's Comprehensive Annual Financial Report as set forth in Appendix A attached to Appendix I of this Official Statement.

The Treasurer failed to provide the State's annual report for the Fiscal Year ended June 30, 2008 containing its financial and operating data as required by the State's various Agreements with Respect to Continuing Disclosure entered into by the State in connection with its general obligation bonds. The annual report was due to the nationally recognized municipal securities repositories on March 15, 2009. The annual report was filed on March 31, 2009.

UNDERWRITING

_____ submitted the successful bid at the public sale of the Tax-Exempt Bonds on December 8, 2009 and has agreed, pursuant to the terms of the Notice of Sale relating to the Tax-Exempt Bonds, to purchase the Tax-Exempt Bonds from the State at an aggregate price of $_____ and to make a bona fide public offering of the Tax-Exempt Bonds at the initial public offering prices set forth on the inside cover page of this Official Statement.

_____ submitted the successful bid at the public sale of the Taxable Bonds on December 8, 2009 and has agreed, pursuant to the terms of the Notice of Sale relating to the Taxable Bonds, to purchase the Taxable Bonds from the State at an aggregate price of $_____ and to

make a bona fide public offering of the Taxable Bonds at the initial public offering prices set forth on the inside cover page of this Official Statement.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any Bonds. All inquires for information or questions regarding this Official Statement should be directed to the New Jersey Department of the Treasury, Trenton, New Jersey 08625 (telephone (609) 984-4888).

All estimates and assumptions of financial and other information in this Official Statement are based upon information current available, are believed to be reasonable and are not to be construed as assurances of actual outcomes. All estimates of future performance or events constituting "forward looking statements" set forth herein may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are numbers and other information from budgets for current fiscal years.

THE STATE OF NEW JERSEY

By: _____

R. David Rousseau
Treasurer of the State of New Jersey

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APPENDIX I-1
SUPPLEMENT DATED NOVEMBER 23, 2009, TO APPENDIX I

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Supplement, dated November 23, 2009, to Appendix I, dated July 23, 2009

Insert the following paragraph on page I-2 of Appendix I, dated July 23, 2009, following the last paragraph under the heading captioned "SELECTED INFORMATION RELATING TO NEW JERSEY'S ECONOMIC CONDITION:"

The State and national economies continue to experience high unemployment rates, a weak employment picture, and weakness in personal income growth. For the calendar quarter ending in September 2009 the trend in New Jersey's payroll employment indicates that the rate of decrease slowed to -3.1% from -3.4% in the previous quarter. The State's average unemployment rate for ten months through October 2009 was 8.9% with the unemployment rate of 9.7% for October 2009 remaining below the national rate of 10.2%. Personal income continues to decline with an average decrease of -2.1% for the 3rd quarter of 2009. This is a slightly better result than in prior quarters, but below 2008.

Insert the following paragraphs on page I-7 of Appendix I, dated July 23, 2009, above the heading captioned "FINANCIAL RESULTS AND ESTIMATES:"

RECENT DEVELOPMENTS

On October 19, 2009, the State Treasurer reported that actual revenue collections for the first three months of Fiscal Year 2010 were $190 million less than expected at the time of enactment of the Fiscal Year 2010 Appropriations Act, as shown on the "Summary of Revenues, Appropriations and Undesignated Fund Balances — Budgeted State Funds" on page 1-8 in Appendix I, dated July 23, 2009. Approximately $215 million of budgetary savings have been identified to cover this shortfall. Also on October 19th the Governor directed Cabinet Officials to identify an additional $200 million of cuts in departmental operating budgets by December 1, 2009. On November 5, 2009, this amount was increased to $400 million.

Through the end of October 2009 actual revenue collections continue to be less than the amounts estimated at the time of enactment of the Fiscal Year 2010 Appropriations Act. A revenue shortfall in addition to that described on October 19th of approximately $225 million has been identified, as well as the need for supplemental appropriations of approximately $350 million. This amount does not include $65 million in other supplemental appropriations that already had an identified funding source. During the Fiscal Year 2009 close-out process, the opening fund balance for Fiscal Year 2010 was reduced by $244 million from that reflected in the Fiscal Year 2010 Appropriations Act. Thus, the additional budget shortfall since October 19th is approximately $820 million.

Various revenue and expenditure actions have been identified to close this additional budget shortfall. The State expects to generate nearly $60 million in revenue from tax payments from individuals reporting offshore income and from implementation of the Powerball Lottery. The State also intends to make additional reductions in spending consisting of the $400 million departmental operating reductions directed by the Governor on November 5, 2009, and up to $400 million actions affecting major cost centers, including: school aid, municipal aid, higher education, hospitals and the State contribution to the Pension Plans. See "FUNDING PENSIONS — *Current and Historical Contributions and Funding Status.*"

If all of these actions are taken, the ending fund balance for Fiscal Year 2010 is expected to remain at the $501 million level reflected in the Fiscal Year 2010 Appropriations Act.

Insert the following paragraph on page I-15 of Appendix I, dated July 23, 2009, following footnote (4) which precedes the table entitled "STATE OF NEW JERSEY, APPROPRIATIONS FOR BUDGETED FUNDS, FOR THE FISCAL YEAR ENDED JUNE 30, 2010:"

The economic difficulties experienced by the State and the nation have impacted claims against, and the funding of, the State's Unemployment Compensation Fund (the "Fund"). The Fund's revenues are derived from unemployment compensation taxes on employers and employees. Under State law, the rates for employers are subject to automatic annual adjustment, as necessary, to maintain the Fund's sufficiency. The Fund operates independently, and its obligations are not payable from the State's General Fund. In Fiscal Years 2008 and 2009, the State made voluntary contributions of $260.0 million and $120.0 million, respectively, from the General Fund to the Fund in order to minimize the automatic annual adjustments that would have otherwise occurred. The Fiscal Year

2010 Appropriations Act does not contain an appropriation to the Fund. To provide for sufficient cash flow to fund unemployment claims, commencing in March 2009, the State, under federal law, applied to the United States Department of Labor for cash advances. As of October 31, 2009, $789 million of such advances have been made. Until the economic conditions in the State improve, the total amount of such advances is likely to continue to increase. These advances are not obligations of the State's General Fund.

Insert the following paragraphs on page I-27 of Appendix I, dated July 23, 2009, following the last paragraph under the heading captioned "TAX AND REVENUE ANTICIPATION NOTES:"

On August 12, 2009, the State issued $1,925,000,000 Tax and Revenue Anticipation Notes, Series Fiscal 2010B. None of the Series Fiscal 2010A TRANs, which were authorized to be sold to J.P. Morgan pursuant to the J.P. Morgan Note Purchase Contract, were issued. The J.P. Morgan Note Purchase Contract expired and is no longer in effect.

The remaining $325 million previously authorized but unissued 2010 TRANs are expected to be issued in December 2009. As of November 17, 2009, interfund borrowing of approximately $700 million has also been utilized as part of the State's cash flow management actions.

State of New Jersey

APPENDIX I

FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY

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APPENDIX I

DATED JULY 23, 2009

FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY

This Appendix I speaks only as of its date and contains information supplied by the State that a prospective investor might consider in reaching a decision to invest in securities of the State or securities issued by governmental authorities that are secured by amounts subject to appropriations by the State Legislature. Nothing contained in this Appendix I shall create any implication that there has been no change in the affairs of the State since the date hereof. This Appendix I replaces Appendix I dated March 31, 2009 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect the enactment of the Fiscal Year 2010 Appropriations Act and financial and other activity which occurred during Fiscal Year 2009. The State intends to further update or supplement the information contained in this Appendix I upon the occurrence of any event that materially changes the information contained herein.

All quotations from and summaries and explanations of provisions of laws of the State contained in this Appendix I do not purport to be complete and are qualified in their entirety by reference to the official compilation of State laws.

All estimates and assumptions of financial and other information set forth in this Appendix I are and will be based on information available as of its date, are believed to be reasonable and are not to be construed as assurances of actual outcomes. All estimates of future performance or events constituting "forward-looking statements" set forth in this Appendix I may or may not be realized because of a wide variety of economic and other circumstances. Included in such forward-looking statements are budgetary numbers and other information for the current fiscal year.

From time to time, State officials may issue statements or reports that contain predictions, projections or other information relating to the State's financial condition, including potential operating results for the current fiscal year and for future fiscal years, that may vary materially from the information provided in this Appendix I. Investors and other market participants should, however, refer to subsequent Official Statements containing updates to this Appendix I or filings with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board ("MSRB"), effective July 1, 2009, for official revisions, updates or supplements to the information contained in this Appendix I.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008 (the "2008 CAFR") has been separately filed with the MSRB and is incorporated by specific reference herein and is considered to be part of this Appendix I. The State has also placed a copy of the 2008 CAFR on the following website at www.state.nj.us/treasury/omb. No statement on that website or any other website is included by specific cross-reference herein.

Although the State has prepared the information on the above website for the convenience of those seeking that information, no decision in reliance upon that information should be made. Typographical or other errors may have occurred in converting the original source documents to their digital format, and the State assumes no liability or responsibility for errors or omissions contained on any website. Further, the State disclaims any duty or obligation to update or maintain the availability of the information contained on any website or any responsibility or liability for any damages caused by viruses contained within the electronic files on any website. The State also assumes no liability or responsibility for any errors or omissions or for any update to dated information contained on any website.

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* Filed with the MSRB and incorporated by specific reference herein.

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THE STATE OF NEW JERSEY

The State was one of the original thirteen colonies and was the third state to ratify the United States Constitution in 1787. The original State Constitution was adopted on July 2, 1776 and was subsequently superseded by the State Constitution of 1844. A new State Constitution was prepared by a constitutional convention in 1947 and was ratified by voters of the State in the general election held November 4, 1947.

The State Constitution provides for a bicameral legislature which meets in annual sessions. Members of the State Senate are elected to terms of four years, except for the election following a decennial census, in which case the election is for a term of two years. Members of the General Assembly are elected to terms of two years. The Governor is elected to a term of four years.

There are 16 departments of the Executive Branch of State government. The maximum number of departments permitted by the State Constitution is 20.

DEMOGRAPHIC AND ECONOMIC INFORMATION

New Jersey is the eleventh largest state in population and the fifth smallest in land area. According to the United States Bureau of the Census, the population of New Jersey was 7,365,000 in 1980, 7,730,188 in 1990, and 8,414,350 in 2000, and is estimated at 8,683,000 as of December 2008. With an average of 1,171 persons per square mile, it is the most densely populated of all the states. New Jersey is located at the center of the megalopolis which extends from Boston to Washington and which includes over one-fifth of the country's population. The extensive facilities of the Port Authority of New York and New Jersey, the Delaware River Port Authority and the South Jersey Port Corporation augment the air, land and water transportation complex which has influenced much of the State's economy. This central location in the northeastern corridor, the transportation and port facilities and proximity to New York City make the State an attractive location for corporate headquarters and international business offices. A number of Fortune Magazine's top 500 companies maintain headquarters or major facilities in New Jersey, and many foreign-owned firms have located facilities in the State.

The State's economic base is diversified, consisting of a variety of manufacturing, construction and service industries, supplemented by rural areas with selective commercial agriculture. New Jersey has the Atlantic seashore on the east and lakes and mountains in the north and northwest, which provide recreation for residents as well as for out-of-state visitors. Since 1976, casino gambling in Atlantic City has been an important State tourist attraction.

New Jersey's population grew rapidly in the years following World War II, before slowing to an annual rate of 0.27% in the 1970s. Between 1980 and 1990, the annual rate of growth rose to 0.51% and between 1990 and 2000, accelerated to 0.83%. While this rate of growth is less than that for the United States, it compares favorably with other Middle Atlantic states. New York has shown a 0.54% annual rate of increase since 1990 and Pennsylvania's population has increased at a rate of 0.33% per year. Population growth in the Northeast, Middle Atlantic states and New Jersey has slowed during the period 2000-2008.

The increase in the State's total population during the past quarter century masks the redistribution of population within the State. There has been a significant shift from the northeastern industrial areas toward the four coastal counties (Cape May, Atlantic, Ocean and Monmouth) and toward the central New Jersey counties of Hunterdon, Somerset and Middlesex.

For more information, see "APPENDIX I-B-DEMOGRAPHIC AND ECONOMIC INFORMATION" herein.

SELECTED INFORMATION RELATING TO NEW JERSEY'S ECONOMIC CONDITION

New Jersey's economy weakened significantly in 2008 along with the national economy and other states' economies. Payroll employment decreased at an average annual rate of 0.5% in 2008 after growing very slowly at an average annual rate of 0.2% in 2007. The New Jersey Department of Labor and Workforce Development's 2009 benchmarked data reflects the deterioration in the employment conditions in the State. For calendar year 2009, through June 2009, payroll employment decreased by an average annual rate of 3.1% reflecting the deterioration in the employment conditions in the State. Since the beginning of 2009, the level of employment has remained consistently

below the 4.0 million mark that the State enjoyed for the previous fifty-four months. The State's level of payroll employment as of June 2009, was 3.931 million.

New Jersey payroll employment declined by 3.3% (-135,000 jobs) in June 2009 compared to June 2008. Most of the job losses were in professional and business services (-40,400 jobs), manufacturing (-29,300 jobs), construction (-24,100 jobs), trade, transport and utility services (-22,000), and financial services (-14,600 jobs). The public sector declined by 600 jobs during the same period. Education and health services reported the largest single gain (+8,700 jobs), followed by other services which added 2,100 jobs.

The generally declining labor market conditions have kept the State's unemployment rate above 5.0% for thirteen straight months since May 2008. The State's unemployment rate averaged 5.5% in 2008. For calendar year 2009, through June 2009, the State's average unemployment rate was 8.4% while the national unemployment rate averaged 8.7% during the same time period.

According to the United States Commerce Department, Bureau of Economic Analysis in a release dated June 18, 2009, the preliminary growth rate for New Jersey's personal income declined at a rate of 0.2% for the first quarter of 2009 and came in below the revised growth rate of 1.8% for the fourth quarter of 2008. Given the general economic recession in the national economy, the average annual growth in personal income for New Jersey is expected to decline in 2009, but begin to improve in 2010.

The housing sector is expected to weaken further in the months ahead with housing permits in 2009 to stay below 20,000 units. New vehicle registrations declined in calendar year 2008 by 16%, following a 4.3% decline in 2007. For the Fiscal Year through May 2009, new vehicle registrations declined 25.6% compared to a year ago. New motor vehicle registrations are projected to remain below the 500,000 level in 2009 and 2010.

New Jersey and the nation are expected to continue to experience further deterioration in near term economic growth in 2009. According to the latest Beige Book on economic performance released by the Federal Reserve Board on June 10, 2009, the Federal Reserve Board stated that economic conditions continued to deteriorate through May 2009 and indicated that a turnaround in the national economy is not expected until late 2009 or early 2010. The latest New Jersey economic forecasts from Global Insight, Moody's Economy.com, and Rutgers University expect recessionary conditions to continue through 2009.

New Jersey's economy is expected to follow the national trend for 2009. Employment is projected to decrease by an approximately 3.2% average annual rate in 2009 and decrease by an average annual rate of 0.9% in 2010. Personal income is expected to decline at an annual average rate of 0.7% in 2009 and improve to a growth rate of approximately 1.7% in 2010.

Inflation is expected to remain low during the current economic recession and may not be a serious concern until consumer spending revives. The future economic outlook hinges on the success of the federal economic stimulus package and supportive fiscal and monetary policies. Availability of credit, stability in the financial markets and improvements in consumer and business confidence are critical factors necessary for economic turnaround nationally and in New Jersey.

The State and the nation may experience further near-term deterioration in growth and the expected pace of economic expansion may decline further if consumers, investors, and businesses become more concerned about the impact of the federal economic stimulus on job growth, credit availability, financial market stresses, and geopolitical tensions. To a large extent, the future direction of the economy nationally and in the State hinges on the assumptions regarding the current economic recession, energy prices, and stability in the financial markets.

Appendix I-B contains various demographic and economic statistical tables for New Jersey and, where available, for neighboring states and the nation.

CERTAIN CONSTITUTIONAL PROVISIONS

Budget Limitations

The State Constitution provides, in part, that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any State purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of the revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor (Article VIII, Sec. 2, para. 2). (For general information regarding the budget process, see "STATE FINANCES — New Jersey's Budget and Appropriation System" herein; for the application of the budget process for Fiscal Years 2009 and 2010, see "FINANCIAL RESULTS AND ESTIMATES" herein.)

Debt Limitations

The State Constitution further provides, in part, that the State Legislature shall not, in any manner, create in any fiscal year a debt or liability of the State, which, together with any previous debts or liabilities, shall exceed at any time one percent of the total appropriations for such year, unless the same shall be authorized by a law for some single object or work distinctly specified therein. No such law shall take effect until it shall have been submitted to the people at a general election and approved by a majority of the legally qualified voters voting thereon; provided, however, no such voter approval is required for any such law authorizing the creation of a debt for a refinancing of all or any portion of the outstanding debts or liabilities of the State, so long as such refinancing shall produce a debt service savings. Furthermore, any funds raised under these authorizations must be applied only to the specific object stated therein. The State Constitution provides as to any law authorizing such debt: "Regardless of any limitation relating to taxation in this Constitution, such law shall provide the ways and means, exclusive of loans, to pay the interest of such debt or liability as it falls due, and also to pay and discharge the principal thereof within thirty-five years from the time it is contracted; and the law shall not be repealed until such debt or liability and the interest thereon are fully paid and discharged." This constitutional provision does not apply to the creation of debts or liabilities for purposes of war, or to repel invasion, or to suppress insurrection or to meet emergencies caused by disaster or act of God (Article VIII, Sec. 2, para. 3) (the "Debt Limitation Clause").

The Debt Limitation Clause was amended by the voters on November 4, 2008. The amendment provides that, beginning after the effective date of the amendment, the State Legislature is prohibited from enacting any law that creates or authorizes the creation of a debt or liability of an autonomous State corporate entity, which debt or liability has a pledge of an annual appropriation as the means to pay the principal of and interest on such debt or liability, unless a law authorizing the creation of that debt or liability for some single object or work distinctly specified therein shall have been submitted to the people and approved by a majority of the legally qualified voters of the State voting thereon at a general election. The constitutional amendment does not require voter approval for any such law providing the means to pay the principal of and interest on such debt or liability subject to appropriations of an independent non-State source of revenue paid by third persons for the use of the single object or work thereof, or from a source of State revenue otherwise required to be appropriated pursuant to another provision of the State Constitution. Furthermore, voter approval is not needed for any law providing for the refinancing of all or a portion of any outstanding debts or liabilities of the State or of an autonomous State corporate entity provided that such law requires that the refinancing produces debt service savings. (See, "LITIGATION — *Lukens v. State of New Jersey*" herein.)

STATE FINANCES

The Director of the Division of Budget and Accounting in the New Jersey Department of the Treasury (the "Budget Director") prescribes and approves the accounting policies of the State and directs their implementation.

New Jersey's Accounting System

The State prepares its financial statements in accordance with current standards that are outlined in the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements — and*

Management's Discussion and Analysis — for State and Local Governments. The State's Comprehensive Annual Financial Report includes government-wide financial statements and fund financial statements. These statements present different views of the State's financial information. (See "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008," and the notes referred to therein which has been filed with the MSRB and is incorporated by specific reference herein and is considered to be part of this Appendix I.) The 2008 CAFR presents the financial position and operating results of the State under generally accepted accounting principles ("GAAP") applicable to state and local governments as established by GASB. GASB is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards.*

The significant accounting policies followed by the State are described in the "Notes to the Financial Statements" set forth in the 2008 CAFR which is incorporated by specific reference herein.

Government-wide financial statements provide a broad view of the State's operations conforming to private sector accounting standards and provide both short-term and long-term information regarding the State's overall financial position through the fiscal year-end. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets presents all of the State's assets and liabilities and calculates net assets. Increases or decreases in the State's net assets over time may serve as a useful indicator as to whether or not the State's overall financial position is improving or deteriorating. The Statement of Activities presents how the State's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event occurs giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each State function.

In addition to government-wide financial statements, the State prepares fund financial statements comprised of funds and component units with the State's funds divided into three categories — governmental, proprietary, and fiduciary. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Most Direct State Services, which support the normal operations of State government, are financed through governmental funds. The governmental funds financial statements focus on current inflows and outflows of expendable resources and the unexpended balances at the end of a fiscal year that are available for future spending. Governmental fund information helps determine whether or not there was an addition or a reduction in financial resources that can be spent in the near future to finance State programs. The State's governmental funds are the General Fund, the Property Tax Relief Fund, the Special Revenue Funds, and the Capital Projects Funds. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

The General Fund is the fund into which all State revenues, not otherwise restricted by statute, are deposited and from which appropriations are made. The largest part of the total financial operations of the State is accounted for in the General Fund. Revenues received from taxes and unrestricted by statute, most federal revenue and certain miscellaneous revenue items are recorded in the General Fund. The State Legislature enacts an appropriations act on an annual basis (the "Appropriations Act") which provides the basic framework for the operation of the General Fund.

The Long-Term Obligation and Capital Expenditure Fund (the "LTOCEF") was established as a separate, non-lapsing fund in the General Fund pursuant to P.L. 2008, c. 22, enacted on June 25, 2008. Such act provided that monies appropriated to the LTOCEF would be used for the purposes of paying for the costs of capital improvements, retiring and defeasing debt, making supplemental payments to reduce the unfunded pension liabilities of the State-administered pension plans and making supplemental payments to reduce the unfunded post-retirement health benefits liability for members of the State-administered pension plans and the Alternate Benefit Program described herein. As a result of the economic downturn and the deterioration in the financial markets, which occurred

beginning in September 2008 and which continues to date, the defeasance did not occur. Monies in the LTOCEF were appropriated for other purposes, including for the State's economic stimulus plan and to the Property Tax Relief Fund. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" and "FINANCIAL RESULTS AND ESTIMATES — Appropriations" herein.

The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax and for revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax both of which are constitutionally dedicated toward property tax relief and reform, respectively. All receipts from taxes levied on personal income of individuals, estates and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the fund, pursuant to formulas established by the State Legislature, to counties, municipalities and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

A special account designated as the "Property Tax Reform Account" was created in the Property Tax Relief Fund pursuant to an amendment to Article VIII, Section 1, Paragraph 7 of the State Constitution approved by the voters on November 7, 2006. The amendment provides that there shall be annually credited from the General Fund and placed in the Property Tax Reform Account an amount equal to the annual revenue derived from a tax rate of 0.5% imposed under the "Sales and Use Tax Act," L. 1966, c. 30 (C.54:32B-1 et seq.), as amended and supplemented, or any other subsequent law of similar effect. The State Constitution provides that the State Legislature shall annually appropriate such amount exclusively for the purpose of property tax reform.

Special Revenue Funds are used to account for resources legally restricted to expenditure for specified purposes. Special Revenue Funds include the Casino Control Fund, the Casino Revenue Fund, and the Gubernatorial Elections Fund. Certain financial information with respect to these funds is included herein.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major State capital facilities.

Proprietary funds are used to account for State business-type activities. Since these funds charge fees to external users, they are known as enterprise funds.

Fiduciary funds, which include State pension funds, are used to account for resources held by the State for the benefit of parties outside of State government. Unlike other government funds, fiduciary funds are reported using the accrual basis of accounting.

Component Units-Authorities account for operations where the intent of the State is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic measurement of the results of operations is appropriate for capital maintenance, public policy, management control or accountability. Component Units-Colleges and Universities account for the operations of the twelve State colleges and universities including their foundations and associations.

New Jersey's Budget and Appropriation System

The State operates on a fiscal year beginning July 1 and ending June 30. For example, "Fiscal Year 2010" refers to the State's fiscal year beginning July 1, 2009 and ending June 30, 2010.

Pursuant to Article VIII, Section II, para. 2 of the State Constitution, no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State government and all other State purposes, as far as can be ascertained or reasonably foreseen, must be provided for in one general appropriations law covering one and the same fiscal year. No general appropriations law or other law appropriating money for any State purpose shall be enacted if the amount of money appropriated therein, together with all other prior appropriations made for the same fiscal year, exceeds the total amount of revenue on hand and anticipated to be available for such fiscal year, as certified by the Governor.

New Jersey's budget process is comprehensive and inclusive, involving every department and agency in the Executive Branch, the Legislature, the Judicial Branch, and through a series of public hearings, the citizens of the State. The budget process begins in the summer prior to the following fiscal year with preliminary projections of revenues and expenditures, which are the basis for development of budget targets for each branch, department and

agency. Individual departments and agencies are required to prepare a funding plan or strategy for operating within the established target in the following fiscal year, which funding plan or strategy includes an analysis of the costs, benefits and priorities of every program. The funding plans and strategies are the foundations for revenue and spending decisions that are ultimately incorporated into the Governor's Budget Message, as discussed below.

The New Jersey Statutes contain provisions concerning the budget and appropriation system. On or before October 1 in each year, each Department, Board, Commission, Office or other Agency of the State must file with the Budget Director a request for appropriation or permission to spend specifying all expenditures proposed to be made by such spending agency during the following fiscal year. The Budget Director then examines each request and determines the necessity or advisability of the appropriation request. The Budget Director may hold hearings, open to the public, during the months of October, November and December and review the budget requests with the agency heads. On or before December 31 of each year or such other time as the Governor may request, after review and examination, the Budget Director submits the requests, together with his or her findings, comments and recommendations, to the Governor. It is then the responsibility of the Governor to examine and consider all requests and formulate his or her budget recommendations.

The Governor's budget message (the "Governor's Budget Message") is presented by the Governor during an appearance before a joint session of the State Legislature which, by law, is convened at 12 Noon on a date on or before the fourth Tuesday in February in each year. The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (N.J.S.A. 52:27B-20). After a process of legislative committee review (including testimony from the State Treasurer), the budget, in the form of an appropriations bill, must be approved by the Senate and Assembly and must be submitted to the Governor for review. Upon such submissions, the Governor may approve the bill, revise the estimate of anticipated revenues contained therein, delete or reduce appropriation items contained in the bill through the exercise of his or her line-item veto power, or veto the bill in its entirety. As with any gubernatorial veto, such action may be reversed by a two-thirds vote of each House of the State Legislature. In addition to anticipated revenues, the annual Appropriations Act also provides for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue may be received and permits the corresponding increase of appropriation balances from which expenditures may be made. These amounts are excluded from all tables except for the table entitled "EXPENDITURES" on page I-23.

Executive Order No. 103, issued by the Governor on June 30, 2008, directs the Executive Branch of State government to present an annual budget message which shall not request or recommend appropriations of the State in an amount in excess of the certified amount of recurring revenues for the fiscal year for which the budget recommendation is made, except for some limited exceptions. Further, for fiscal years beginning on and after July 1, 2009, the Executive Branch is required not to request or recommend appropriations in excess of the certified amount of recurring revenue, and any excess revenue shall be credited or appropriated to the LTOCEF for the purpose of paying for capital improvements, retiring and defeasing debt or making supplemental payments to reduce unfunded post-retirement health benefits liability and to reduce the unfunded pension liabilities of State's pension funds. Due to the State's economic situation, Executive Order No. 103 was suspended for Fiscal Year 2010 by Executive Order No. 135 issued by the Governor on March 10, 2009.

During the course of the fiscal year, the Governor may take steps to reduce State expenditures if it appears that revenues have fallen below those originally anticipated. There are additional means by which the Governor may ensure that the State does not incur a deficit. Under the State Constitution, no supplemental appropriation may be enacted after adoption of an Appropriations Act except where there are sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation. In order to offset revenue declines during Fiscal Year 2009, actions were taken to reduce State expenditures by approximately $3.0 billion through reductions in spending and de-appropriations.

If a general appropriation law is not enacted prior to the July 1 deadline, under Article VIII, Section 2, Paragraph 2 of the State Constitution, no moneys can be withdrawn from the State treasury. In the one case where this occurred, for Fiscal Year 2007, the Governor declared a state of emergency and mandated the orderly shutdown of State government, other than services and functions of State government directly related to the preservation and

protection of human life and safety, the protection of property, the adoption of the annual Appropriations Act and such functions of the Judicial Branch as determined by the Chief Justice. The State Treasurer and the Budget Director were authorized to obligate funds for such essential services. The Division of Lottery ceased selling tickets, parks and beaches were closed, and casinos, which by law could not operate without State regulators, were shutdown. An amendment to Section 63 of P.L. 1977, c.110 (C.5:12-63) was enacted on June 27, 2008, and provides for the ability of casinos and racetracks to operate for seven calendar days during a state of emergency, including a shutdown of State government for failure to enact the Appropriations Act, despite the absence of State regulators. If a shutdown occurs, no moneys, other than available amounts already held under bond financing documents will be available to make payments on obligations paid from State revenue subject to annual appropriation. See "STATE FINANCES — New Jersey's Budget and Appropriation System" and "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION" herein.

FINANCIAL RESULTS AND ESTIMATES

Audit Reports

The State Auditor is directed by statute (N.J.S.A. 52:24-4) to "examine and post-audit all the accounts, reports, and statements and make independent verifications of all assets, liabilities, revenues, and expenditures" of the State and its agencies. The 2008 CAFR, including the opinion of the State Auditor, has been separately filed with the MSRB and is incorporated by specific reference herein and is deemed a part of this Appendix I. The accounting and reporting policies of the State conform in all material respects to GAAP as applicable to governments.

Changes in Fund Balances

The following table sets forth a summary of Revenues, Appropriations and Undesignated Fund Balances for the Fiscal Years ended June 30, 2006 through 2010, covering budgeted funds and the Surplus Revenue Fund. The Undesignated Fund Balances are available for appropriation in succeeding fiscal years. There have been positive Undesignated Fund Balances in the General Fund at the end of each year since the State Constitution was adopted in 1947.

Amounts shown for Fiscal Years 2006 through 2008 are actual and final. Amounts shown for Fiscal Year 2009 are based upon revenues and appropriations as contained in the Fiscal Year 2009 Appropriations Act, plus supplemental appropriations, revisions to revenue and spending reductions, and are subject to adjustment pending completion of the annual audit. Amounts shown for Fiscal Year 2010 are estimates and reflect the amounts contained in the Fiscal Year 2010 Appropriations Act.

Budgeted funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The annual appropriations acts also provide for the appropriation of non-budgeted revenue, including primarily federal funds and a portion of the Energy Tax Receipts, to the extent such revenue is received and permits the corresponding increase of appropriation balances from which expenditures can be made. The Surplus Revenue Fund, which was established by P.L. 1990, c. 44, is used to account for revenues reserved for appropriation (a) in the event that anticipated revenues in the General Fund are estimated to be less than those certified by the Governor upon approval of the annual Appropriations Act, or (b) in the event that the State Legislature finds that an appropriation from the Surplus Revenue Fund is preferable to raising revenue through a modification of the tax structure. The provisions enacting the Surplus Revenue Fund also allow for the Governor to meet the costs of any emergency that has been identified. The LTOCEF was originally authorized to be used only for paying capital expenditures, retiring and defeasing debt and making supplemental payments for unfunded pension and post-retirement health benefits. See "STATE FINANCES — New Jersey's Accounting System" above and "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" herein.

SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS
($ Millions)

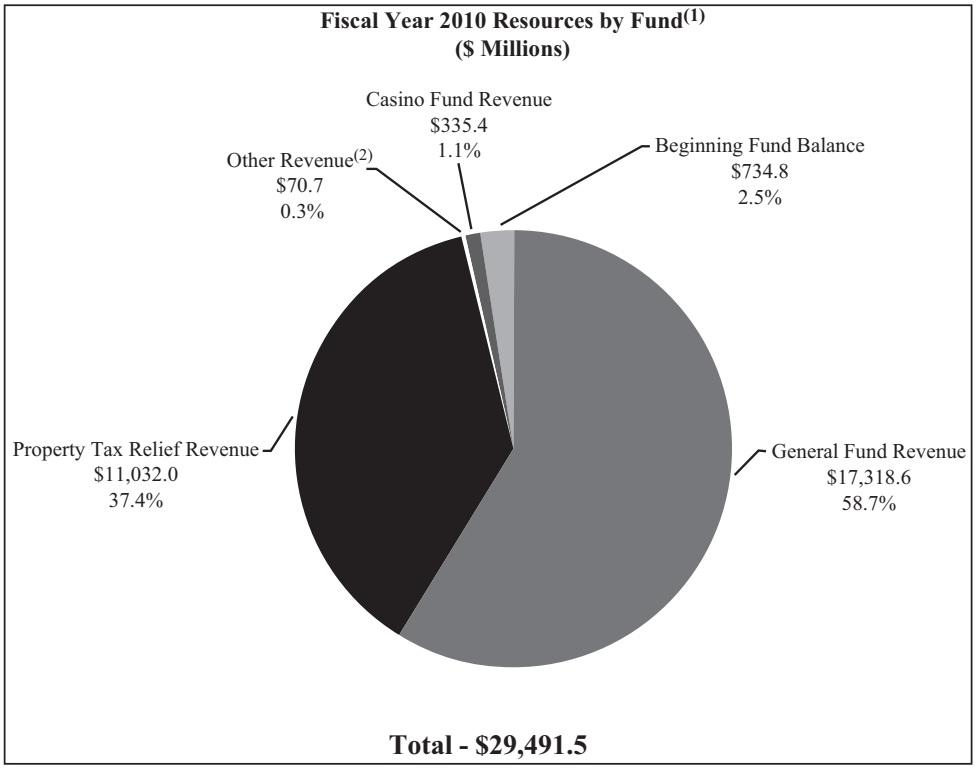
	2010 Estimated	2009 Estimated	2008 Actual	2007 Actual	2006 Actual
July 1st Beginning Balances					
General Fund	$ 734.2	$ 469.8	$ 1,410.4	$ 1,216.7	$ 461.7
Surplus Revenue Fund	—	734.7	484.6	559.8	288.6
Property Tax Relief Fund	—	99.0	690.7	2.6	27.9
Gubernatorial Elections Fund	—	1.1	0.5	—	—
Casino Control Fund	0.6	3.0	1.5	(1.6)	1.3
Casino Revenue Fund	—	—	1.0	1.0	—
Total Beginning Balance	734.8	1,307.6	2,588.7	1,778.5	779.5
Anticipated Revenue					
General Fund	17,318.6	17,799.4	18,826.1	18,305.9	17,573.6
Property Tax Relief Fund(1)	11,032.0	10,901.0	13,271.5	12,376.5	10,506.6
Gubernatorial Elections Fund	0.7	0.7	0.5	0.5	0.5
Casino Control Fund	70.0	73.0	73.0	75.6	68.0
Casino Revenue Fund	335.4	349.5	413.0	450.2	502.3
Total Revenues	28,756.7	29,123.6	32,584.1	31,208.7	28,651.0
Other Adjustments					
General Fund					
Balances Lapsed(2)	—	1,874.5	448.2	497.1	391.7
From (To) Surplus Revenue Fund	—	362.2	(250.1)	75.2	(271.2)
From (To) Property Tax Relief Fund	(464.0)	(492.6)	(132.0)	(103.5)	(47.4)
Budget vs. GAAP Adjustment	—	—	(2.5)	(37.3)	43.8
From (To) Casino Revenue Fund	—	(18.5)	(2.1)	—	—
From (To) Gubernatorial Elections Fund	(7.2)	(4.4)	—	—	(1.2)
Corporation Business Tax — 4% Dedication	—	—	20.8	—	(37.8)
Surplus Revenue Fund					
From (To) General Fund	—	(362.2)	250.1	(75.2)	271.2
From (To) Property Tax Relief Fund	—	(372.5)	—	—	—
Property Tax Relief Fund					
Balances Lapsed(2)	—	1,168.8	216.6	94.8	27.3
From (To) General Fund	464.0	492.6	131.9	103.5	47.4
From (To) General Fund — Property Tax Dedication	—	—	—	(649.3)	—
From (To) Long-Term Obligation and Capital Expenditure Reserve(3)	—	365.0	—	—	—
From (To) Surplus Revenue Fund	—	372.5	—	—	—
Property Tax Relief Dedication					
From (To) Property Tax Relief Fund	—	—	—	649.3	—
Gubernatorial Elections Fund					
From General Fund	7.2	4.4	—	—	1.2
Balances Lapsed(2)	—	—	0.1	—	0.3
Casino Control Fund					
From (To) Casino Revenue Fund	—	18.5	—	—	—
Balances Lapsed(2)	—	0.4	2.6	0.9	0.4
Miscellaneous	—	—	(0.1)	—	—
Casino Revenue Fund					
From (To) General Fund	—	—	2.1	—	—
Balances Lapsed(2)	—	—	17.0	68.8	10.0
Total Other Adjustments	0.0	3,408.7	702.6	624.3	435.7
Total Available	29,491.5	33,839.9	35,875.4	33,611.5	29,866.2
Appropriations					
General Fund	17,080.6	19,256.2	19,849.0	18,543.7	16,896.5
Property Tax Relief Fund	11,496.0	13,398.9	14,211.7	11,886.7	10,606.6
Gubernatorial Elections Fund	7.9	6.2	—	—	2.0
Casino Control Fund	70.6	75.4	74.0	73.4	71.3
Casino Revenue Fund	335.4	368.4	433.1	519.0	511.3
Total Appropriations	28,990.5	33,105.1	34,567.8	31,022.8	28,087.7
June 30th Ending Balances					
General Fund	501.0	734.2	469.8	1,410.4	1,216.7
Surplus Revenue Fund	—	—	734.7	484.6	559.8
Property Tax Relief Fund	—	—	99.0	41.4	2.6
Property Tax Reform Account(1)	—	—	—	649.3	—
Gubernatorial Elections Fund	—	—	1.1	0.5	—
Casino Control Fund	—	0.6	3.0	1.5	(1.6)
Casino Revenue Fund	—	—	—	1.0	1.0
Total Ending Balances	$ 501.0	$ 734.8	$ 1,307.6	$ 2,588.7	$ 1,778.5

Notes:

(1) A special account designated as the "Property Tax Reform Account" was created in the Property Tax Relief Fund pursuant to an amendment to Article VIII, Section 1, Paragraph 7 of the State Constitution. Approved by the voters in 2006, the amendment provides that there shall be annually credited from the General Fund and placed in the Property Tax Reform Account an amount equal to the annual revenue derived from a tax rate of 0.5% imposed under the Sales and Use Tax Act. The State Constitution provides that the State Legislature shall annually appropriate such amount exclusively for the purpose of property tax reform.

(2) Upon the end of the fiscal year, any unexpended or unencumbered balance in an appropriation reverts (lapses) to the June 30th ending fund balance, unless otherwise provided for in the annual appropriations act.

(3) Pursuant to P.L. 2008, c. 22, the LTOCEF was created. Funds were appropriated for retiring and defeasing debt, as well as for various capital improvements. However, as a result of the economic downturn, monies in the LTOCEF were appropriated for other purposes.



(1) Fiscal Year 2010 Resources represent the total amount of Fiscal Year 2010 revenues as set forth in the Fiscal Year 2010 Appropriations Act plus the total amount of undesignated fund balances as of July 1, 2009.

(2) Other Revenue includes Casino Control Fund and Gubernatorial Elections Fund Revenue.

Beginning Fund Balance

The Fiscal Year 2010 Appropriations Act utilizes $233.8 million of the beginning fund balance to support appropriations.

Revenues

The following tables set forth actual revenues for Fiscal Years ended June 30, 2006 through 2008, and estimated revenues for Fiscal Years 2009 and Fiscal Year 2010 for the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund and the Casino Revenue Fund, and such revenues as a percent of total revenue. Fiscal Year 2009 estimates are as of June 30, 2009 and are subject to adjustment pending completion of the annual audit. The Fiscal Year 2010 estimates are as presented in the Fiscal Year 2010 Appropriations Act.

REVENUES
($ Millions)

	2010 Estimated	2009 Estimated	2008 Actual	2007 Actual	2006 Actual
General Fund:					
Sales and Use Tax	$ 8,578.7	$ 8,301.1	$ 8,915.5	$ 8,609.6	$ 6,853.4
Less: Property Tax Dedication	(639.0)	(621.0)	(666.0)	(649.3)	—
Net Sales and Use Tax	7,939.7	7,680.1	8,249.5	7,960.3	6,853.4
Motor Fuels Tax	551.0	536.0	563.3	561.5	550.9
Corporation Taxes	2,336.0	2,372.7	3,062.4	3,084.9	3,007.8
Motor Vehicle Fees(1)	392.6	373.0	401.3	280.3	284.1
Cigarette Tax	203.5	237.0	251.2	206.1	632.6
Other Major Taxes	1,840.2	1,800.3	1,953.5	1,919.1	2,077.1
Medicaid Uncompensated Care	486.7	494.0	505.4	375.1	499.3
Other Miscellaneous Taxes, Fees and Revenues	2,117.5	2,792.0	2,256.2	2,447.7	2,265.9
Lottery Funds	893.8	888.0	882.1	828.3	844.2
Tobacco Litigation Settlement(2)	63.8	68.9	117.6	15.7	12.5
Other Transfers	493.8	557.4	583.6	626.9	545.8
Total General Fund(3)	17,318.6	17,799.4	18,826.1	18,305.9	17,573.6
Property Tax Relief Fund:					
Gross Income Tax	10,393.0	10,280.0	12,605.5	11,727.2	10,506.6
Plus: Property Tax Dedication	639.0	621.0	666.0	649.3	—
Gross Property Tax Relief Fund	11,032.0	10,901.0	13,271.5	12,376.5	10,506.6
Gubernatorial Elections Fund	0.7	0.7	0.5	0.5	0.5
Casino Control Fund	70.0	73.0	73.0	75.6	68.0
Casino Revenue Fund	335.4	349.5	413.0	450.2	502.3
Total	$28,756.7	$29,123.6	$32,584.1	$31,208.7	$28,651.0

(1) Beginning in Fiscal Year 2008, certain State Department of Transportation revenues have been included in Motor Vehicle Fees which had previously been included within Other Miscellaneous Taxes, Fees and Revenues. These include Auto Body Repair Shop Licensing, Drunk Driving Fines, Graduated Driver's License, Heavy Duty Diesel Fines, Motor Vehicle Database — Automated Access, Motor Vehicle Inspection Fund, Parking Offenses, Salvage Title Program, Special Plate Fees and Uninsured Motorists Program.

(2) The State has transferred to the Tobacco Settlement Financing Corporation (the "Corporation"), a special purpose entity established pursuant to P.L. 2002, c. 32 (the "Act"), the State's right to receive a portion of each annual tobacco settlement receipt (the "TSRs") expected to be received by the State after December 1, 2003 from the settlement of the litigation with certain of the participating tobacco companies. The Corporation has pledged the TSRs as security for its bonds. In January 2007, the Corporation issued $3,622,208,081.50 of its Tobacco Settlement Asset-Backed Bonds, Series 2007, the proceeds of which were used to refund in full, the prior Series 2002 and Series 2003 Tobacco Settlement Asset-Backed Bonds. In each of 2006, 2007, 2008 and 2009 certain of the tobacco companies withheld a portion of their annual payment (approximately $30 million of a scheduled approximate $242 million annual payment in 2006, approximately $27 million of a scheduled approximate $261 million annual payment in 2007, approximately $22 million of a scheduled approximate $284 million annual payment in 2008 and approximately $21 million of a scheduled approximate $287 million annual payment in 2009) claiming that the settling states, of which the State is one, did not diligently enforce a statute (the "Model Statute") in 2003, 2004 and 2005 which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. On April 18, 2006, the State filed suit against the participating tobacco companies seeking a declaratory judgment that the State is diligently enforcing the Model Statute. On September 27, 2007, the court ordered the parties to arbitrate the 2003 diligent enforcement action dispute, which ruling was upheld on appeal. A multi-state arbitration of the 2003 diligent enforcement action dispute is expected to begin in 2010. While 2004, 2005 and 2006 are not subject to the court's order, the diligent enforcement dispute between the parties for those years is also ripe. In the event that the State is determined to not have diligently enforced the Model Statute in any year, the State faces a reduction in the amount of annual payments it receives in the subsequent years. In no event can the reduction exceed the amount of the payment due in the year that it failed to diligently enforce the Model Statute. Fiscal Year 2007, 2008 and 2009 payments received by the State primarily reflect unpledged residual TSRs.

(3) Excludes Non-Budgeted Revenues which include primarily Federal Funds and a portion of the Energy Tax Receipts. Non-Budgeted Revenues are offset by matching appropriations; therefore, these Non-Budgeted Revenues do not affect the General Fund's Fund Balance.

Revenues
(% of Total)

	2010 Estimated	2009 Estimated	2008 Actual	2007 Actual	2006 Actual
General Fund:					
Sales and Use Tax	29.8%	28.5%	27.4%	27.6%	23.9%
Less: Property Tax Dedication	(2.2)	(2.1)	(2.0)	—	—
Net Sales and Use Tax	27.6	26.4	25.4	27.6	23.9
Motor Fuels Tax	1.9	1.8	1.7	1.8	1.9
Corporation Taxes	8.1	8.1	9.4	9.9	10.5
Motor Vehicle Fees	1.4	1.3	1.2	0.9	1.0
Cigarette Tax	0.7	0.8	0.8	0.7	2.2
Other Major Taxes	6.4	6.2	6.0	6.1	7.3
Medicaid Uncompensated Care	1.7	1.7	1.5	1.2	1.7
Other Miscellaneous Taxes, Fees and Revenues	7.4	9.6	6.9	7.8	7.9
Lottery Funds	3.1	3.1	2.7	2.7	2.9
Tobacco Litigation Settlement	0.2	0.2	0.4	0.1	0.1
Other Transfers	1.7	1.9	1.8	2.0	1.9
Total General Fund	60.2	61.1	57.8	60.8	61.3
Property Tax Relief Fund:					
Gross Income Tax	36.1	35.3	38.7	37.6	36.7
Plus: Property Tax Dedication	2.2	2.1	2.0	—	—
Gross Property Tax Relief Fund	38.3	37.4	40.7	37.6	36.7
Gubernatorial Elections Fund	—	—	—	—	—
Casino Control Fund	0.3	0.3	0.2	0.2	0.2
Casino Revenue Fund	1.2	1.2	1.3	1.4	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fiscal Year 2009 and Fiscal Year 2010 Estimated Revenues

Sales and Use Tax. The Sales and Use Tax collections for Fiscal Year 2009 are estimated to decrease 6.9% from Fiscal Year 2008. The Fiscal Year 2010 estimate of $8,578.7 million is a 3.3% increase from Fiscal Year 2009.

Gross Income Tax. The Gross Income Tax collections for Fiscal Year 2009 are estimated to decrease 18.4% from Fiscal Year 2008. The Fiscal Year 2010 estimate is a 1.1% increase from Fiscal Year 2009. The Fiscal Year 2009 and 2010 estimates include changes to the Gross Income Tax to take into account the expansion of the New Jersey Earned Income Tax Credit in the amount of $60.0 million and $55.0 million, respectively. The Fiscal Year 2010 estimate includes $1.0 billion of revenue from the following sources: $83.0 million from a one year increase in the tax rate on incomes from $400,000 to $500,000 from 6.37% to 8.0%; $620.0 million from a one year increase in the tax rate on income from $500,000 to $1,000,000 from 8.97% to 10.25%; $200.0 million from a one year increase in the tax rate on income over $1,000,000 from 8.97% to 10.75%; $100.0 million from a one year elimination of the property tax deduction for all non-seniors with income greater than $250,000 and a limited deduction up to $5,000 for tax payers earning from $150,000 to $250,000 and $8.0 million for taxing lottery winnings greater than $10,000.

Corporation Business Tax. The Corporation Business Tax collections for Fiscal Year 2009 are estimated to decrease 22.5% from Fiscal Year 2008. The Fiscal Year 2010 estimate is a 1.5% decrease from Fiscal Year 2009. The Fiscal Year 2010 estimate includes $80.0 million for the one year extension of the 4.0% surcharge which was due to expire on June 30, 2009. It assumes slower growth in payments for calendar year 2009 associated with the anticipated slowdown in corporate pre-tax profit growth.

Casino Revenues. The Casino Revenue Fund accounts for the taxes imposed on the casinos and other related activities. They include casino parking fees, per room per day fee on casino hotel rooms, a tax on casino complimentaries, and a tax on multi-casino progressive slot machine revenue. Collections for Fiscal Year 2009 are estimated to decrease 15.4% from Fiscal Year 2008. The Fiscal Year 2010 estimate is a 4.0% decrease from Fiscal

Year 2009. The Fiscal Year 2009 and 2010 estimates reflect the phase down of certain provisions included in legislation enacted in Fiscal Year 2004, as well as taking into account the negative impact of slot machine venues that have opened in Pennsylvania, the anticipation of a full smoking ban in October 2009 and general economic conditions.

Federal Aid

Actual federal aid receipts in the General Fund and Special Transportation Fund for Fiscal Years 2006 through 2008, which are non-budgeted revenues, amounted to $8,483.4 million, $8,759.4 million and $8,815.5 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2009 are estimated at $11,979.8 million and are subject to adjustment, pending completion of the annual audit. Federal aid receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2010 as contained in the Fiscal Year 2010 Appropriations Act are estimated to be $13,222.6 million. Such federal aid receipts for Fiscal Year 2010 are composed of $4,704.2 million for medical payments, $49.0 million for social services block grants, $670.5 million for welfare, $1,771.1 million for other human services, $1,970.2 million for Title I and other education, $420.2 million for labor, $988.5 million for transportation, and the remainder for all other federal aid programs.

The American Recovery and Reinvestment Act of 2009 ("ARRA") provides for federal fiscal stimulus funding to the State for Fiscal Years 2009 and 2010. The funding across both fiscal years totals approximately $3.0 billion. Fiscal Year 2009 funding of $754.0 million reflects $587.0 million for enhanced Medicaid funding with the remainder primarily for fiscal stabilization which the State used as a resource for the General Fund. For Fiscal Year 2010, the total funding of $2,255.3 million is primarily allocated as follows: $1,051.3 million for enhanced Medicaid funding, $1,128.7 million for fiscal stabilization which will be used primarily to support education spending which generally would have been funded through State revenues and $59.1 million for transportation projects

Appropriations

Appropriations — Fiscal Year 2006 through Fiscal Year 2010

The following table sets forth the composition of annual appropriations, including supplemental appropriations, from the General Fund, which includes the LTOCEF, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund, and the Casino Revenue Fund for the Fiscal Years 2006 through 2010. Should tax revenues be less than the amount anticipated in the annual Appropriations Act, the Governor may, pursuant to statutory authority, prevent any expenditure under any appropriation. The amounts for Fiscal Years 2006 through 2008 are actual and final. The amounts for Fiscal Year 2009 are based on the Fiscal Year 2009 Appropriations Act, plus supplemental appropriations, and are subject to adjustment pending completion of the annual audit. The amounts for Fiscal Year 2010 reflect the amounts provided in the Fiscal Year 2010 Appropriations Act.

The State has made appropriations for principal and interest payments for general obligation bonds for Fiscal Years 2006 through 2009 in the amounts of $169.3 million, $427.8 million, $438.8 million, and $270.9 million, respectively. The Fiscal Year 2010 Appropriations Act includes an appropriation in the amount of $261.1 million for Fiscal Year 2010, representing principal and interest payments for general obligation bonds.

The Fiscal Year 2009 appropriation as contained in the Fiscal Year 2009 Appropriations Act assumed a savings of $135.0 million from retiring and defeasing debt through use of $650.0 million appropriated from the LTOCEF. This debt retirement and defeasance was not implemented in Fiscal Year 2009, due to concerns about weakening General Fund revenues. A Fiscal Year 2009 supplemental appropriation of $135.0 million from the LTOCEF was authorized to meet general obligation bond principal and interest payments. The remainder of the LTOCEF was appropriated to help offset Fiscal Year 2009 revenue shortfalls in the Property Tax Relief Fund and to support the Governor's economic stimulus program.

The Fiscal Year 2010 debt service appropriation of $261.1 million for general obligation bonds reflects the debt service after taking into account savings from restructuring of general obligation bonds which occurred in June 2009. In addition to general obligation debt service, the Fiscal Year 2010 Appropriations Act supports

appropriation-backed debt service on bonds issued by various independent State authorities and entities. Appropriation-backed debt service totals $2.16 billion in the Fiscal Year 2010 Appropriations Act. Total general obligation and appropriation-backed debt service appropriated in Fiscal Year 2010 are $2.42 billion, or approximately 8.4% of total State appropriations. Total general obligation and appropriation-backed debt service in the Fiscal Year 2010 Appropriations Act includes projected increases in debt service as a result of the planned issuance of bonds after July 1, 2009 and is net of $456 million in projected one-time debt service savings due to planned debt restructurings, some of which have not yet occurred.

The Fiscal Year 2009 estimated appropriations exceeded the amount of estimated revenues for Fiscal Year 2009 by approximately $4.0 billion. In order to address this shortfall, significant reductions in spending, totaling over $3.4 billion, were made as shown under "Other Adjustments" in the table entitled "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUND" above. In addition, nearly $600 million of the Fiscal Year 2009 beginning fund balance was used to support spending.

Appropriations for Fiscal Year 2010 will be supplemented by $2,255.3 million in new federal stimulus funding under the ARRA. This temporary federal funding is estimated to include $1,051.3 million for support of Medicaid programs, $1,128.7 million for fiscal stabilization and $59.1 million for transportation projects. It is anticipated that an additional $540.0 million in Medicaid funding will be available to support program costs in Fiscal Year 2011. Of the $2,255.3 million, $1,715.3 million from ARRA is assumed to be one-time funding for Fiscal Year 2010 based on current federal legislation. The Fiscal Year 2010 appropriations also assumes the receipt of $218.6 million in new federal funds, including $93.8 million of one-time Medicare revenue to offset State Medicaid expenses. The balance of $124.8 million is from the expected approval of federal waivers that will enable the State to earn a Medicaid match on medical costs that are currently 100% State funded. The Fiscal Year 2010 Appropriations Act also includes $142.5 million of potentially non-recurring prior year federal reimbursements for costs incurred by the State. In absence of the availability of these funds, other budgetary actions would have been necessary to balance the State budget.

Fiscal Year 2010 General Fund appropriations were reduced by $84.0 million as a result of the availability of funds from various dedicated sources. In addition, $38.0 million from dedicated sources was used as anticipated budgeted revenue in Fiscal Year 2010. Also, Fiscal Year 2010 appropriations to the Health Care Subsidy Fund have been reduced by $79.5 million due to the availability of a one-time $60.0 million transfer from the Surplus Lines Guaranty Fund and $19.5 million from a one-year tax increase on group accident and health insurance policies. These are assumed to be one-time savings that will not recur in Fiscal Year 2011.

APPROPRIATIONS FOR BUDGETED FUNDS[1]
($ MILLIONS)

	For the Fiscal Year Ended June 30,				
	2010	2009	2008	2007	2006 (2)
General Fund:					
Legislative Branch	$ 73.8	$ 74.6	$ 75.5	$ 73.9	$ 74.2
Chief Executive's Office	4.7	5.3	5.1	4.9	5.0
Department of:					
Agriculture	22.5	22.5	26.4	25.7	22.5
Banking and Insurance	67.5	71.4	70.3	68.9	67.0
Children and Families(2)	1,085.9	1,089.3	1,064.4	959.4	—
Community Affairs	246.2	303.4	145.4	253.7	199.2
Corrections	1,156.8	1,196.1	1,129.3	1,075.6	1,054.6
Education	939.2	1,072.2	751.1	940.0	734.1
Environmental Protection	378.2	424.2	466.2	460.9	345.6
Health and Senior Services(3)	983.6	1,322.8	1,464.5	1,513.8	1,335.0
Human Services	4,086.3	4,827.7	4,665.9	4,510.8	5,161.9
Labor and Workforce Development(3)(4)	144.8	273.7	394.5	117.9	107.1
Law and Public Safety	526.6	558.4	592.2	574.2	560.3
Military and Veterans Affairs	90.1	94.7	93.7	91.0	87.6
Personnel(3)	—	—	22.4	24.0	24.5
Public Advocate	16.5	17.1	19.2	19.4	—
State	1,258.3	1,283.0	1,291.4	1,225.9	1,296.6
Transportation	1,247.7	1,330.1	1,290.0	1,292.2	1,178.4
Treasury(3)	1,304.6	1,382.9	1,488.2	1,454.4	1,083.9
Miscellaneous Executive Commissions	1.5	1.5	1.4	1.4	1.4
Inter-Departmental Accounts — Employee Benefits and Miscellaneous	2,797.4	3,264.3	4,197.5	3,288.0	3,003.6
Judicial Branch	648.4	641.0	594.4	567.7	554.0
Total General Fund	$17,080.6	$19,256.2	$19,849.0	$18,543.7	$16,896.5
Property Tax Relief Fund:					
Department of:					
Community Affairs	$ 819.7	$ 847.5	$ 1,160.3	$ 1,061.4	$ 927.1
Education	9,217.3	10,499.4	10,257.4	9,473.7	8,707.0
Environmental Protection	10.0	10.0	9.8	9.5	9.0
Human Services	—	—	148.1	—	—
Treasury	1,449.0	2,042.0	2,636.1	1,342.1	963.5
Total Property Tax Relief Fund	$11,496.0	$13,398.9	$14,211.7	$11,886.7	$10,606.6
Gubernatorial Elections Fund	$ 7.9	$ 6.2	$ —	$ —	$ 2.0
Casino Control Fund					
Department of:					
Law and Public Safety	$ 44.0	$ 46.0	$ 44.6	$ 44.0	$ 42.6
Treasury	26.6	29.4	29.4	29.4	28.7
Total Casino Control Fund	$ 70.6	$ 75.4	$ 74.0	$ 73.4	$ 71.3
Casino Revenue Fund					
Department of:					
Health and Senior Services	$ 172.4	$ 202.4	$ 280.8	$ 317.8	$ 331.6
Human Services	130.5	130.5	112.9	163.7	142.8
Labor and Workforce Development	2.2	2.4	2.4	2.5	2.4
Law and Public Safety	0.1	0.1	0.1	0.1	0.1
Transportation	30.2	33.0	36.9	34.9	34.4
Treasury	—	—	—	—	—
Total Casino Revenue Fund	$ 335.4	$ 368.4	$ 433.1	$ 519.0	$ 511.3
Total Appropriations	$28,990.5	$33,105.1	$34,567.8	$31,022.8	$28,087.7

(1) Budgeted Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund.

(2) Pursuant to P.L. 2006, c. 47, the Department of Children and Families was established as a department of the Executive Branch of State Government, effective July 1, 2006. The amount listed as the Fiscal Year 2007 Appropriations for the new Department of Children and

Families represents the transfer of all Children Services programs from the Department of Human Services to the Department of Children and Families.

(3) The Fiscal Year 2009 Appropriations Act provided for the elimination of the Department of Personnel and transfers functions, powers and duties, primarily to a new Civil Service Commission that now resides in but not of the Departments of Labor and Workforce Development, Health and Senior Services, and Treasury. The Fiscal Year 2009 Appropriations Act also provided language provisions to effectuate the transfer of their respective appropriations to the corrresponding departments.

(4) During Fiscal Year 2008 and Fiscal Year 2009, $260.0 million and $120.0 million, respectively, was transferred from the General Fund to the Department of Labor and Workforce Development for deposit into the Unemployment Insurance Trust Fund ("Trust Fund"). This funding measure enabled the Trust Fund to meet federal solvency requirements.

The following table sets forth appropriations by department and by major category for Fiscal Year 2010 as contained in the Fiscal Year 2010 Appropriations Act.

STATE OF NEW JERSEY
APPROPRIATIONS FOR BUDGETED FUNDS [1]
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
($ MILLIONS)

Government Branch	Direct State Services	Grants In-Aid	State Aid	Capital Construction	Debt Service	Total
Executive						
Chief Executive's Office	$ 4.7	$ —	$ —	$ —	$ —	$ 4.7
Agriculture	7.1	3.9	11.5	—	—	22.5
Banking and Insurance	67.5	—	—	—	—	67.5
Children and Families	323.7	762.2	—	—	—	1,085.9
Community Affairs	37.5	37.2	991.2	—	—	1,065.9
Corrections	1,006.7	127.7	22.4	—	—	1,156.8
Education	69.6	13.5	10,073.4	—	—	10,156.5
Environmental Protection	216.3	14.9	19.4	77.1	60.5	388.2
Health and Senior Services	63.0	1,083.4	9.6	—	—	1,156.0
Human Services	468.8	3,294.4	453.6	—	—	4,216.8
Labor and Workforce Development	81.8	65.2	—	—	—	147.0
Law and Public Safety	540.6	31.3	6.7	—	—	578.6
Military and Veterans Affairs	86.9	3.2	—	—	—	90.1
Personnel	—	—	—	—	—	—
Public Advocate	16.5	—	—	—	—	16.5
State	31.9	1,203.0	23.4	—	—	1,258.3
Transportation	56.5	296.2	30.2	895.0	—	1,277.9
Treasury	450.0	1,732.9	396.7	—	200.6	2,780.2
Miscellaneous	1.5	—	—	—	—	1.5
Interdepartmental	1,756.8	921.0	—	119.6	—	2,797.4
Subtotal:	5,287.4	9,590.0	12,038.1	1,091.7	261.1	28,268.3
Legislative	73.8	—	—	—	—	73.8
Judicial	648.4	—	—	—	—	648.4
Grand Total:	$6,009.6	$9,590.0	$12,038.1	$1,091.7	$261.1	$28,990.5

(1) Budgeted Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund.

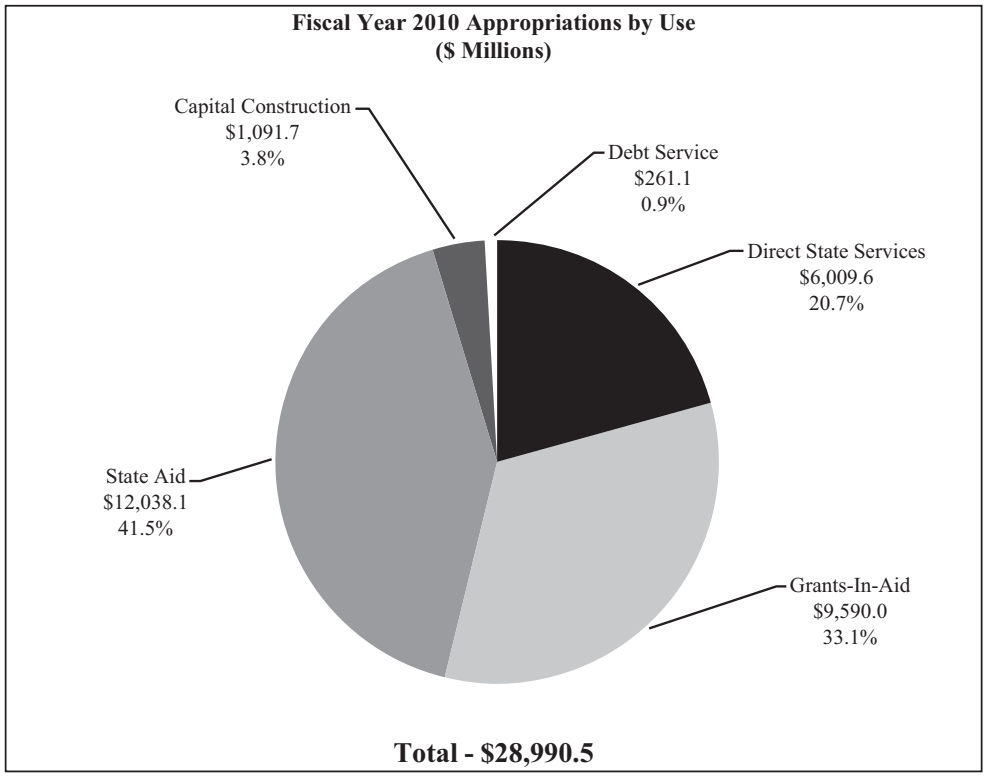
The following table sets forth, by major category, the original and supplemental appropriations for Fiscal Year 2009 and the appropriations for Fiscal Year 2010 as contained in the Fiscal Year 2010 Appropriations Act.

SUMMARY OF APPROPRIATIONS
($ Millions)

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Percentage Change
State Aid	$12,038.1	$13,558.5	$(1,520.4)	(11.2)%
Grants-In-Aid	9,590.0	11,475.3	(1,885.3)	(16.4)%
Direct State Services	6,009.6	6,594.1	(584.5)	(8.9)%
Capital Construction	1,091.7	1,206.3	(114.6)	(9.5)%
Debt Service	261.1	270.9	(9.8)	(3.6)%
Total:	$28,990.5	$33,105.1	$(4,114.6)	(12.4)%

The 11.2% reduction in State Aid is predominantly due to reductions in State funding for education that are offset by federal fiscal stabilization funding under ARRA and to decreases in local employee benefits and municipal aid. The 16.4% reduction in Grants-in-Aid reflects decreases in Medicaid funding, New Jersey Transit and operating aid reductions to colleges and universities that are all offset by federal economic stimulus funding under ARRA. Further reductions also occurred in Homestead Rebates and unemployment compensation insurance. The 8.9% reduction in Direct State Services reflects savings from an Executive Branch wage freeze and employee furlough program, partially offset by increased benefits costs for State employees. The 9.5% decrease in Capital Construction reflects reductions in Statewide capital projects and shore protection. The 3.6% reduction in Debt Service reflects projected debt service growth of $137.7 million offset by general obligation bond debt restructuring savings of $147.5 million.

Fiscal Year 2010 savings of approximately $300 million will be achieved through employee furloughs and wage freezes; $176.0 million of this savings will not recur in Fiscal Year 2011. The Communications Workers of America, the International Federation of Professional and Technical Engineers, and the American Federation of State, County and Municipal Employees unions, which represent over 49,000 full-time Executive Branch employees out of a total of about 76,000 full-time State employees (including Judiciary Branch employees), recently ratified a modified agreement with the State that will enable the achievement of savings from employee furloughs and wage freezes. This agreement will also be imposed on the nearly 6,000 non-aligned employees in the Executive Branch. The terms of the agreements include a total of 10 unpaid furlough days to be taken prior to July 1, 2010, and postponement until January 1, 2011, of a 3.5% cost of living adjustment (COLA) that was scheduled to take effect on July 1, 2009. The agreement stipulates that no additional unpaid leaves may be imposed prior to June 30, 2011, and includes a no layoff pledge for represented workers through January 1, 2011. If a represented worker is laid off prior to this date, then the State must immediately pay all employees the 3.5% COLA that was deferred until January 1, 2011 and must suspend the requirement for all State employees to take the 10 unpaid furlough days proportionate to when the layoff occurred.



Programs Funded in Fiscal Year 2010

Of the $28,990.5 million appropriated for Fiscal Year 2010 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, $12,038.1 million (41.5%) is appropriated for State Aid, $9,590.0 million (33.1%) is appropriated for Grants-in-Aid, $6,009.6 million (20.7%) is appropriated for Direct State Services, $261.1 million (0.9%) is appropriated for Debt Service on State General Obligation Bonds and $1,091.7 million (3.8%) is appropriated for Capital Construction. See "FINANCIAL RESULTS AND ESTIMATES — Appropriations" above.

State Aid

State Aid is the largest portion of Fiscal Year 2010 appropriations. These consist of payments to, or on behalf of, counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

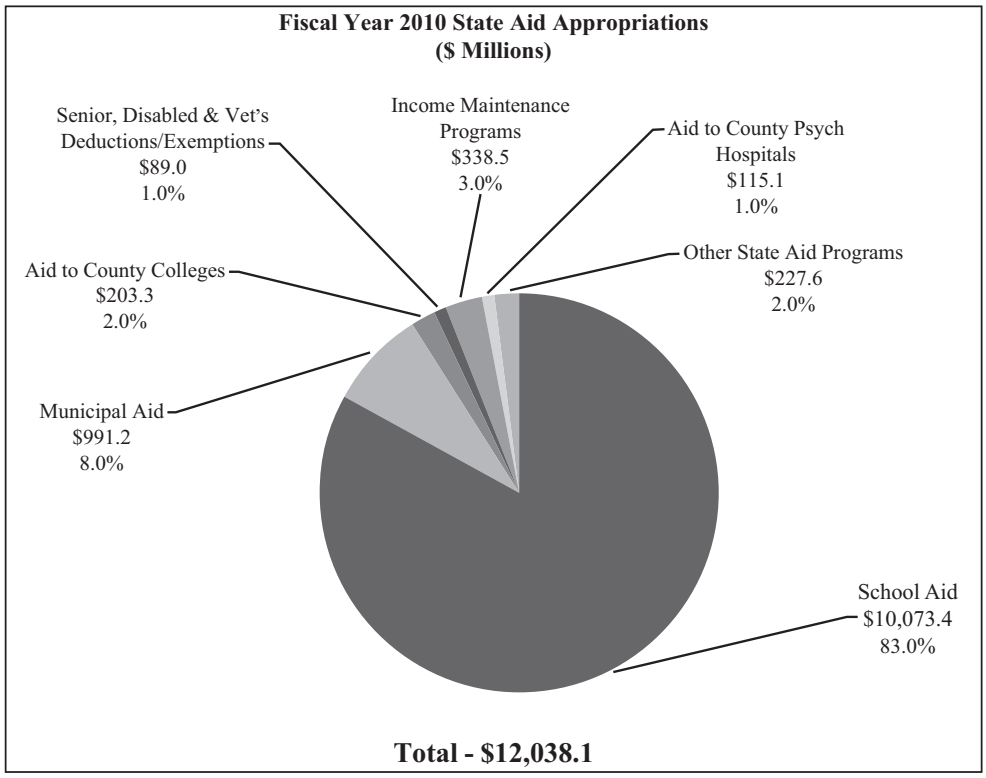
The largest State Aid appropriation, in the amount of $10,073.4 million, is provided for local preschool, elementary and secondary education programs. Of this amount, $7,480.6 million in formula aid for P-12 education is appropriated to be distributed in accordance with the School Funding Reform Act of 2008. See "LITIGATION — *Abbott v. Burke (Review of Constitutionality of School Funding Reform Act)*" herein. $465.9 million is appropriated for the School Construction and Renovation Program, and $99.3 million is appropriated in School Building Aid; this funding will service State school construction debt on new and existing bond issues, as well as provide aid for qualifying local debt issued for school construction. In addition, $1,757.5 million is appropriated on behalf of school districts as the employers' share of the social security and teachers' pensions and benefits programs.

Appropriations to the Department of Community Affairs total $991.2 million in State Aid monies for Fiscal Year 2010. Consolidated Municipal Property Tax Relief Aid is appropriated in the amount of $776.8 million. Other existing programs funded by these appropriations include $117.4 million for Special Municipal Aid, $34.9 million for Trenton Capital City Aid, $24.5 million for Extraordinary Aid, $6.0 million for the Regional Efficiency Aid Program, $8.0 million for the Consolidation Fund, and $13.9 million for housing programs.

Appropriations for the Department of Human Services total $453.6 million in State Aid monies for Fiscal Year 2010. The principal programs funded by these appropriations are $115.1 million for patients in county psychiatric hospitals and $338.5 million for various income maintenance programs for the economically disadvantaged.

Appropriations for the Department of the Treasury total $396.7 million in State Aid monies for Fiscal Year 2010. The principal programs funded by these appropriations are aid to county colleges ($203.3 million) and the cost of senior citizens, disabled and veterans property tax deductions and exemptions ($89.0 million). These appropriations also include $27.0 million for County Solid Waste Debt Service Aid.

$22.4 million is appropriated for the Department of Corrections for inmate addiction services at county penal facilities.



Grants-in-Aid

The second largest portion of the appropriations in Fiscal Year 2010 is for Grants-in-Aid. These represent payments to individuals or public or private agencies for benefits to which a recipient is entitled by law, or for the provision of services on behalf of the State. The amount appropriated in Fiscal Year 2010 for Grants-in-Aid is $9,590.0 million.

$3,294.4 million is appropriated for programs administered by the Department of Human Services. Of that amount, $2,018.1 million is for medical services provided under the Medicaid program (excluding FamilyCare), $425.9 million is for community programs for the developmentally disabled, $338.3 million is for community programs for the mentally ill, $253.1 million is for assistance programs for the economically disadvantaged and homeless, $202.4 million is for health insurance for adults and children through the FamilyCare program, and $43.1 million is for addiction services.

$1,732.9 million is appropriated for the Department of the Treasury. Included in this amount is $1,118.6 million for the Fiscal Year 2010 Homestead Rebate program, which will provide a property tax credit/rebate of up to 20% of the first $10,000 of property taxes paid by senior homeowners earning up to

$150,000 and non-senior homeowners earning up to $75,000, and a rebate of $160 to $869 to senior tenants earning up to $100,000. Also included in the appropriation is $194.0 million for Business Employment Incentive Program grants, $172.5 million for the Senior and Disabled Citizen's Property Tax Freeze, and $75.8 million for energy assistance programs in the Board of Public Utilities.

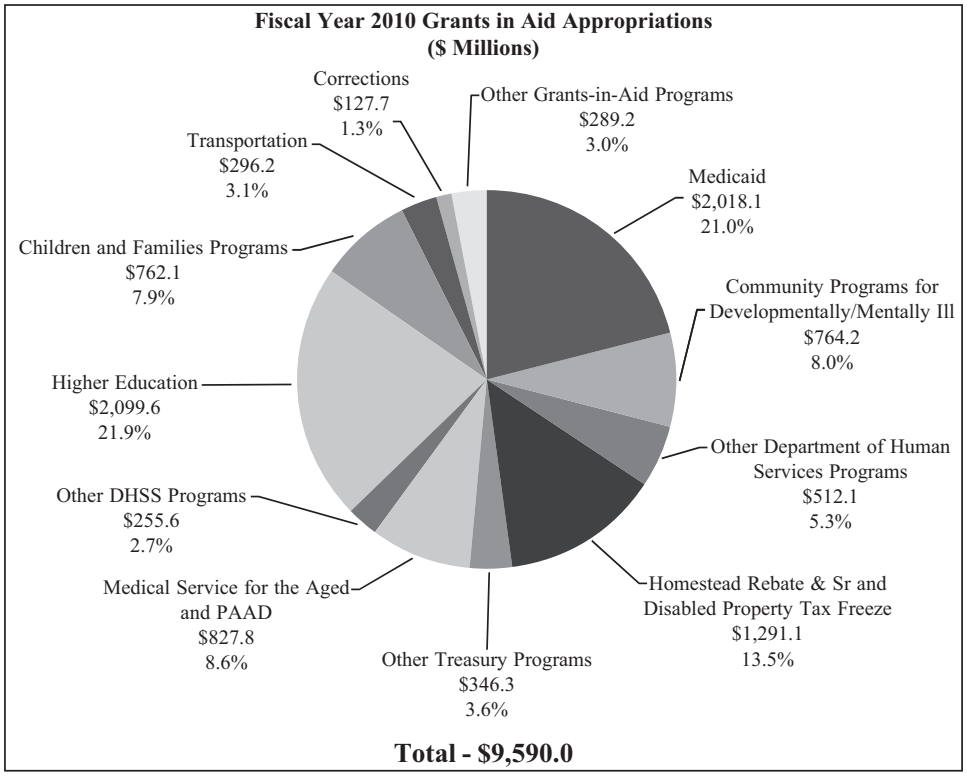
$1,083.4 million is appropriated for programs administered by the Department of Health and Senior Services. Of that amount, $599.1 million is for medical services for the aged, $228.7 million is for pharmaceutical assistance to the aged and disabled, $91.4 million is for the Early Childhood Intervention Program, $35.1 million is for AIDS services, and $30.2 million is for other programs for the aged.

$844.8 million is appropriated for State colleges and universities. Other higher education appropriations are $430.1 million for various grant programs including $329.5 million for student financial assistance, $17.5 million to support independent colleges and universities, $32.5 million for debt service for the Dormitory Safety Trust Fund, the Equipment Leasing Fund and the Higher Education Facilities Trust Fund, and $43.9 million for debt service on the Higher Education Capital Improvement Program. In addition, $792.6 million is appropriated for fringe benefit costs of State college and university employees.

$762.1 million is appropriated for programs administered by the Department of Children and Families. Of that amount, $458.4 million is for child protective and permanency services, $244.3 million is for child behavioral health services, and $59.4 million is for community programs intended to prevent child abuse and neglect.

$296.2 million is appropriated for the Department of Transportation for bus and railroad subsidies.

$127.7 million is appropriated for the Department of Corrections (including the State Parole Board). The largest items of appropriation in this Department are $30.0 million for payments to county penal facilities to house State inmates, $61.5 million for the purchase of community services and $36.1 million for alternative parole programs.



Direct State Services

The third largest portion of the appropriations in Fiscal Year 2010 is applied to Direct State Services, which supports the operation of State government's departments, the Executive Office, several commissions, the State Legislature and the Judiciary. In Fiscal Year 2010, appropriations for Direct State Services aggregate to $6,009.6 million. Some of the major appropriations for Direct State Services during Fiscal Year 2010 are described below.

$1,449.1 million is appropriated in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including pensions ($67.7 million), health benefits ($915.7 million), employer taxes ($374.9 million), and a portion of the debt service on State Pension Funding bonds ($90.9 million) issued by the New Jersey Economic Development Authority.

$1,006.7 million is appropriated for the Department of Corrections (including the State Parole Board) and $540.6 million is appropriated for the Department of Law and Public Safety (including the Juvenile Justice Commission). Among programs funded by these appropriations are the administration of the State's correctional facilities and parole activities, and the investigative and enforcement activities of the State Police.

$468.8 million is appropriated for programs administered by the Department of Human Services. Of that amount, $379.2 million is appropriated for mental health and developmentally disabled programs, including the operation of five psychiatric institutions ($288.0 million) and seven developmental centers ($66.5 million); $23.9 million is appropriated for administration of the various income maintenance programs, including Work First New Jersey; and $27.8 million is appropriated for administration of the Medicaid program.

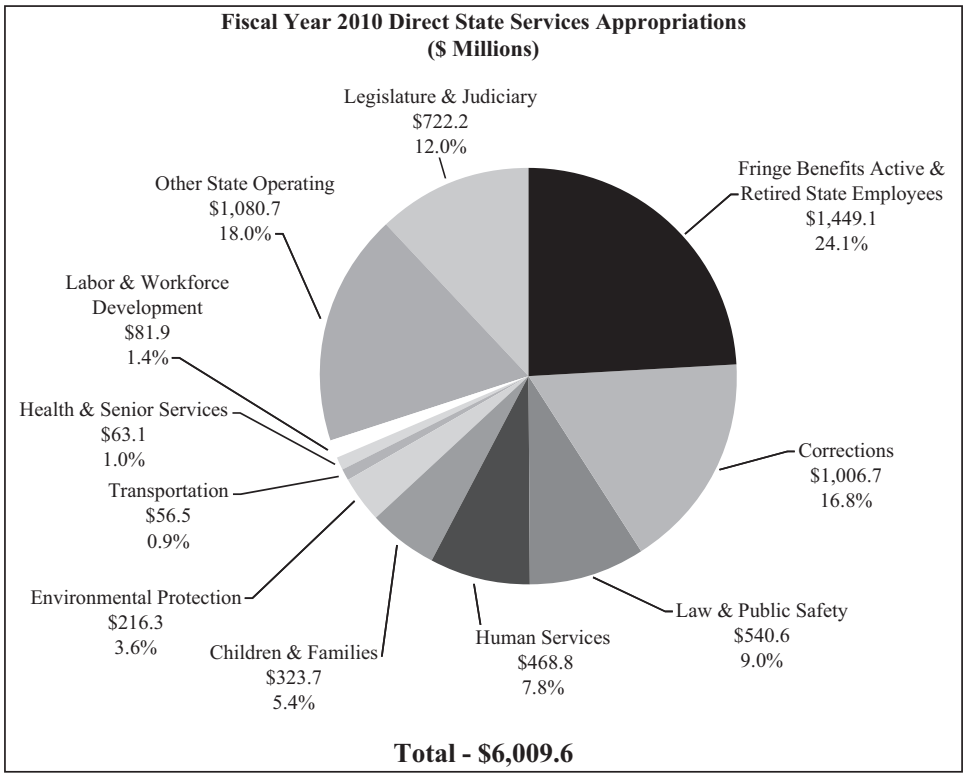
$323.7 million is appropriated for programs administered by the Department of Children and Families for various children's services programs.

$216.3 million is appropriated for the Department of Environmental Protection for the protection of air, land, water, forest, wildlife and shellfish resources and for the provision of outdoor recreational facilities.

$81.9 million is appropriated for the Department of Labor and Workforce Development for the administration of programs for workers compensation, unemployment and temporary disability insurance, workforce development, health safety inspection, and the Civil Service Commission.

$63.1 million is appropriated for the Department of Health and Senior Services for the prevention and treatment of diseases, regulation of health care facilities, the uncompensated care program and senior services programs. Of that amount, $7.6 million is recommended for anti-smoking programs.

$56.5 million is appropriated for the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State highway system and winter operations.



Capital Construction

Capital construction is funded by a combination of appropriation of current revenues on a pay-as-you-go basis and bond proceeds. The Fiscal Year 2010 Appropriations Act provides $1,091.7 million for this purpose. This amount includes $895.0 million for transportation projects and debt service, which is being credited to the Transportation Trust Fund Account of the General Fund. Of the remainder, $98.0 million is for payments to cover debt service on bonds issued for open space and farmland preservation and is being credited to the Garden State Preservation Trust Fund Account of the General Fund, $38.7 million is for hazardous substance remediation and brownfields, $25.3 million is for shore protection and flood control projects, $13.2 million is for capital improvements for parks, forestry and wildlife management areas, and $10.0 million is for energy efficiency projects.

All appropriations for such capital projects are subject to the prior review and recommendation of the New Jersey Commission on Capital Budgeting and Planning (the "Commission") which was established in November 1975. This permanent commission is charged with the preparation of the State's seven-year Capital Improvement Plan. The Capital Improvement Plan is a detailed account of all capital construction projects requested by State departments, agencies and institutions of higher education for the next three fiscal years and forecasts as to the requirements for capital projects for the four fiscal years following. The Capital Improvement Plan includes the Commission's recommendations as to the priority of such capital projects and the means of funding them. The Commission is also charged with reviewing and voting on the State's annual Debt Report. This report on the State's overall debt includes information on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years. The report also provides similar information on capital leases and installment obligations.

For Fiscal Year 2010, requests for Capital Construction funding were substantially greater than the amount recommended by the Commission. The appropriations for Capital Construction contained in the Fiscal Year 2010 Appropriations Act are largely based on the recommendations of the Commission. There can be no assurance that the amounts appropriated are sufficient to maintain or improve the State's capital facilities and infrastructure assets.

Debt Service on General Obligation Bonds

The State finances certain capital projects through the sale of general obligation bonds of the State. These bonds are backed by the faith and credit of the State. Certain state tax revenues and certain other fees are pledged to meet the principal payments, interest payments, and redemption premium payments, if any, required to fully pay the bonds. For a listing of bonded indebtedness that was authorized and outstanding as of June 30, 2009, see "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE" herein. The appropriation for debt service on the State's general obligation bonds is $261.1 million for Fiscal Year 2010. For more information, see "FINANCIAL RESULTS AND ESTIMATES — Appropriations" above.

Expenditures

As used herein, the term "expenditures" refers to a fiscal year's net disbursements plus amounts obligated for payment in a subsequent fiscal year for both budgeted and non-budgeted funds. See "STATE FINANCES — New Jersey's Budget and Appropriation System". The table on the following page displays the expenditures for Fiscal Years 2006 through 2008.

Expenditures exceed the dollar amounts enumerated in the annual appropriations acts by reason of and only to the extent of specific provisions in the authorizing acts which appropriate (or permit the expenditure of) unexpended balances of prior appropriations, certain cash receipts (such as student service fees and extension fees at State colleges) and most federal aid. Such unexpended balances, cash receipts and federal aid are not included in the tables of appropriations or revenues previously presented herein.

EXPENDITURES
($ Millions)

	For the Fiscal Year Ended June 30		
	2008	**2007**	**2006**
General Fund:			
Legislative Branch	$ 77.5	$ 77.8	$ 75.3
Chief Executive's Office	5.7	5.9	5.8
Department of:			
Agriculture	314.9	309.0	284.0
Banking and Insurance	73.4	93.6	70.0
Children and Families	1,469.7	1,336.9	—
Community Affairs	719.2	806.4	644.6
Corrections	1,204.8	1,201.1	1,131.9
Education	1,537.0	1,771.4	1,554.9
Environmental Protection	538.8	530.2	438.4
Health and Senior Services	3,263.8	3,156.2	3,049.8
Human Services	9,608.1	9,210.0	10,272.3
Labor and Workforce Development	1,001.2	696.7	721.4
Law and Public Safety	1,078.1	1,045.2	1,062.6
Military and Veterans Affairs	168.3	127.7	117.5
Personnel	26.3	27.5	29.0
Public Advocate	19.6	16.8	—
State	1,380.7	1,306.2	1,397.7
Transportation	1,666.4	1,648.9	1,522.5
Treasury	2,835.5	2,742.2	2,234.5
Miscellaneous Executive Commission	1.4	1.4	1.4
Inter-Departmental Accounts	4,017.4	3,102.0	2,845.7
Judicial Branch	749.4	718.1	687.0
Total General Fund	$31,757.2	$29,931.2	$28,146.3
Property Tax Relief Fund:			
Department of:			
Community Affairs	$ 1,010.7	$ 976.8	$ 869.0
Education	10,224.4	9,411.1	8,710.4
Environmental Protection	9.8	9.1	8.7
Human Services	148.0	—	—
Treasury	2,461.0	1,299.1	1,346.1
Total Property Tax Relief Fund	$13,853.9	$11,696.1	$10,934.2
Gubernatorial Elections Fund	$ —	$ —	$ 1.8
Casino Control Fund			
Department of:			
Law and Public Safety	$ 43.5	$ 43.6	$ 42.3
Treasury	28.1	29.5	28.8
Total Casino Control Fund	$ 71.6	$ 73.1	$ 71.1
Casino Revenue Fund			
Department of:			
Health and Senior Services	$ 276.3	$ 259.6	$ 489.5
Human Services	112.9	163.0	142.8
Labor and Workforce Development	2.4	2.4	2.4
Law and Public Safety	0.1	0.1	0.1
Transportation	36.9	34.9	34.4
Total Casino Revenue Fund	$ 428.6	$ 460.0	$ 669.2
Total Expenditures	$46,111.3	$42,160.4	$39,822.6

Balance Sheets

The comparative balance sheets for the General Fund as of June 30, 2007 and 2008 and the balance sheets of the Casino Control Fund, the Casino Revenue Fund, the Gubernatorial Elections Fund and the Property Tax Relief Fund as of June 30, 2008 are set forth below:

GENERAL FUND
COMPARATIVE BALANCE SHEETS
(Audited)

	As of June 30	
	2008	**2007**
ASSETS		
Cash and Cash Equivalents	$ 45,603,027	$ 57,018,656
Investments	3,057,213,911	3,874,790,938
Receivables, Net of Allowances for Uncollectibles		
Federal Government	431,444,949	193,242,790
Departmental Accounts	1,941,974,322	1,975,320,471
Loans	22,183,281	21,748,793
Other	200,374,040	205,462,726
Advances to Other Funds	8,000,000	—
Other Assets Due from Other Funds	1,346,743,638	1,539,277,518
Deferred Charges	—	—
Other	23,479,791	32,500,204
Total Assets	$7,077,016,959	$7,899,362,096
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	$1,787,322,891	$1,693,323,170
Deferred Revenue	287,442,887	311,223,246
Due to Other Funds (1)	375,542,359	1,175,825,812
Other	85,406,430	117,142,957
Total Liabilities	$2,535,714,567	$3,297,515,185
Fund Balances		
Reserved:		
Reserved for Encumbrances	$ 923,852,981	$ 974,465,893
Reserved — Other	65,805,449	251,357,872
Reserved — Surplus Revenue	734,706,805	484,564,562
Unreserved:		
Designated for Unrealized Gains	—	7,986,758
Designated for Continuing Appropriations	2,347,110,195	1,473,117,947
Undesignated	469,826,962	1,410,353,879
Total Fund Balances	$4,541,302,392	$4,601,846,911
Total Liabilities and Fund Balances	$7,077,016,959	$7,899,362,096

(1) The Fiscal Year 2007 amount includes the constitutionally dedicated revenue derived from a tax rate of 0.5% imposed under the Sales and Use Tax that was collected in Fiscal Year 2007 in the General Fund but not transferred to the Property Tax Relief Fund as of June 30, 2007.

See the 2008 CAFR incorporated herein by reference, for the notes which are an integral part of these financial statements and for further information concerning the other funds of the State.

BALANCE SHEETS
AS OF JUNE 30, 2008
(Audited)

	Casino Control Fund (1)	Casino Revenue Fund (2)	Gubernatorial Elections Fund (3)	Property Tax Relief Fund (4)
ASSETS				
Cash and Cash Equivalents	$ 51,000	$ —	$ —	$ —
Investments	—	—	—	—
Receivables, Net of Allowances for Uncollectibles				
Departmental Accounts	11,718,146	27,897,569	486,625	685,649,422
Other Assets Due from Other Funds	1,888,499	54,166,956	603,485	10,955,770
Total Assets	$13,657,645	$82,064,525	$1,090,110	$696,605,192
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$ 4,994,102	$26,979,251	$ —	$ 48,298,848
Deferred Revenue	3,222,500	7,000	—	—
Due to Other Funds	—	—	—	396,033,425
Other	—	—	—	115,871,560
Total Liabilities	$ 8,216,602	$26,986,251	$ —	$560,203,833
Fund Balances				
Reserved for Encumbrances	$ 1,789,974	$55,078,274	$ —	$ 19,618,659
Unreserved:				
Designated for Continuing Appropriations	643,592	—	—	17,835,541
Undesignated	3,007,477	—	1,090,110	98,947,159
Total Fund Balances	$ 5,441,043	$55,078,274	$1,090,110	$136,401,359
Total Liabilities and Fund Balances	$13,657,645	$82,064,525	$1,090,110	$696,605,192

(1) The Casino Control Fund is used to account for fees from the issuance and annual renewal of casino licenses. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement. The Casino Control Fund was established by N.J.S.A. 54:12-143, approved June 2, 1977.

(2) The Casino Revenue Fund is used to account for the tax on gross revenues generated by the casinos. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges and other expenses of eligible senior citizens and disabled residents. The Casino Revenue Fund was established by N.J.S.A. 54:12-25, approved June 2, 1977.

(3) The Gubernatorial Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from Gross Income Tax revenues and credited to the Gubernatorial Elections Fund. These funds are available for appropriation pursuant to The New Jersey Campaign Contributions and Expenditures Reporting Act (P.L. 1973, c. 83), as amended. The Gubernatorial Elections Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

(4) The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax and for revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax that is constitutionally dedicated toward property tax reform. Revenues realized from the Gross Income Tax and derived from a tax rate of 0.5% imposed under the Sales and Use Tax are dedicated by the State Constitution. All receipts from taxes levied pursuant to the New Jersey Gross Income Tax on personal income of individuals, estates, and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the Fund, pursuant to formulas established by the State Legislature, to counties, municipalities and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

OUTSTANDING BONDED INDEBTEDNESS OF THE STATE

The following table sets forth the authorized and outstanding general obligation bonded indebtedness of the State as of June 30, 2009. See also "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION" and "MORAL OBLIGATION FINANCING" herein.

Bond Act	Year Authorized	Final Maturity	Amount Authorized	Amount Unissued	Amount Retired(1)	Amount Outstanding
Clean Waters Bonds	1976	2027	120,000,000	3,750,000	115,070,000	1,180,000
State Land Acquisition and Development Bonds	1978	2027	200,000,000	—	197,820,000	2,180,000
Natural Resources Bonds	1980	2024	145,000,000	9,600,000	121,515,000	13,885,000
Energy Conservation Bonds	1980	2024	50,000,000	1,600,000	48,070,000	330,000
Water Supply Bonds	1981	—	350,000,000	93,400,000	256,600,000	—
Hazardous Discharge Bonds	1981	2012	100,000,000	43,000,000	56,375,000	625,000
New Jersey Green Acres Bonds	1983	—	135,000,000	14,500,000	120,500,000	—
Pinelands Infrastructure Trust Bonds	1985	—	30,000,000	8,000,000	22,000,000	—
Resource Recovery and Solid Waste Disposal Facility Bonds	1985	2011	85,000,000	—	83,730,000	1,270,000
Hazardous Discharge Bonds	1986	2012	200,000,000	48,000,000	137,770,000	14,230,000
Green Acres, Cultural Centers and Historic Preservation Bonds	1987	2027	100,000,000	1,000,000	89,640,000	9,360,000
Jobs, Education & Competitiveness Bonds	1988	2015	350,000,000	—	347,010,000	2,990,000
New Jersey Open Space Preservation Bonds	1989	2024	300,000,000	26,000,000	269,285,000	4,715,000
Public Purpose Buildings and Community-Based Facilities Construction Bonds	1989	2015	125,000,000	5,000,000	116,230,000	3,770,000
Stormwater Management and Combined Sewer Overflow Abatement Bonds	1989	2027	50,000,000	16,000,000	26,805,000	7,195,000
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-way Preservation Bonds	1989	2012	115,000,000	—	111,725,000	3,275,000
New Jersey Green Acres, Clean Water, Farmland & Historic Preservation Bonds	1992	2027	345,000,000	23,780,000	287,935,000	33,285,000
Developmental Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds	1994	2027	160,000,000	—	136,445,000	23,555,000
Green Acres, Farmland and Historic Preservation, and Blue Acres Bonds	1995	2027	340,000,000	21,000,000	264,535,000	54,465,000
Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds	1996	2027	300,000,000	119,000,000	62,465,000	118,535,000
Urban and Rural Centers Unsafe Buildings Demolition Bonds	1997	—	20,000,000	—	20,000,000	—
Statewide Transportation and Local Bridge Bonds	1999	2024	500,000,000	—	379,495,000	120,505,000
Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project Bonds	2003	2027	200,000,000	68,750,000	8,685,000	122,565,000
Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds	2007	—	200,000,000	200,000,000	—	—
Refunding Bonds(2)	1985	2022	5,370,619,598	—	3,381,824,598	1,988,795,000
Total Bonded Debt:			$9,890,619,598	$702,380,000	$6,661,529,598	$2,526,710,000

(1) The amounts shown under the "Amount Retired" column include bonds for which provision for payment has been made through the issuance of refunding bonds.

(2) The amount shown under the "Amount Authorized" column represents the aggregate amount of refunding bonds issued. The refunding bond act does not limit the amount of refunding bonds which may be issued, provided certain other restrictions are met. The issuance of refunding bonds may defease bonds previously issued under any bond act.

The following table sets forth the future debt service on outstanding general obligation bonds as of June 30, 2009.

Fiscal Year	Principal	Interest	Total
2010	139,120,000.00	124,494,398.80	263,614,398.80
2011	276,380,000.00	121,803,065.04	398,183,065.04
2012	280,535,000.00	103,073,608.79	383,608,608.79
2013	288,945,000.00	90,183,771.29	379,128,771.29
2014	209,590,000.00	74,608,138.79	284,198,138.79
2015	220,490,000.00	63,419,200.04	283,909,200.04
2016	227,565,000.00	51,465,956.29	279,030,956.29
2017	183,765,000.00	40,701,275.04	224,466,275.04
2018	172,630,000.00	31,681,403.15	204,311,403.15
2019	169,000,000.00	22,875,071.88	191,875,071.88
2020	148,655,000.00	14,672,325.00	163,327,325.00
2021	39,690,000.00	9,878,443.75	49,568,443.75
2022	41,705,000.00	7,909,068.75	49,614,068.75
2023	43,755,000.00	5,890,731.26	49,645,731.26
2024	31,810,000.00	4,165,375.00	35,975,375.00
2025	16,835,000.00	2,653,750.00	19,488,750.00
2026	17,680,000.00	1,812,000.00	19,492,000.00
2027	18,560,000.00	928,000.00	19,488,000.00
	$2,526,710,000.00	$772,215,582.87	$3,298,925,582.87

TAX AND REVENUE ANTICIPATION NOTES

The State issues tax and revenue anticipation notes to aid in providing effective cash flow management by funding imbalances which occur in the collection and disbursement of the General Fund and Property Tax Relief Fund revenues.

Such tax and revenue anticipation notes do not constitute a general obligation of the State or a debt or liability within the meaning of the State Constitution. Such notes constitute special obligations of the State payable solely from monies on deposit in the General Fund and the Property Tax Relief Fund and legally available for such payment.

On July 1, 2009 the State Treasurer adopted a resolution authorizing the issuance of up to $2.25 billion of Tax and Revenue Anticipation Notes, Series Fiscal 2010 ("2010 TRANs"). Additionally, on July 1, 2009 the State Treasurer entered into a Note Purchase Contract with J.P. Morgan under which the 2010 TRANs may be issued to and purchased by J.P. Morgan at the discretion of the State. It is expected that any 2010 TRANs issued to and purchased by J.P. Morgan under the Note Purchase Contract will be refunded and retired with the proceeds of a publicly offered series of 2010 TRANs. As of the date of this State Appendix, no 2010 TRANs have been issued.

OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION

The State has entered into a number of leases and contracts described below (collectively, the "Agreements") with several governmental authorities to secure the financing of various projects and programs in the State. Under the terms of the Agreements, the State has agreed to make payments equal to the debt service on, and other costs related to, the obligations sold to finance the projects, including payments on swap agreements defined below. The State Legislature has no legal obligation to enact such appropriations, but has done so to date for all such obligations. The amounts appropriated to make such payments are included in the appropriation for the department, authority or other entity administering the program or in other line item appropriations. See "STATE FINANCES — New Jersey's Budget and Appropriation System" and "FINANCIAL RESULTS AND ESTIMATES — Appropriations" herein. The principal amount of bonds which may be issued and the notional amount of swaps which may be entered into by such governmental authorities is, in certain cases, subject to specific statutory dollar ceilings or programmatic restrictions which effectively limit such amounts. In other cases, there are currently no such ceilings or limitations. In addition, the State Legislature may at any time impose, remove, increase or decrease applicable existing ceilings and impose, modify or remove programmatic restrictions. The State Legislature may also authorize new leases and contracts with the governmental authorities listed below or other governmental authorities to secure the financing of projects and programs in the future.

The State expects that additional obligations supported by State revenues subject to appropriation will be issued during Fiscal Year 2010 of approximately $2.8 billion under existing authorizations. The amount of such obligations issued in the future could be significant. The amendment to the Debt Limitation Clause, described under "CERTAIN CONSTITUTIONAL PROVISIONS — Debt Limitations" herein, may reduce future authorizations of obligations supported by State revenues subject to appropriation. The State Legislature is not legally obligated to appropriate amounts for the payment of such debt service in any year, and there can be no assurance that the State Legislature will make any such appropriations. Future legislative action may depend in part on various factors including the financial condition of the State.

The following tables set forth the obligations that are supported by State revenues subject to appropriation by the State Legislature (i) by issuer and by program, the aggregate principal amount of obligations outstanding on June 30, 2009 and the Fiscal Year 2010 debt service on such obligations and (ii) in the aggregate for future years debt service on such obligations outstanding on June 30, 2009. The data has not been modified to reflect subsequent activity. The tables include certain data that are (1) for governmental entities or programs that are not considered part of the State's long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) a component unit of the State. These items are therefore not reflected in Note 10 — Long-Term Obligations and the Schedule of Long-Term Debt in the 2008 CAFR.

Variable Rate Bonds

During Fiscal Year 2008 significant problems developed in both the taxable and tax-exempt variable rate demand bond market and the auction rate bond market, whereby the "AAA" rated bond insurers' exposure to the sub-prime mortgage crisis negatively impacted the bonds that they insured. Several bond insurers experienced rating downgrades by some or all three rating agencies. A limited number of bond insurers remain rated "AAA" while others are below BBB- (non-investment grade). The "AAA" ratings were an essential part of the operation of the variable rate demand and auction rate bond markets, as many investors generally required a "AAA" rating as a minimum requirement for their purchase of such bonds.

Various independent State authorities, had $4.05 billion in variable rate bonds outstanding on January 1, 2008, of which $3.37 billion were auction rate bonds and $680.0 million were variable rate demand bonds. The payment of the debt service on such bonds is subject to annual appropriation by the State Legislature. The interest rates on these bonds increased substantially versus the interest rates in effect as of June 30, 2007. Subsequent to January 1, 2008, when interest rates increased on both variable rate and auction rate bonds due to the downgrade in the ratings of certain bond insurers and the decisions by broker-dealers conducting auctions to stop purchasing auction rate bonds for their own accounts, the independent State authorities took actions to mitigate the increase in interest rates. Of the $3.37 billion of auction rate bonds outstanding, all had been restructured or refunded as either letter of credit-backed variable rate demand bonds or fixed rate bonds by September 2008.

A portion of the auction rate bonds were restructured or refunded with letter of credit backed variable rate demand bonds. As of June 30, 2009, the various independent State authorities had $2,045,940,000 variable rate demand bonds outstanding with interest rates set daily or weekly. All variable rate demand bonds are backed by bank-issued letters of credit. The banks providing the letters of credit include: Allied Irish Bank, Bank of America, The Bank of New York Mellon, The Bank of Nova Scotia, Dexia Credit Local, Lloyds Bank and Wachovia Bank. Due to weakened credit quality of many banks globally, as well as the global financial crisis, interest rates on some bonds increased substantially for a short period of time in September and October 2008. All of the bonds remain outstanding with interest rates reflecting a narrow range around the national tax exempt short term index, SIFMA. There is no assurance that variable rate interest rates will not rise in the future.

SUMMARY OF OBLIGATIONS SUBJECT TO ANNUAL APPROPRIATION

Issuer	Type of Agreement	Principal Amount Outstanding(1)	Fiscal Year 2010 Debt Service(2)
Garden State Preservation Trust	Contract	$ 1,149,699,410	$ 97,993,346
New Jersey Building Authority	Lease	672,485,000	65,890,589
New Jersey Economic Development Authority			
Trenton Office Complex	Lease	27,650,000	10,196,625
Economic Recovery Fund	Contract	167,120,064	21,604,566
Liberty State Park — Park Projects	Lease	12,510,895	1,286,343
Liberty State Park — Science Center Projects	Lease	90,900,000	6,854,684
Market Transition Facility	Contract	175,650,000	71,713,875
Green Lights Energy Conservation Program	Lease	585,000	314,250
New Jersey Performing Arts Center	Lease	26,010,000	5,544,625
State Pension Funding	Contract	2,573,802,271	230,563,677
Department of Human Services Programs	Service Contract	23,985,000	3,297,409
New Jersey Transit Light Rail System	Lease	416,325,000	72,886,374
State Office Buildings Projects	Lease	43,435,000	5,265,650
School Facilities Construction(3)	Contract	7,080,124,000	349,507,099
Municipal Rehabilitation	Contract	166,075,000	14,111,953
Motor Vehicle Commission(4)	Contract	159,998,107	—
Business Employment Incentive Program	Contract	171,445,000	33,678,876
Designated Industries Economic Growth and Development	Contract	22,375,000	6,810,900
Motor Vehicle Surcharges Revenue	Contract	807,502,356	37,763,281
Motor Vehicle Surcharges Revenue — Special Needs Housing	Contract	206,508,197	5,546,175
Cigarette Tax Revenue	Contract	1,231,415,000	124,142,650
Lafayette Yard Hotel Project	Lease	17,060,000	1,656,163
New Jersey Educational Facilities Authority			
Facilities Trust Fund	Contract	39,920,000	20,969,500
Technology Infrastructure Fund(5)	Contract	—	—
Capital Improvement Fund	Contract	455,105,000	43,887,506
Dormitory Safety Trust Fund	Contract	40,170,000	7,588,044
Equipment Leasing Fund	Contract	4,745,000	3,929,225
Public Library Project Grant Program	Contract	37,665,000	3,774,456
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project	Contract	198,355,000	15,625,385
Hospital Asset Transformation Program	Contract	449,415,000	26,676,511
New Jersey Sports and Exposition Authority(6)	Contract	671,395,000	96,587,493
New Jersey Transportation Trust Fund Authority	Contract	10,205,307,355	729,962,297
State of New Jersey Certificates of Participation			
James J. Howard Marine Science Laboratory	Lease	4,605,000	1,149,800
New Jersey Transit, Transportation Equipment	Lease	956,585,000	95,712,111
State-Supported County College Bonds	Statutory	215,982,924	37,401,092
State Equipment Line of Credit	Lease	30,525,040	18,340,075
TOTALS		$28,552,435,619	$2,268,232,605

(1) Amount outstanding is as of June 30, 2009, and has not been modified to reflect subsequent activity.

(2) Debt service reflects principal and interest due on obligations outstanding on June 30, 2009. Amounts have not been modified to reflect subsequent activity. For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2009. For capital appreciation bonds, the full accretions in value from the date of issuance are reflected as interest in the year of bond maturity. See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds" herein.

(3) Amounts do not include $400,000,000 School Facilities Construction Notes, 2009 Series A issued June 18, 2009. It is anticipated that these Notes will be refunded prior to their maturity in Fiscal Year 2010.

(4) These bonds consist of capital appreciation bonds with no maturities or payments due in Fiscal Year 2010.

(5) These bonds matured September 1, 2008.

(6) In connection with the Convention Center Lease Financing, the New Jersey Sports and Exposition Authority has issued Standby Deficiency Bonds Series of 2001 and Series of 2008 in the maximum amount of $100 million and $65,640,492.15, respectively. The Standby Deficiency Bonds are additional bonds under the resolution, but are contingent bonds. No amounts are currently outstanding and the Authority does not anticipate at this time that it will be required to make payments on the Standby Deficiency Bonds. Accordingly, no principal and interest are included in the above table. See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — New Jersey Sports and Exposition Authority" below.

ESTIMATED FUTURE DEBT SERVICE SUBJECT TO APPROPRIATION(1)

Fiscal Year	Principal	Estimated Interest(2)	Total
2010	$ 929,993,813	$ 1,338,238,790	$ 2,268,232,603
2011	1,080,041,878	1,301,696,489	2,381,738,368
2012	1,101,284,094	1,269,578,085	2,370,862,180
2013	1,103,144,307	1,257,972,647	2,361,116,954
2014	1,151,151,106	1,228,757,197	2,379,908,302
2015	1,185,899,533	1,193,904,836	2,379,804,369
2016	1,218,263,385	1,130,350,959	2,348,614,344
2017	1,212,315,960	1,119,058,002	2,331,373,962
2018	1,299,264,035	1,096,900,363	2,396,164,398
2019	1,343,720,356	1,088,710,896	2,432,431,252
2020	1,343,778,681	1,063,365,188	2,407,143,868
2021	1,415,955,533	988,093,579	2,404,049,112
2022	1,357,858,064	957,478,200	2,315,336,265
2023	1,421,263,195	901,140,980	2,322,404,175
2024	1,060,068,097	859,121,376	1,919,189,474
2025	924,704,701	960,095,009	1,884,799,710
2026	1,201,671,617	715,575,989	1,917,247,605
2027	1,263,243,080	575,965,269	1,839,208,349
2028	1,229,349,583	510,819,446	1,740,169,029
2029	1,259,440,175	486,112,455	1,745,552,630
2030	701,093,876	363,411,558	1,064,505,434
2031	458,596,518	347,035,894	805,632,412
2032	401,887,542	337,155,880	739,043,422
2033	510,575,615	390,438,182	901,013,797
2034	508,525,481	339,511,321	848,036,802
2035	437,286,579	321,237,030	758,523,609
2036	301,514,570	470,960,623	772,475,194
2037	289,631,019	392,706,206	682,337,225
2038	254,464,020	420,732,505	675,196,525
2039	242,838,420	533,045,892	775,884,313
2040	343,610,782	419,205,780	762,816,563
Totals	$28,552,435,619	$24,378,376,625	$52,930,812,244

(1) Amounts are attributable to obligations outstanding on June 30, 2009 and have not been modified to reflect subsequent activity. Amounts do not include $400,000,000 School Facilities Construction Notes, 2009 Series A

issued June 18, 2009. It is anticipated that these Notes will be refunded prior to their maturity in Fiscal Year 2010.

(2) For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2009. For capital appreciation bonds, the full accretions in value from the date of issuance are reflected as interest in the year of bond maturity. See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds" herein.

Garden State Preservation Trust

The Garden State Preservation Trust ("GSPT") issues bonds for the purpose of preserving open space and farmland. Pursuant to the Garden State Preservation Trust Act, as amended (the "GSPT Act"), the principal amount of bonds, notes or other obligations which could have been issued prior to July 1, 2009, other than refunding bonds, cannot exceed $1.15 billion. After July 1, 2009, only refunding bonds can be issued. The bonds issued by the GSPT are special obligations of the GSPT payable from amounts paid to it under a contract between the GSPT and the State Treasurer, subject to appropriation by the State Legislature.

New Jersey Building Authority

The New Jersey Building Authority ("NJBA") issues bonds for the acquisition, construction, renovation and rehabilitation of various State office buildings, historic buildings and correctional facilities. Pursuant to a lease agreement, the State makes rental payments to the NJBA in amounts sufficient to pay debt service on the bonds, subject to appropriation by the State Legislature.

New Jersey Economic Development Authority

The New Jersey Economic Development Authority (the "NJEDA") has been authorized to issue bonds for various purposes described below.

The Economic Recovery Bonds have been issued pursuant to legislation enacted in 1992 to finance various economic development purposes. Pursuant to that legislation, the NJEDA and the State Treasurer entered into an agreement through which the NJEDA has agreed to undertake the financing of certain projects and the State Treasurer has agreed to credit to the Economic Recovery Fund from the General Fund amounts equivalent to payments due to the State under an agreement with the Port Authority of New York and New Jersey subject to appropriation by the State Legislature.

The Market Transition Facility Bonds have been issued pursuant to legislation enacted June 1994 to pay the current and anticipated liabilities and expenses of the Market Transition Facility, which issued private passenger automobile insurance policies for drivers who could not be insured by private insurance companies on a voluntary basis. Debt service on the bonds is payable pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature.

Pursuant to the Business Employment Incentive Program Act, P.L. 1996, c. 26, the NJEDA has entered into agreements with various private businesses in order to provide business employment incentive grants ("BEIP grants") in consideration for the attainment of certain employment promotion targets as established therein. P.L. 2003, c. 166, which authorizes the NJEDA to issue bonds to provide funds (i) for the payment of the BEIP grants, and (ii) to be used by the NJEDA for the purposes enumerated in subsections a. and b. of section 4 of *P.L.* 1992, c. 16 (*C.* 34:1B-7.13) for payments to designated businesses. Debt service on the bonds is payable pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature.

The State Pension Funding Bonds were issued pursuant to legislation enacted June 1997 to pay a portion of the State's unfunded accrued pension liability for the State's retirement system, which together with amounts derived from the revaluation of pension assets pursuant to companion legislation enacted at the same time, were sufficient to fully fund the then unfunded accrued pension liability. Debt service on the bonds is payable pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature.

The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 ("EFCFA") authorizes the NJEDA to issue bonds to finance the State share of costs for school facilities construction projects. EFCFA originally

provided that the aggregate principal amount of bonds, notes or other obligations issued by NJEDA shall not exceed: $100,000,000 for the State share of costs for county vocational school district school facilities projects, $6,000,000,000 for the State share of costs for "Abbott District" school facilities projects, and $2,500,000,000 for the State share of costs for school facilities projects in all other districts. Debt service on the bonds issued pursuant to EFCFA is paid pursuant to a contract between the State Treasurer and the NJEDA, subject to appropriation by the State Legislature.

EFCFA was amended on July 9, 2008, to increase the amount of bonds, notes or other obligations authorized to be issued by the NJEDA in an additional aggregate principal amount not to exceed: $2,900,000,000 for the State share of costs for "SDA Districts" (formerly "Abbott Districts") school facilities projects, $1,000,000,000 for the State share of costs for school facilities projects in all other districts, and $50,000,000 for the State share of costs for county vocational school district facilities projects. In regard to this increase in the amount of bonds authorized to be issued by NJEDA pursuant to this amendment, debt service on these bonds or refunding bonds issued by NJEDA and any additional costs authorized pursuant to Section 14 of EFCFA shall first be payable from revenues received from the New Jersey Gross Income Tax except that debt service on bonds issued to pay for administrative, insurance, operating and other expenses of the NJEDA and the Schools Development Authority in connection with school facilities projects shall be payable from the General Fund. The additional bonds issued pursuant to this amendment are also payable pursuant to the contract between the State Treasurer and the NJEDA, mentioned above, subject to appropriation by the State Legislature.

The Municipal Rehabilitation and Economic Recovery Act, P.L. 2002, c. 43 (*N.J.S.A.* 52:27BBB-1 et seq.), authorizes the NJEDA to issue bonds for the purpose of making deposits into certain funds described in *N.J.S.A.* 52:27BBB-49 and *N.J.S.A.* 52:27BBB-50, to provide loans and grants to sustain economic activity in qualified municipalities under the Act. Debt service on the bonds is paid pursuant to a contract between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature.

The Motor Vehicle Security and Customer Service Act, P.L. 2003, c. 13, authorizes the NJEDA to issue bonds to pay the costs of capital improvements for New Jersey Motor Vehicle Commission facilities. The legislation provides that bonds shall not be issued in an aggregate principal amount exceeding $160 million without the prior approval of the Joint Budget Oversight Committee. The bonds are secured by the monies in the Market Transition Facility Revenue Fund when all currently outstanding Market Transition Facility Bonds are retired, which, as provided in the legislation, shall be no later than July 1, 2011.

The Motor Vehicle Surcharges Securitization Act of 2004, *P.L.* 2004, c. 70, authorizes the NJEDA to issue bonds payable from, and secured by, dedicated motor vehicle surcharge revenues as defined in the legislation, with the pledge of certain of the surcharges being subject and subordinate to the Market Transition Facility Bonds and the Motor Vehicle Commission Bonds. Debt service on the bonds is payable pursuant to a contract between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature. Pursuant to P.L. 2005, c. 163, P.L. 2004, c. 70 was amended to authorize the issuance of bonds by NJEDA in an amount not to exceed $200 million to fund grants and loans for the costs of special needs housing projects in the State. The expenditure of the funds is administered by the New Jersey Housing and Mortgage Finance Agency.

The Cigarette Tax Securitization Act of 2004, P.L. 2004. c. 68, authorizes the NJEDA to issue bonds payable from, and secured by, a dedicated portion, $0.0325 per cigarette, of the cigarette tax imposed pursuant to *N.J.S.A.* 54:40A-1 *et seq.* Debt service on the bonds is payable pursuant to a contract between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature.

The NJEDA is authorized to issue bonds to purchase a redevelopment revenue bond (the "City Bond") issued by the City of Trenton. The City Bond was issued to refund a portion of bonds issued by a non-profit corporation to construct the Lafayette Yard hotel and conference center project in Trenton. The NJEDA Bonds are secured by the principal and interest payments on the City Bond, which, in turn, are payable solely from payments in lieu of taxes (the "PILOTS") made by the NJEDA. The PILOTS are payable solely from supplemental rent the State pays to the NJEDA under a lease, subject to appropriation by the State Legislature.

P.L. 2006, c.102 authorized the issuance of $270 million of bonds by the NJEDA to fund various State capital construction projects, including stem cell research facilities in New Brunswick and Newark, biomedical research

facilities, blood collection facilities and cancer research facilities. Debt service on the bonds shall be paid pursuant to a contract to be entered into between the NJEDA and the State Treasurer, subject to appropriation by the State Legislature. No bonds have been issued.

The NJEDA has issued revenue bonds on behalf of non-profit community service providers. The payment of debt service on these revenue bonds as well as the payment of certain other provider expenses is made by the State pursuant to service contracts between the State Department of Human Services and these providers, subject to appropriation by the State Legislature. The contracts have one year terms, subject to annual renewal.

In addition, the State has entered into a number of leases with the NJEDA relating to the financing of certain real property, office buildings and equipment. The rental payments required to be made by the State under these lease agreements are sufficient to pay debt service on the bonds issued by the NJEDA to finance the acquisition and construction of such projects and other amounts payable to the NJEDA, including certain administrative expenses of the NJEDA. Amounts payable under the lease agreements are subject to appropriation by the State Legislature.

New Jersey Educational Facilities Authority

The New Jersey Educational Facilities Authority ("NJEFA") issues bonds pursuant to seven separate legislative programs to finance: (i) the purchase of equipment to be leased to institutions of higher learning; (ii) grants to the State's public and private institutions of higher education for the development, construction and improvement of instructional, laboratory, communication and research facilities; (iii) grants to public and private institutions of higher education to develop a technology infrastructure within and among the State's institutions of higher education; (iv) capital projects at county colleges; (v) grants to public and private institutions of higher education to finance the renewal, renovation, improvement, expansion, construction, and reconstruction of educational facilities and technology infrastructure; (vi) grants to public libraries to finance the acquisition, expansion and rehabilitation of buildings to be used as public library facilities and the acquisition and installation of equipment to be located therein; and (vii) loans to public and private institutions of higher education and public or private secondary schools, military schools or boarding schools located in the State which are required under the Dormitory Safety Trust Fund Act to install automatic fire suppression systems for the cost or a portion of the cost of the construction, reconstruction, development, extension or improvement of dormitory safety facilities, including fire prevention and sprinkler systems. The debt service on the bonds issued under these programs is payable by the State pursuant to contracts between the NJEFA and the State Treasurer.

New Jersey Health Care Facilities Financing Authority

The New Jersey Health Care Facilities Financing Authority ("HCFFA") is authorized to acquire, construct and lease projects to the New Jersey Department of Human Services ("DHS") and to issue bonds to finance such projects, the debt service on which shall be paid by DHS, subject to appropriation by the State Legislature.

Under the Hospital Asset Transformation Program established by P.L. 2000, c. 98 and as amended by P.L. 2007, c. 110, and P.L. 2009. c. 2, HCFFA is authorized to issue bonds to provide funds to any nonprofit health care organization in order to, among other things, satisfy the outstanding indebtedness of a hospital, pay the costs of transitioning or terminating the provision of hospital acute care services at a specific location, including the costs of construction, renovation, equipment, information technology and working capital, and pay the costs associated with the closure or acquisition of a general hospital. Such bonds are special obligations of HCFFA payable from amounts paid to it under a contract between HCFFA and the State Treasurer, subject to appropriation by the State Legislature.

New Jersey Sports and Exposition Authority

The New Jersey Sports and Exposition Authority (the "NJSEA") issues bonds for various purposes payable from a contract between the NJSEA and the State Treasurer (the "NJSEA State Contract"). Pursuant to the NJSEA State Contract, the NJSEA undertakes certain projects and the State Treasurer credits to the NJSEA amounts from the General Fund sufficient to pay debt service and other costs related to the bonds, subject to appropriation by the State Legislature.

In 2001, in connection with the Atlantic City Convention Center Structured Lease Financing, the NJSEA issued its State Contract Bonds, Series B Standby Deficiency Agreement Series of 2001, Equity Termination Value Standby Deficiency Agreement Series of 2001 and Swap Payment Standby Deficiency Agreement Series of 2001, in the maximum amount payable as to principal and interest of $100 million. These Standby Deficiency Bonds also constitute additional bonds under the general resolution for this program, but are contingent obligations and no amounts are currently outstanding nor is it expected that the NJSEA will be required to make payments.

In September 2008, AIG-Financial Products (AIG-FP), a provider of a letter of credit under the Atlantic City Convention Center Structured Lease Financing, was downgraded by Standard & Poor's below the minimum rating required under the financing documents. A substitute letter of credit was obtained from The Bank of New York Mellon for a 2-year period. The reimbursement obligation to The Bank of New York Mellon under the Letter of Credit and Reimbursement Agreement is secured by a State Contract Bond Equity Termination Value Standby Deficiency Agreement Series of 2008 in the maximum amount of $65,640,492.15. The AIG-FP letter of credit was returned to the NJSEA and remains outstanding but held in safekeeping by the bond trustee, The Bank of New York Mellon. As a result, the Standby Deficiency Bond Series of 2001 remains outstanding as security for the AIG-FP Letter of Credit and Reimbursement Agreement, but is not to be drawn upon, due to the NJSEA holding the obligation in safekeeping with the trustee.

New Jersey Transportation Trust Fund Authority

The New Jersey Transportation Trust Fund Authority (the "TTFA") issues bonds for the purpose of funding a portion of the State's share of the cost of improvements to the State's transportation system. Pursuant to the New Jersey Transportation Trust Fund Authority Act of 1984, as amended (the "TTFA Act"), the principal amount of the TTFA's bonds, notes or other obligations which may be issued in any fiscal year commencing with the fiscal year beginning July 1, 2006 and ending with the fiscal year beginning on July 1, 2010, generally may not exceed $1,600,000,000 in any fiscal year, as such amount shall be reduced in each of those fiscal years by the amount by which the appropriation of State funds to the Transportation Trust Fund Account for that fiscal year shall exceed $895,000,000; provided, however, that if a portion of that permitted amount of debt, less any reduction as provided above, is not incurred in a fiscal year, an amount not greater than the unused portion may be incurred in a subsequent fiscal year in addition to the amount otherwise permitted, subject to the approval of the Joint Budget Oversight Committee of the State Legislature. The bonds issued by the TTFA are special obligations of the TTFA payable from a contract among the TTFA, the State Treasurer and the Commissioner of Transportation, subject to appropriation by the State Legislature.

State of New Jersey Certificates of Participation

The State, acting through the Director of the Division of Purchase and Property, has entered into a series of lease purchase agreements which provide for the acquisition of equipment, services and real property to be used by various departments and agencies of the State. Certificates of Participation in such lease purchase agreements have been issued. A Certificate of Participation represents a proportionate interest of the owner thereof in the lease payments to be made by the State under the terms of the lease purchase agreement, subject to appropriation by the State Legislature.

State Supported County College Bonds

Legislation provides for future appropriations for State Aid to counties equal to a portion of the debt service on bonds issued by or on behalf of such counties for construction of county college facilities (P.L. 1971, c. 12, as amended). The State Legislature has no legal obligation to make such appropriations, but has done so to date for all obligations issued under this legislation. The NJEFA is also authorized to issue its obligations to finance county college capital facilities which are secured in whole or in part by an agreement with the State Treasurer, subject to appropriation by the State Legislature.

Lines of Credit

The State finances the acquisition of certain equipment, vehicles, services and real property to be used by various State departments through lines of credit established from time to time with one or more financial services providers. Repayments of amounts drawn under the lines of credit are subject to appropriation by the State Legislature.

Swap Agreements

The obligation of various independent State authorities to make payments with respect to certain financings includes payments related to interest rate exchange agreements listed below ("swap agreements"). Under such a swap agreement, the issuer will make periodic payments to the swap counterparty at either a fixed or variable rate of interest, and will receive periodic payments from the swap counterparty at either a variable or fixed rate of interest, such interest calculations based on the principal or "notional" amount of the swap agreement. If the swap agreement is terminated prior to its stated termination date, either the issuer or the swap counterparty may be required to make a termination payment to the other party. The independent State authorities' obligations to make payments under the swap agreements are subject to appropriation by the State Legislature.

The following table sets forth for each swap agreement: the issuer, counterparty, outstanding notional amount, effective date, termination date, fixed rate and floating index as of June 30, 2009. The table reflects certain line items that are (1) for governmental entities or programs that are not considered part of the State's long-term obligations for financial reporting purposes under generally accepted accounting principles or (2) are a component unit of the State. These items are therefore not reflected in Note 12 — "DERIVATIVES" in the 2008 CAFR. For more information, see Note 12 — "DERIVATIVES" in the 2008 CAFR.

State of New Jersey
Interest Rate Swap Agreement Summary
As of June 30, 2009

Bond Issuer	Counterparty	Outstanding Notional Amount	Effective Date	Termination Date	Fixed Rate	Floating Index
NJBA						
	Citibank, N.A., New York	$ 73,595,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Citibank, N.A., New York	31,540,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	24,525,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	10,520,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	24,525,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	10,520,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
		$ 175,225,000				
NJEDA (School Facilities Construction Bonds)						
	Variable-to-Fixed Swaps					
	Bank of America, N.A.	$ 199,978,334	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Bank of Montreal	250,000,000	11/1/2009	9/1/2034	4.54850%	62% 1-Month LIBOR+40 bps
	Deutsche Bank AG - New York Branch	88,733,333	11/1/2006	11/1/2016	4.32375%	75% 1-Month LIBOR+5.25 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	179,042,500	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	199,978,334	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	195,582,500	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	IXIS Financial Products, Inc.	250,000,000	11/1/2008	9/1/2033	4.48900%	62% 1-Month LIBOR+40 bps
	Merrill Lynch Capital Services, Inc.	500,000,000	5/1/2010	3/1/2035	4.25100%	62% 1-Month LIBOR+40 bps
	Royal Bank of Canada	250,000,000	5/1/2009	3/1/2034	4.51240%	62% 1-Month LIBOR+40 bps
	UBS AG, Stamford Branch	172,310,000	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	UBS AG, Stamford Branch	223,417,500	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	UBS AG, Stamford Branch	195,582,500	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	Wachovia Bank, N.A.	172,310,000	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	Wachovia Bank, N.A.	223,417,500	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	Wachovia Bank, N.A.	179,042,500	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Fixed-to-Variable Swaps					
	UBS AG, Stamford Branch	$ 380,515,000	5/1/2008	9/1/2015	3.03590%	75% 1-Month LIBOR
	Deutsche Bank AG	250,000,000	5/5/2009	5/1/2011	1.11900%	62% 1-Month LIBOR+40 bps
		$3,909,910,001				
NJTTFA						
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	$ 85,000,000	1/30/2003	12/15/2017	3.56500%	67% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	50,000,000	1/30/2003	12/15/2018	3.63000%	67% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	85,000,000	1/30/2003	12/15/2018	3.53700%	67% 1-Week LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	62,500,000	1/30/2003	12/15/2019	3.67500%	67% 1-Week LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	62,500,000	1/30/2003	12/15/2019	3.67500%	67% 1-Week LIBOR
		$ 345,000,000				
Totals		**$4,430,135,001**				

Various independent State authorities have entered into swap agreements with eleven different counterparties. The outstanding notional amount of swap agreements with any single counterparty does not exceed 22.0% of the total outstanding notional amount. As of June 30, 2009, the mark-to-market value of the swap agreements are negative, indicating that the independent State authorities have no credit exposure to the swap counterparties. If the ratings of a counterparty were to be reduced below levels specified in the documentation relating to the swap agreements with the independent State authority and at such time the independent State authority did have in excess of a specified amount of credit exposure to such counterparty, the counterparty would be required to provide collateral to support all or a portion of the independent State authority's credit exposure. No assurance can be given that the ratings of the counterparties will be maintained at current levels or that the mark-to-market value of the swaps will not change to create credit exposure by the independent State authority to one or more counterparties. The various independent State authorities are not required to post collateral under any of the swap agreements listed in the above table. If ratings on the Bonds relating to the swaps generally fall below BBB or Baa2 by one or more rating agencies, then the counterparty may have the option to terminate the swaps. In some cases, the independent State authority may have the option to post collateral to prevent a termination. If a termination were to occur at a time where the swaps had a negative mark-to-market value, then the independent State authority would be required to make a termination payment in the amount of the negative mark to market. At June 30, 2009, the aggregate negative mark-to-market on the swaps listed in the above table was $535.7 million.

MORAL OBLIGATION FINANCING

The authorizing legislation for certain State entities provides for specific budgetary procedures with respect to certain obligations issued by such entities. Pursuant to such legislation, a designated official is required to certify any deficiency in a debt service reserve fund maintained to meet payments of principal of and interest on the obligations, and a State appropriation in the amount of the deficiency is to be made. However, the State Legislature is not legally bound to make such an appropriation. Bonds issued pursuant to authorizing legislation of this type are sometimes referred to as moral obligation bonds. There is no statutory limitation on the amount of moral obligation bonds which may be issued by eligible State entities.

The following table sets forth the moral obligation bonded indebtedness issued by State entities as of June 30, 2009. Amounts have not been modified to reflect subsequent activity.

	Principal Amount Outstanding	Fiscal Year 2010 Debt Service
New Jersey Housing and Mortgage Finance Agency	$ 38,955,000	$ 7,145,306
South Jersey Port Corporation	143,790,000	12,428,622
Higher Education Student Assistance Authority	2,162,010,000	105,695,671
	$2,344,755,000	$125,269,599

New Jersey Housing and Mortgage Finance Agency

Neither the New Jersey Housing and Mortgage Finance Agency nor its predecessors, the New Jersey Housing Finance Agency and the New Jersey Mortgage Finance Agency, have had a deficiency in a debt service reserve fund which required the State to appropriate funds to meet its moral obligation. It is anticipated that this agency's revenues will continue to be sufficient to pay debt service on its bonds.

South Jersey Port Corporation

The State, under its moral obligation, has provided the South Jersey Port Corporation (the "Port Corporation") with funds to replenish its debt service reserve fund to the extent drawn upon by the Port Corporation when Port Corporation revenues are insufficient to pay debt service on its outstanding bonds. Such payments to the Port Corporation are subject to appropriation by the State Legislature.

The following table sets forth the amounts paid to the Port Corporation to replenish its debt service reserve fund for the past five fiscal years.

Fiscal Year	Amounts paid for debt service
2005	$6,962,739
2006	6,455,167
2007	6,878,287
2008	6,881,543
2009	7,459,997

Higher Education Student Assistance Authority

The Higher Education Student Assistance Authority ("HESAA") has not had a revenue deficiency which required the State to appropriate funds to meet its moral obligation. It is anticipated that the HESAA's revenues will continue to be sufficient to pay debt service on its bonds. HESAA has issued auction rate bonds whose interest costs have increased due to the ongoing failures in the auction rate bond market; however, cash flows from the repayment of student loans originally funded from bond proceeds have been sufficient to meet debt service obligations. HESAA issued $350.0 million fixed rate bonds in July 2008. This issue funded new loans and included a surety bond as the deposit in the debt service reserve fund. To the extent that the surety is drawn upon, the State Legislature may be required to replenish the debt service reserve fund, subject to annual appropriation. Subsequent to July 2008, HESAA issued additional fixed rate bonds, but did not utilize a surety bond as the deposit in the debt service reserve fund.

STATE EMPLOYEES

Public Employer-Employee Relations Act

The State, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, as amended (N.J.S.A. 34:13A-1 *et seq.*), which guarantees public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive collective negotiations representatives for units of public employees found to be appropriate for collective negotiations purposes. Approximately 65,800 full-time Executive Branch employees are paid through the State payroll system. Of the 65,800 employees, 59,800 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are eight civilian units which presently represent more than 49,000 employees. The Health Care and Rehabilitation Services Unit is represented by the American Federation of State, County and Municipal Employees ("AFSCME") and includes about 8,400 employees. The Administrative and Clerical Services Unit, the Primary Supervisory Unit, the Professional Unit and the Higher Level Supervisory Unit are all represented by the Communications Workers of America ("CWA") and include about 7,100 employees, 10,100 employees, 15,400 employees and 3,200 employees, respectively. The Crafts Unit, the Inspection and Security Unit, and the Operations, Maintenance and Services Unit are all represented by the International Federation of Professional and Technical Engineers ("IFPTE") and include about 4,900 employees. There are approximately 11,000 employees represented by nine uniformed units.

Negotiation Process

The New Jersey Public Employer-Employee Relations Act specifies a negotiation process for non-police and non-fire units which includes mediation and advisory fact-finding in the event of a negotiations impasse. This process is geared to the public employer's budget submission process. Thus, in the case of the State, unless there is a multi-year agreement then in effect, negotiations begin in October of the year (or no later than 120 days) prior to the new budget, and the entire process, including mediation and fact-finding, should be completed prior to the Governor's submission of a budget to the State Legislature in late January or early February of each year, so that the budget process can reflect the results of negotiations. In the event that negotiations are not completed by the budget submission date, a later supplemental appropriations request may be made. The economic provisions included in these negotiated agreements generally take effect at the beginning of each fiscal year or at other times provided in the agreements. Police and fire negotiations units may also submit to mediation and fact-finding in the event that negotiations with the State produces an impasse and the parties agree to do so, but where no agreement is achieved by exhaustion of these processes, police and fire units are additionally entitled to submit their final demands to binding interest arbitration. Approximately 11,000 State employees come under the binding interest arbitration process. Of the 11,000, approximately 3,000 are in the State Police.

Contract Status

The State has entered into four-year contracts for Fiscal Years 2008-2011 with the AFSCME, the IFPTE, and the CWA. These unions represent approximately 49,000 full-time Executive Branch employees. The contracts provide for a total salary increase of 13.0%, comprising increases of 3.0% in Fiscal Year 2008, 3.0% in Fiscal Year 2009, 3.5% in Fiscal Year 2010 and 3.5% in Fiscal Year 2011. The AFSCME, IFPTE and CWA in separate Memorandum of Agreements that were recently ratified by the membership of the respective unions agreed to defer the Fiscal Year 2010 3.5% increase for eighteen (18) months. The FY 2010 3.5% increase to base salary shall be paid the first full pay period after January 1, 2011.

The State has entered into a four-year contract for Fiscal Years 2008-2011 with the New Jersey State Policemen's Benevolent Association State Law Enforcement Unit ("SLEU"). SLEU represents approximately 224 employees. The contract provides for a total salary increase of 14.5%, comprising increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009, 3.75% in Fiscal Year 2010 and 3.75% in Fiscal Year 2011.

The New Jersey State Policemen's Benevolent Associations State Corrections Officers Local No. 105 ("PBA 105") consisting of approximately 6,300 employees has completed interest arbitration and an award was issued on May 5, 2009, providing for salary increases of 3.5% in Fiscal Year 2008, 3.5% in Fiscal Year 2009 and 4.0% in Fiscal Year 2011, (2.0% effective in the first full pay period in July 2010 and 2.0% effective in the first full

pay period in January 2011). The award also provided that increments shall not be paid to employees eligible for increments in Fiscal Year 2010.

The negotiation process for developing new four-year contracts for the remaining law enforcement units, including the State Police, is either underway or commencing shortly for the approximately 4,200 State employees represented by a union.

FUNDING PENSION PLANS

General. Almost all of the public employees of the State and its counties, municipalities and political subdivisions are members of pension plans administered by the State. The State operates seven defined benefit pension plans (collectively, the "Pension Plans"). Public Employees' Retirement System ("PERS") and Teachers' Pension and Annuity Fund ("TPAF") are the largest plans, which as of June 30, 2008, the date of the latest actuarial valuations for all systems covered 319,182 and 156,087 active members, respectively, and 134,555 and 76,068 retired members, respectively. The other systems are Police and Firemen's Retirement System ("PFRS") (as of June 30, 2008, 45,466 active members and 33,151 retired members), Consolidated Police and Firemen's Pension Fund ("CP&FPF") (as of June 30, 2008, no active members and 532 retired members), State Police Retirement System ("SPRS") (as of June 30, 2008, 2,947 active members and 2,520 retired members), Judicial Retirement System ("JRS") (as of June 30, 2008, 425 active members and 468 retired members) and Prison Officers' Pension Fund ("POPF") (as of June 30, 2008, no active members and 167 retired members). From June 30, 2003 to June 30, 2008, the total number of active members and retired members of all of the State-administered plans increased by 35,974 and 40,047, respectively, which represented increases of 7.4% and 19.3%, respectively.

The State is not the only employer sponsoring PERS and PFRS. Local governments within the State participate as employers as well. In both of these Pension Plans, the assets that the State and the local governments contribute are invested together and generate one investment rate of return. However, both of these Pension Plans segregate the active and retired members and the related actuarial liabilities between the State on one hand and the local governments on the other hand. As experience with the State's active and retired members changes, these Pension Plans adjust the actuarial liabilities of the State without affecting the actuarial liabilities of the local governments, and the same occurs with the experience with the local governments' active and retired members. As of June 30, 2008, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 95,331 active members and 42,170 retired members and, with respect to PFRS, 7,936 active members and 3,860 retired members.

Although PERS and PFRS segregate the active and retired members of the State and the local governments, under certain State statutes, the State is responsible for making certain contributions to PFRS and PERS on behalf of local employers. With respect to PERS, the normal cost portion of the actuarially recommended contribution relating to the retirement benefit increase provided to the local governmental members of PERS under Chapter 133, P.L. 2001 continue to be charged against the Benefit Enhancement Fund that was established for the local governmental employer component of PERS (the " Local Governmental BEF"). The PERS actuarial valuation as of June 30, 2008 valued the Local Governmental BEF in the local governmental portion of PERS at approximately $368.4 million. Although local governmental employers participating in the PERS are, for the most part, responsible for funding the normal cost and the unfunded actuarial accrued liability relating to the local governmental members of PERS, Chapter 133 stipulates that if the assets in the Local Governmental BEF are insufficient to pay the normal cost portion of these increased retirement benefits for a valuation period, the State will pay that amount of this normal cost portion for the local employers not covered by the assets in the Local Governmental BEF. With respect to PFRS, the State makes a contribution with respect to active and retired members of the local governments to cover certain benefit enhancements. For the Fiscal Year ending June 30, 2009, the State is expected to make a $13 million contribution of which $5.8 million will be applied toward the cost of such enhanced benefits, See "FUNDING PENSION PLANS — *Current and Historical Contributions and Funding Status",* herein. For the Fiscal Year ending June 30, 2008, the State contributed $60.0 million toward enhanced benefits on behalf of local PFRS members.

State law regulates the administration of the Pension Plans. State law requires that all Pension Plans must conduct an actuarial valuation as of the end of each Fiscal Year. Buck Consultants, an ACS Company, serves as consulting actuary for

below) for the Pension Plans. Informational copies of these reports as well as other financial information is available on the Division of Pensions and Benefits' website at: http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm. No information contained on the website of the Division of Pensions and Benefits is deemed incorporated herein by reference.

The purpose of an actuarial valuation is to calculate the actuarial accrued liability in each of the Pension Plans, which estimates on the basis of demographic and economic assumptions the present value of benefits each of the Pension Plans will pay to its retired members and active members upon retirement. The State contracts with the independent actuaries that provide annual actuarial valuations for each of the Pension Plans, performed in accordance with State statutes and generally recognized and accepted actuarial principles and practices. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an unfunded actuarial accrued liability ("UAAL") of the applicable Pension Plan. An actuarial valuation will express the percentage that a Pension Plan is funded through a "Funded Ratio" which represents the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. An actuarial valuation will also state an actuarially recommended contribution rate, which is a recommended rate of covered payroll that the State and other sponsoring employers contribute to the applicable Pension Plan. The actuarially recommended contribution consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

Ordinarily, the actuarial valuations of the Pension Plans are completed approximately 6-8 months after the end of a Fiscal Year. As a result, the actuarially recommended contribution rates of the actuarial valuations of the Pension Plans (other than for the PFRS) apply not to the Fiscal Year immediately following the Fiscal Year covered by the actuarial valuations but the second immediately following Fiscal Year. For example, the actuarially recommended rates of contribution in the actuarial valuations of the Pension Plans as of June 30, 2007 are applicable to the Fiscal Year ended June 30, 2009. For PFRS, however, the contributions specified in an actuarial valuation apply to the third Fiscal Year following the Fiscal Year covered by the actuarial valuation.

To calculate the actuarial value of assets and actuarial accrued liability of each of the Pension Plans, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return of assets, age of retirement of active members, future pay increases for current employees, assumed rates of disability and post-employment life expectances of retirees and beneficiaries. If the experience of the Pension Plans is different from these assumptions, the UAAL of the Pension Plans may increase or decrease to the extent of any variances. Consequently, the actuarially recommended rates of contribution may be impacted, which may increase the amount of the State's contributions to the Pension Plans.

In the case of the expected rate of return of assets, the actual rate of return on the Pension Plans depends on the performance of their respective investment portfolios. The investment portfolios of the respective Pension Plans can be highly volatile. The value of the securities in the investment portfolios can dramatically change from one Fiscal Year to the next, which could, in turn, cause substantial increases or decreases in the applicable UAAL. For Fiscal Year 2008, the rate of return of the assets of the Pension Plans was negative 2.9%, causing the UAAL of the Pension Plans to increase between Fiscal Year 2007 and Fiscal Year 2008. For Fiscal Year 2009, the estimated year-end return is negative 14.2%. Due to the negative investment return for Fiscal Year 2009, the UAAL will continue to increase and the funding ratios of the Pension Plans will correspondingly decrease. Based on current market conditions there is no assurance that such negative trends will not continue in Fiscal Year 2010 and beyond.

In addition, the actuarial valuations of the Pension Plans use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the Pension Plans. For example, the Pension Plans use an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from temporary or cyclical economic and market conditions. As of June 30, 2008, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately $82.0 billion, which amount includes contribution receivables from the State and local employers. To the extent these receivables do not materialize, adjustments will be made by the actuaries in the next year's valuations. As of June 30, 2008, the aggregate actuarial value of all assets of the Pension Plans was $91.4 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately $9.4 billion.

The Pension Plans use an amortization method that calculates the amount of the UAAL that is included in the actuarially recommended rates of contribution based on the assumption in each year's actuarial valuation that the State (and other sponsoring employers, as applicable) will amortize the UAAL over a 30-year period as a level percent of pay. This means that the actuarial valuation assumes that the portion of the UAAL that the State will amortize in each of the years in the 30-year period will represent the same percentage of payroll for the covered employees in those years. The actuarial valuations of the Pension Plans assume that the payroll for such covered employees will increase by 4.0% in each year, which means that the amount of this payroll will be the smallest dollar amount in the first year of the assumed amortization period. As a consequence of this method, even if the State were to contribute to the Pension Plans the full amount of the actuarially recommended contributions, the UAAL for the Pension Plans will continue to rise indefinitely, so long as all of the other actuarial assumptions of the Pension Plans are realized. Furthermore, if the UAAL of a Pension Plan rises from one year to the next, then the actuarial valuations will once again use the full 30-year amortization period which can result in the State not effectively amortizing the UAAL of the Pension Plans.

State law also requires the Pension Plans to conduct experience investigations every three years, which examine the demographic and economic assumptions used in the Pension Plans' actuarial valuations to ensure that those assumptions are consistent with the Pension Plans' respective historical experiences. Changes recommended by the actuaries are reviewed and considered for implementation by the appropriate Pension Board.

State law provides that any changes in the retirement benefits of the Pension Plans or any changes in the funding methods of the Pension Plans must be approved by the State Legislature, and that each bill submitted to the State Legislature must be accompanied by a fiscal note stating the cost of the proposal. The State Legislature is under no requirement to adopt the recommendations of an actuary in determining the funding of the Pension Plans. State law provides that the retirement benefits of the Pension Plans are not subject to negotiations between the State and other public employers and the employee members of the Pension Plans. Since the Pension Plans are governed by State law, any increases or decreases to the retirement benefits paid by the Pension Plans must be authorized by the State Legislature and approved by the Governor. The State's annual contribution to the Pension Plans is contingent upon the annual Appropriations Act, which is also subject to the approval of the State Legislature and the Governor. Due to budgetary constraints, the amounts appropriated as the State's contribution to the Pension Plans for a Fiscal Year are expected to be less than the actuarially recommended contributions.

The Division of Investment of the New Jersey Department of the Treasury, which is under the independent supervision of the State Investment Council, invests the assets of the Pension Plans. State law regulates the types of investments which are permitted.

In PERS, the State makes employer contributions for State employees while counties, municipalities, school districts and local public agencies make such contributions for their employee members. The State, rather than local school boards, pays the employer contributions to TPAF, including the employer's share of the Social Security tax, with respect to public school teachers in the State. The PFRS is primarily established for municipal policemen and firemen. The State's participation in this Pension Plan is limited to those State-employed law enforcement officers who have been permitted to enroll therein.

The State is solely responsible for funding the benefits of the SPRS, JRS, CP&FPF and the POPF. The CP&FPF and the POPF are closed plans and not open to new membership.

Benefits. Nearly all State employees participate in one of the Pension Plans, with eight to ten years of employment required before retirement benefits become vested. Upon retirement, members of PERS and TPAF are eligible for annual retirement benefits equal to 1/55 of final average compensation for each year of service credit. This is in accordance with legislation enacted by the State Legislature in 2001 which increased the retirement benefits under PERS and TPAF by changing the retirement benefit formula from 1/60 to 1/55 of final average compensation for each year of service. Final average compensation equals the average compensation for the final three years of service before retirement or highest three years' compensation if other than the final three years. Also available to such participants are an early retirement benefit after 25 years of service and a veteran's retirement benefit after 20 and 25 years of service, if age requirements for those retirement benefits are met.

After a participant in one of the Pension Plans has been retired for two years, the participant is eligible for the pension adjustment program, which provides for an adjustment in retirement benefits. The pension adjustment program is non-contributory and covers all eligible retirees and survivors of the Pension Plans. Eligible retirees and their survivors are those who have been retired at least 24 months. The percentage adjustment is 60.0% of the change in the Consumer Price Index from the year of retirement to the year immediately preceding the year of adjustment (there is no cap on the amount of such increase). In all Pension Plans, except CP&FPF and POPF, the Pension Plans directly fund the cost-of-living increases and these cost-of-living increases are included in the actuarial accrued liability of the Pension Plans. The State funds cost-of-living increases in the CP&FPF and POPF on a "pay-as-you-go" basis.

From Fiscal Year ended June 30, 2003 to Fiscal Year ended June 30, 2008 the total net assets of all of the Pension Plans, which includes both the assets relating to State and local government active and retired members, as reported in their respective Audited Financial Reports, increased by $18.7 billion from $64.3 billion to $83.0 billion and the annual total expenditures incurred by the Pension Plans over the same period increased by $2.1 billion from $4.4 billion to $6.5 billion. The amount of these expenditures is expected to increase in future fiscal years. This resulted in an increase in the Annual Expenditures to Net Assets Ratio from 6.87% for the Fiscal Year ended June 30, 2003 to 7.88% for the Fiscal Year ended June 30, 2008. It is likely that the Annual Expenditures to Net Assets Ratio will worsen and increase in future fiscal years. Net assets represent the difference between a Pension Plan's total assets and its liabilities and mainly consist of investment holdings, which are stated at market value, and member and employer receivables. Expenditures include retirement benefit payments, including cost-of-living adjustments, contributory and noncontributory death benefit payments, member withdrawals and administrative expenses.

Significant and Recent Legislative Changes Affecting Benefit Levels. The State Legislature has in the past adopted laws that increased the retirement benefits payable by the Pension Plans. The result of these increases in retirement benefits was to increase the actuarial accrued liability of the affected Pension Plans which also had the effect of increasing the actuarially recommended contributions for the State for the affected Pension Plans. For example, on June 24, 2008, Governor Corzine signed an Early Retirement Incentive program into law for certain full-time employees of the Executive and Judicial Branches of State government. The increase in the unfunded aggregate UAAL of the Pension Plans caused by the Early Retirement Incentive program for the 1,488 State employees who elected to retire under this program is estimated to be $184.7 million. The State Legislature may from time to time in the future adopt additional legislation increasing the retirement benefits payable under the Pension Plans.

In addition, the State Legislature has in the past adopted laws that limited future retirement benefits payable by the Pension Plans. These laws are expected to limit the future growth of the actuarial accrued liability of the affected Pension Plans which also has the effect of limiting the growth of the actuarially recommended contributions for the State for the affected Pension Plans in future plan years. For example, the State Legislature adopted laws for the Fiscal Year ending June 30, 2009 which raised the minimum annual salary required to establish eligibility for membership under certain Pension Plans and increased the retirement age at which full pension benefits are payable from 60 to 62 for certain employees hired on or after November 2, 2008. The State Legislature also adopted laws in the Fiscal Year ended June 30, 2007 which raised the employee contribution rate for PERS and TPAF active members from 5.0% to 5.5%, raised the early retirement age at which full retirement benefits are payable from 55 to 60 for new employees enrolled in the PERS and TPAF on or after July 1, 2007, and provides that new employees hired on or after July 1, 2007 are subject to a maximum compensation limit for PERS and TPAF pension contributions. The State Legislature may from time to time in the future adopt additional legislation limiting the future retirement benefits payable under the Pension Plans.

Calculations of actuarial accrued liability reflect legislation in effect at the time calculations are made. Legislation enacted after any such calculation could significantly increase or decrease the actuarial accrued liability reflected in any such calculations.

Current and Historical Contributions and Funding Status. From the Fiscal Year ended June 30, 1997 through Fiscal Year ended June 30, 2003, the State made minimal contributions to the Pension Plans because the actuarial value of the assets in each of the Pension Plans exceeded the actuarial accrued liability and the State used that excess as a credit against the actuarially recommended contributions. Beginning with the actuarial valuations of the Pension Plans as of June 30, 2002, several of the Pension Plans (including PERS and TPAF) suffered from adverse market conditions and the Funded Ratio of these Pension Plans declined rapidly. As a result, the actuarial recommended contributions in those actuarial valuations steeply increased and the State was not financially in the

position to absorb the entire amount of the actuarially recommended contributions. As a consequence, the State adopted a "phase-in" approach to financing the State's contributions to the Pension Plans. Under this approach, since Fiscal Year ended June 30, 2004, which was the first year in which these increased actuarially recommended contributions applied, the State has not paid the aggregate actuarially recommended contributions to the Pension Plans (taking the Pension Plans as a whole). For the Fiscal Years ended June 30, 2004, June 30, 2005, June 30, 2006, June 30, 2007, and June 30, 2008, the State paid approximately 20.0%, 30.0%, 40.0%, 57.5%, and 50.1%, respectively, of the total actuarially recommended contributions of all of the Pension Plans. Given the uncertainty of when the State will be able to make the total actuarially recommended contribution for all of the Pension Plans, the State will no longer refer to such funding as a phase-in approach.

However, for PERS and TPAF, the State's Appropriation Acts for the Fiscal Years ended June 30, 2004, 2005 and 2006 authorized the use of the Benefit Enhancement Fund (the "State BEF") to cover the phase-in costs for those years. The State BEF is a special reserve fund within PERS and TPAF to which the required normal contributions to provide retirement benefit increases under P.L. 2001, Chapter 353 and P.L. 2001, Chapter 133, was charged. The fund was established in the Fiscal Year ended June 30, 2002 and credited with excess assets equivalent to member contributions for Fiscal Years ended June 30, 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the State BEF. Amounts in the State BEF for each of PERS and TPAF were calculated within the respective actuarial value of assets and the related retirement benefits were calculated within the respective actuarial accrued liabilities. Therefore, because the State used amounts from the State BEF to satisfy its contributions in Fiscal Years ended June 30, 2004 through 2006, from an actuarial perspective, the State did not contribute any funds to PERS or TPAF in the Fiscal Years ended June 30, 2004 and 2005 and the State contributed minimal amounts in the Fiscal Year ended June 30, 2006. The State BEF became fully depleted in the Fiscal Year ended June 30, 2006 and the State made a contribution to PERS and TPAF representing approximately 57.5% of the actuarially recommended contributions of those Pension Plans for the Fiscal Year ended June 30, 2007.

For the Fiscal Year ending June 30, 2009, although $1.047 billion was included in the Fiscal Year 2009 Appropriations Act as the State's pension contribution to the Pension Plans, it was expected that the State would only contribute $263.1 million to the Pension Plans due to continuing budgetary problems caused by the current economic crisis. The State later reduced the projected contribution amount for Fiscal Year 2009 to $106.3 million, representing only 4.8% of the total actuarially recommended contribution to the Pension Plans of $2.231 billion and only 10.2% of the amount included in the Fiscal Year 2009 Appropriations Act. This anticipated contribution, which was due on June 30, 2009, has not yet been paid by the State. Fiscal Year 2009 appropriations have been reserved to make the payment and it is expected to be made pending completion of the Fiscal Year 2009 close out process. Barring any unexpected developments relating to the close out of the Fiscal Year 2009 results, the payment will be made. For the Fiscal Year ending June 30, 2010, $100 million is included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans. This contribution represents only 4% of the total actuarially recommended contribution for the State to the Pension Plans of $2.519 billion. These reductions in the State's pension contribution for Fiscal Year 2009 and Fiscal Year 2010, absent significant improvement in investment returns or actions resulting in changes to liabilities of the Pension Plans, are expected to cause the UAAL of the Pension Plans to increase significantly, which would lower the overall funded ratio of the Pension Plans and increase the need for future State pension contributions to ensure the fiscal integrity of the Pension Plans. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS
Actuarial Valuations as of June 30, 2008
(In Millions)

Pension Plan	Actuarial Value of Assets(1)	Actuarial Accrued Liability(2)	Unfunded Actuarial Accrued Liability(3)	Funded Ratio(4)
State				
PERS	$11,200.7	$ 17,072.7	$ 5,872.0	65.6%
TPAF	36,664.6	51,754.8	15,090.2	70.8%
PFRS	2,316.0	3,749.1	1,433.1	61.8%
CP&FPF	15.7	17.3	1.6	90.8%
SPRS	2,127.3	2,609.2	481.9	81.5%
JRS	381.0	553.3	172.3	68.9%
POPF	12.9	6.8	(6.1)	189.7%
Subtotal	52,718.2	75,763.2	23,045.0	69.6%
Local				
PERS	18,217.7	23,173.2	4,955.5	78.6%
PFRS	20,437.5	26,871.1	6,433.6	76.1%
Subtotal	38,655.2	50,044.3	11,389.1	77.2%
Total	$91,373.4	$125,807.5	$34,434.1	72.6%

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2008 for each of the indicated Pension Plans.

(1) The actuarial value of assets of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and represents the market-related value of the assets held by the Pension Plan as adjusted to reflect various actuarial methods including the smoothing of actuarial losses and gains (including investment losses and gains) over a five-year period.

(2) The actuarial accrued liability of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and is an estimate based on demographic and economic assumptions of the present value of benefits that the Pension Plan will pay during the assumed life expectancies of the applicable retired members and active members after they retire.

(3) The UAAL of each of the Pension Plans is set forth in the actuarial valuation relating to a Pension Plan and reflects the amount of the excess of the actuarial accrued liability of a Pension Plan over its actuarial value of assets. The indicated amounts reflect the UAAL as calculated pursuant to the requirements of the Government Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State. These amounts differ immaterially from the UAAL of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.

(4) The Funded Ratio of each of the Pension Plans is presented in the actuarial valuation relating to a Pension Plan and reflects the quotient obtained by dividing the actuarial value of assets of the Pension Plan by the actuarial accrued liability of the Pension Plan. The indicated percentages reflect the Funded Ratio as calculated pursuant to the requirements of the Governmental Accounting Standards Board ("GASB") for purposes of presentation in the Comprehensive Annual Financial Report of the State. These percentages differ immaterially from the Funded Ratios of the Pension Plans calculated strictly pursuant to the actuarial methods required by State statutes and the actuarial assumptions adopted by the applicable Pension Plan boards.

HISTORICAL FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of June 30, 2002 through June 30, 2008
(In Millions)

Valuation Year Ending June 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
State				
2002	$50,530.9	$50,129.9	(401.0)	100.8%
2003	49,673.6	53,914.2	4,240.6	92.1%
2004	49,574.1	58,017.6	8,443.5	85.4%
2005	49,755.1	62,796.5	13,041.4	79.2%
2006	50,659.2	67,266.3	16,607.1	75.3%
2007	52,433.4	71,655.8	19,222.4	73.2%
2008	52,718.2	75,763.2	23,045.0	69.6%
Local				
2002	32,895.3	32,110.4	(784.9)	102.4%
2003	32,853.9	34,145.9	1,292.0	96.2%
2004	33,176.5	36,846.9	3,670.4	90.0%
2005	33,854.1	39,730.9	5,876.8	85.2%
2006	34,981.1	43,181.5	8,200.4	81.0%
2007	37,190.7	46,326.3	9,135.6	80.3%
2008	38,655.2	50,044.3	11,389.1	77.2%

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2002 through June 30, 2008 for all the Pension Plans.

(1) Please refer to the footnotes of the immediately preceding table for an explanation of the categories set forth in the columns of this table. Each of the columns of this table reflects an aggregate of all of the Pension Plans. Thus, each of the indicated categories reflects a sum of that category of all of the Pension Plans for the indicated Fiscal Years (except with respect to the Funded Ratios which are the weighted average Funded Ratios of all of the Pension Plans for the indicated Fiscal Years).

SCHEDULE OF STATE AND LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2009
(In Millions)

Pension Plan	Actuarially Recommended Contributions(1)	Expected Contributions(2)(5)	Amount Unfunded(3)(5)
State			
PERS	$ 506.3	$ 0.0	$ 506.3
TPAF	1,349.3	0.0	1,349.3
PFRS(4)	271.8	0.0	271.8
CP&FPF	1.3	0.0	1.3
SPRS	75.9	0.0	75.9
JRS	26.1	0.0	26.1
POPF	—	—	—
Subtotal	2,230.7	0.0	2,230.7
Local			
PERS	500.0	250.0	250.0
PFRS	668.7	334.3	334.4
Subtotal	1,168.7	584.3	584.4
Total	$3,399.4	$584.3	$2,815.1

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the June 30, 2007 actuarial valuation reports for all of the Pension Plans except with respect to PFRS for which the information was derived from the actuarial valuation report as of June 30, 2006. Since the Fiscal Year 2009 State contribution has not been paid as of June 30, 2009, the expected amount is being shown as zero. Information with respect to the expected contributions of local governments was derived from the actuarial valuation report of PERS as of June 30, 2007 and the actuarial valuation report of PFRS as of June 30, 2006.

(1) The State and local participating employers will make its pension contributions to the indicated Pension Plans in the Fiscal Year ending June 30, 2009 based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2007, except in the PFRS where the contribution will be based on the actuarial valuation prepared as of June 30, 2006. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2009 by local government employers who have adopted ERI programs for their employees.

(2) It was expected that the State would make a $106.3 million contribution to the Pension Plans for the Fiscal Year ending June 30, 2009; however, this anticipated contribution, which was due on June 30, 2009, has not yet been paid by the State. Fiscal Year 2009 appropriations have been reserved to make the payment and it is expected to be made pending completion of the Fiscal Year 2009 close out process. Barring any unexpected developments relating to the close out of the Fiscal Year 2009 results, the payment will be made. On the local side, P.L. 2009, c.19 was recently enacted which gives PERS and PFRS local employers the option of funding only 50.0% of the actuarially recommended contribution amount due for the Fiscal Year ending June 30, 2009 and for making additional contributions over a period of 15 years beginning in the Fiscal Year ending June 30, 2012 to cover the unfunded liability on the reduced contribution. Although local employers were billed only 50% of the actuarially recommended amounts, as shown above, 71% of PERS local employers and 64% of PFRS local employers opted to make the full actuarially recommended contribution.

(3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.

(4) The actuarially recommended State contribution to the PFRS includes contributions owed by the State on behalf of local active and retired members to cover certain benefit enhancements. Of the total actuarially recommended contribution of $271.8 million for the Fiscal Year ending June 30, 2009, $122.2 million represents contributions on behalf of local participants.

(5) Estimated.

SCHEDULE OF STATE AND LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2010
(In Millions)

Pension Plan	Actuarially Recommended Contributions(1)	Expected Contributions(2)(5)	Amount Unfunded(3)(5)
State			
PERS	$ 580.4	$ 20.4	$ 560.0
TPAF	1,527.5	62.4	1,465.1
PFRS(4)	299.1	12.4	286.7
CP&FPF	0.4	0.4	—
SPRS	82.5	3.3	79.2
JRS	28.9	1.1	27.8
POPF	—	—	—
Subtotal	2,518.8	100.0	2,418.8
Local			
PERS	566.4	566.4	—
PFRS	714.7	714.7	—
Subtotal	1,281.1	1,281.1	—
Total	$3,799.9	$1,381.1	$2,418.8

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the June 30, 2008 actuarial valuation reports for all of the Pension Plans except with respect to PFRS for which the information was derived from the actuarial valuation report as of June 30, 2007. Information regarding the expected contributions for the State was derived from the Fiscal Year 2010 Appropriations Act. Information with respect to the expected contributions of local governments was derived from the actuarial valuation report of PERS as of June 30, 2008 and the actuarial valuation report of PFRS as of June 30, 2007.

(1) The State and local participating employers will make its pension contributions to the indicated Pension Plans in the Fiscal Year ending June 30, 2010 based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2008, except in the PFRS where the contribution will be based on the actuarial valuation prepared as of June 30, 2007. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2010 by local government employers who have adopted ERI programs for their employees.

(2) As a result of the State budgetary decision to defer required State's contributions, the State's pension contributions to the Pension Plans will be substantially lower than the actuarially recommended contributions as set forth in the actuarial valuations of the Pension Plans. For local participating employers, full contributions based on the actuarially recommended amounts are expected.

(3) Represents the difference between the actuarially recommended pension contribution and the expected contribution from the State and the local participating employers.

(4) The State contribution to the PFRS includes contributions made by the State on behalf of local active and retired members to cover certain benefit enhancements. Of the total expected contribution of $12.4 million for the Fiscal Year ending June 30, 2010, $5.6 million represents contributions on behalf of local participants.

(5) Estimated.

AGGREGATE STATE AND LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Years Ending June 30, 2004 through June 30, 2010 (1)
(In Millions)

Fiscal Year Ending June 30,	Actuarially Recommended Contributions(2)	Actual and Expected Contributions	Amount Unfunded
2004	$ 783.2	$ 26.4	$ 756.8
2005	1,066.2	61.1	1,005.1
2006	1,450.8	164.4	1,286.4
2007	1,778.6	1,023.2	755.4
2008	2,089.8	1,046.1	1,043.7
2009	2,230.7	0.0	2,230.7
2010	2,518.8	100.0	2,418.8
Subtotal	$11,918.1	$2,421.2	$ 9,496.9
Local			
2004	407.0	48.4	358.6
2005	484.0	158.9	325.1
2006	678.1	353.8	324.3
2007	842.5	605.6	236.9
2008	1,089.1	993.4	95.7
2009	1,168.7	584.3	584.4
2010	1,281.1	1,281.1	—
Subtotal	5,950.5	4,025.5	1,925.0
Total	$17,868.6	$6,446.7	$11,421.9

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions of the State was derived from the actuarial valuation reports as of June 30, 2002 through June 30, 2008 for all of the Pension Plans except for PFRS for which the information was derived from the actuarial valuation reports of PFRS as of June 30, 2001 through June 30, 2007. Information regarding the actual contributions of the State for Fiscal Years 2004 through 2008 was provided by the Division of Pensions and Benefits. Since the Fiscal Year 2009 State contribution has not been paid as of June 30, 2009, the expected amount is being shown as zero. The expected contribution for Fiscal Year 2010 is as set forth in the Fiscal Year 2010 Appropriations Act. Information regarding the actuarially recommended contributions and the actual and estimated contributions of local governments was derived from the actuarial valuation reports of PERS as of June 30, 2002 through June 30, 2008 and the actuarial valuation reports of PFRS as of June 30, 2001 through June 30, 2007.

(1) Please refer to the footnotes of the immediately preceding table for an explanation of the categories set forth in the columns of this table. Each of the columns of this table reflects an aggregate of all of the Pension Plans. Thus, each of indicated categories reflects a sum of that category of all of the Pension Plans (except with respect to the Funded Ratio which is a weighted average Funded Ratio of all of the Pension Plans)

(2) For all pension plans except PFRS, the State and local employer contributions relating to an actuarial valuation as of the end of a Fiscal Year are made in the second succeeding Fiscal Year. For example, the State and local employers' contributions relating to the actuarial valuation as of June 30, 2008 will be made in the Fiscal Year ended June 30, 2010. For PFRS, the State and local employer contributions are made in the third succeeding Fiscal Year. For example, the State and local employers' contributions relating to the June 30, 2007 actuarial valuation will be made in the Fiscal Year ended June 30, 2010.

Impact of State's Pension Plan Funding Actions. The State has not contributed the full amount of the actuarially recommended contributions with respect to the Pension Plans since the Fiscal Year ending June 30, 2003. From the Fiscal Year ended June 30, 1997 through Fiscal Year ended June 30, 2003, the actuarially recommended contributions were minimal because the actuarial value of the assets in each of the Pension Plans exceeded the actuarial accrued liability and the State used that excess as a credit against the actuarially

recommended contributions. Beginning with the Fiscal Year ending June 30, 2004, excess valuation assets were nearly fully depleted and full contributions were required in most of the Pension Plans. For the Fiscal Years ended June 30, 2004, June 30, 2005, June 30, 2006, June 30, 2007 and June 30, 2008, the State's contributions to the Pension Plans, including amounts transferred from the State BEF within the PERS and TPAF in Fiscal Years 2004, 2005 and 2006, were approximately 20.0%, 30.0%, 40.0%, 57.5%, and 50.1%, respectively, of the total actuarially recommended contributions of all of the Pension Plans. See "FUNDING PENSION PLANS — *Current and Historical Contributions and Funding Status*" for a description of the State BEF.

While the State had increased its contributions to more significant levels for Fiscal Years 2007 and 2008, as a result of deteriorating economic conditions for the Fiscal Year ending June 30, 2009, the State estimates that it will pay only approximately 4.8% of the actuarially recommended contributions and for the Fiscal Year ending June 30, 2010, the State estimates that it will pay approximately 4% of the actuarial recommended contribution. The anticipated Fiscal Year 2009 contribution, which was due on June 30, 2009, has not yet been paid by the State. Fiscal Year 2009 appropriations have been reserved to make the payment and it is expected to be made pending completion of the Fiscal Year 2009 close out process. Barring any unexpected developments relating to the close out of the Fiscal Year 2009 results, the payment will be made. The Pension Plans have experienced increasing deterioration in their funded status as a result of these low levels of State funding which has been exacerbated by recent declines in the valuations of fund assets. The aggregate Funded Ratio of the Pension Plans has declined from approximately 100.8% as of June 30, 2002 to 69.6% as of June 30, 2008, and absent an unanticipated increase in the value of fund assets will decline further for the Fiscal Years ended June 30, 2009 and 2010, respectively. In order to maintain the long-term fiscal integrity of the Pension Funds and their ability to pay required benefits to the members of the Pension Plans, a combination of some or all of the following will be required: (i) substantially increased contributions by the State, (ii) significantly increased investment returns, or (iii) actions resulting in changes to liabilities of the Pension Plans. Any significant increase in State contributions would in turn create a significant burden on all aspects of the State's budget. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

Recent Developments on Pension Plans and on the State's Financial Condition. The State expects that the UAAL of the Pension Plans as of June 30, 2009 will probably experience a substantial increase as a result of losses on their investment portfolio. For the period from July 1, 2008 through June 30, 2009, the State estimates that the investment portfolio of the Pension Plans declined by approximately 14.2% to $63.2 billion from $78.2 billion at June 30, 2008. As a result, this will probably contribute to a substantial increase in the UAAL of the Pension Plans. Based on current economic conditions, no assurance can be given that such substantial increases will not continue for the Fiscal Year ending June 30, 2010 and beyond.

As discussed above, the UAAL of the Pension Plans has also consistently risen since the Fiscal Year ended June 30, 2004 and is expected to experience a substantial increase as of the end of Fiscal Year 2009 as a result of the State, since the Fiscal Year ended June 30, 2004, not contributing the full actuarially recommended contribution and the recent poor investment performance of the Pension Plans. This element of the increase in the UAAL is also expected to continue to increase in the Fiscal Year ending June 30, 2010 and possibly beyond.

The UAAL also makes numerous economic and demographic assumptions such as how high inflation will rise in the future, when the members of the Pension Plans will retire, how long these members will live and how many of these members will become disabled. If any of these assumptions prove to be materially worse than assumed, any resulting increase in the UAAL could be substantial, with the result that the financial condition of the Pension Plans would be worse than presented above.

The deterioration of the financial condition of the Pension Plans reflected by the increasing UAAL may have two consequences. First, the deterioration increases the amount of future actuarially recommended contributions of the State which has the effect of deferring a substantial portion of the State's funding responsibilities to future Fiscal Years. Second, the deterioration reduces the amount of assets the Pension Plans have to pay benefits to their members. As discussed above, as the financial condition of the Pension Plans has deteriorated, the Pension Plans' Annual Expenditures to Net Assets Ratio has steadily increased and for the Fiscal Year ended June 30, 2008 was 7.88%. Although the accumulation of assets in the Pension Plans does not jeopardize the payment of pension benefits in the short term, the long-term impact of continuation of a funding policy that allows the State to contribute less than the aggregate actuarially recommended contributions could impact, at some point, the Pension Plans'

ability to meet their obligations absent significant additional contributions by the State, increased investment returns or actions resulting in changes to liabilities of the Pension Plans. Future increased contributions by the State in future Fiscal Years, depending on the magnitude, would likely create a significant burden on all aspects of the State's budget. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

Alternate Benefit Program. In addition to these defined benefit programs, the State also maintains the Alternate Benefit Program ("ABP"), which is a defined contribution plan for eligible employees of the public institutions of higher education in the State. Employer and employee contributions under the ABP are paid to authorized investment carriers who offer participants a variety of investment choices. The six investment carriers for this program are ING Life Insurance and Annuity Company, Met Life (formerly Travelers/CitiStreet), TIAA-CREF, AIG VALIC, AXA Financial (Equitable) and The Hartford. The State pays the employer pension contribution to the ABP at a rate equal to 8.0% of the member's base salary. In addition, the State provides funding to cover the cost of noncontributory group life insurance and long-term disability insurance coverage for ABP participants. For Fiscal Year 2008 and 2009, the State appropriated $158.3 million and $166.5 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2010, the Fiscal Year 2010 Appropriations Act includes $174.7 million as the State's contribution to the ABP to cover pension, noncontributory group life insurance, and long-term disability benefit costs. Since the ABP is a defined contribution plan and not a defined benefit plan, the State's sole obligation with respect to the ABP is to make the annual contributions and the State has no responsibility to ensure that the participating employees ultimately receive a level of benefit.

Central Pension Fund. The State also administers the Central Pension Fund ("CPF"), which is a single-employer noncontributory defined benefit plan for certain groups that are not included in other State-administered systems. The State funds the CPF on a pay-as-you-go basis. There are no State or local government employees covered by the CPF.

Noncontributory Life Insurance. The State funds noncontributory insurance benefit costs for active and retired State employees. State appropriations are received on a monthly basis to cover actual benefit charges incurred and payable to beneficiaries of active and retired State employees plus administrative fees charged by the insurance providers. The State funds these benefit costs on a pay-as-you-go basis and does not actuarially determine the future liability of these benefit costs. The State has appropriated $68.7 million to cover noncontributory insurance benefit costs of the Pension Plans for the Fiscal Year ending June 30, 2009. For Fiscal Year 2010, the Fiscal Year 2010 Appropriations Act includes $72.4 million for noncontributory insurance benefits for the Pension Plans. The State expects that its noncontributory insurance benefit costs will increase in future fiscal years.

Defined Contribution Retirement Program. The State Legislature adopted legislation, P.L. 2007, c. 92, as amended by P.L. 2007, c. 103 and P.L. 2008, c. 89, in the Fiscal Year ending June 30, 2007 which required the establishment of the Defined Contribution Retirement Program (the "DCRP"), which is a new defined contribution plan for elected and appointed officials and for certain PERS and TPAF employees subject to a maximum compensation limit. The employee contribution rate for the DCRP is 5.5%. Employers are required to contribute an additional 3.0% of base salary on behalf of employees enrolled in the plan. With regard to PERS and TPAF members enrolled in the DCRP, contributions are based on compensation in excess of the Social Security maximum.

SEC Inquiry. The Division of Pensions and Benefits was contacted in late April 2007 by the Securities and Exchange Commission ("SEC") regarding a confidential, informal inquiry into New Jersey's pension system. The SEC has asked for information as part of its fact finding inquiry, which it is sharing with the United States Attorney's Office for the District of New Jersey. The State is cooperating fully and is providing information in response to the SEC's requests. The State is unable to predict the ultimate outcome of such inquiry.

See below under the captions "LITIGATION — *New Jersey Education Association et al. v. State of New Jersey et al"* and "— *Professional Firefighters Association of New Jersey et al. v. State of New Jersey et al"* for a description of claims pending against the State relating to the Pension Plans.

FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical ("PRM") benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program ("SHBP") and the recently established School Employees' Health Benefits Program ("SEHPB"), created under the provisions of P.L. 2007, Chapter 103 to provide medical and prescription drug coverage to active and retired education employees beginning July 1, 2008. The SHBP and the SEHBP are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2009, the State paid PRM benefits for 108,384 State and local retirees.

The State funds post-retirement medical benefits on a "pay-as-you-go" basis, which means that the State does not pre-fund, or otherwise establish a reserve or other pool of assets against the PRM expenses that the State may incur in future years. For Fiscal Year 2009, the State expended $1.066 billion to pay for PRM benefits for the eligible retirees in these groups mentioned above. The Fiscal Year 2010 Appropriations Act appropriates $1.193 billion to cover anticipated pay-as-you-go PRM costs.

In accordance with the provisions of GASB Statements No. 43 and 45, the State is required to quantify and disclose its obligations to pay PRM to current and future retirees. GASB Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pensions is effective for the SHBP beginning with Fiscal Year 2007 (July 1, 2006 — June 30, 2007). GASB Statement No. 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions is effective for the State beginning with Fiscal Year 2008 (July 1, 2007 — June 30, 2008). Based on the most recent valuation of these benefits and as summarized in the report, "Postemployment Benefits Other Than Pension Actuarial Valuation," submitted to the Division of Pensions and Benefits by AON Consulting (AON) in July 2009 which is currently under review and has not yet been finalized, the Fiscal Year 2009 actuarial accrued liability of the State to provide PRM to active and retired members of the pension plans has been measured to be $55,913.5 million. GASB 45 does not impose any requirement on the State to pre-fund its PRM actuarial accrued liability.

The results of the report are summarized in the table below.

	GASB 43 Results ($ millions) as of July 1, 2008		
	State	**Education-State**	**Total**
Actuarial Accrued Liability*			
Active	$12,985.3	$22,522.0	$35,507.3
Retired	$ 6,865.6	$13,540.6	$20,406.2
Total	$19,850.9	$36,062.6	$55,913.5

* Assuming no pre-funding of obligations

The amounts set forth in this table exclude the actuarial accrued liability of the Local Governmental Employers who are participating in the State Health Benefits Program. The PRM actuarial accrued liability for the local governmental employers is $8,840.5 million. The State has no legal responsibility with respect to the PRM obligations of Local Governmental Employers.

AON calculated the State PRM actuarial accrued liability based on plan provisions, as provided by the State, along with certain demographic and economic assumptions recommended by AON and approved by the State, and which conform to the requirements of GASB 43 and 45. AON used the Projected Unit Credit Actuarial Method to calculate the PRM actuarial accrued liability of the State and local participating employers. Many of the actuarial assumptions used to project the PRM actuarial accrued liability are the same as those used to determine the accrued actuarial liabilities of the Pension Plans. The discount rate used to determine the retiree healthcare liabilities is 4.5%, which is the maximum discount rate that GASB 43 and 45 permit when employers do not pre-fund their PRM actuarial accrued liabilities.

When projecting the growth of expected claims of the lifetimes of the qualifying retirees, (1) AON assumed that healthcare expenses would increase at rates ranging from 9.0% to 10.0% per year for the next 10 years and then 5.0% each year after that and (2) AON assumed that prescription drug expenses would increase at a rate of 11.0% per year for the next 11 years and then 5.0% per year after that. For additional information regarding the PRM actuarial accrued liability of the State and local employers, including a detailed description of the related actuarial methods and assumptions, refer to the July 1, 2008 State of New Jersey, Postemployment Benefits Other Than Pension Actuarial Valuation. An informational copy of the valuation report will be made available on the Division of Pensions and Benefits' website at http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm once it becomes available. No information contained on the website of the Division of Pensions and Benefits is deemed incorporated herein by reference.

SCHEDULE OF FUNDING PROGRESS FOR POST-RETIREMENT MEDICAL BENEFITS
Actuarial Valuations as of July 1, 2006 through July 1, 2008
(In millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability(1)	Unfunded Actuarial Accrued Liability (UAA)	Funded Ratio	Covered Payroll	UAA as a Percentage of Covered Payroll
State & Education						
07/01/2006	$0	$58,059.0	$58,059.0	0%	n/a	0%
07/01/2007	$0	$50,649.5	$50,649.5	0%	n/a	0%
07/01/2008	$0	$55,913.5	$55,913.5	0%	$20,180.2	277.1%
Local						
07/01/2006	$0	$10,774.6	$10,774.6	0%	n/a	0%
07/01/2007	$0	$ 9,096.6	$ 9,096.6	0%	n/a	0%
07/01/2008	$0	$ 8,840.5	$ 8,840.5	0%	$2,411.7	366.6%

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the Postemployment Benefits Other Than Pension Actuarial Valuation Reports dated July 1, 2006 through July 1, 2008.

(1) The actuarial accrued liability is the liability or obligation for benefits earned by active and retired employees through the valuation date based on certain actuarial methods and assumptions. The majority of this obligation is for active employees.

LITIGATION

The following are cases presently pending or threatened in which the State has the potential for either a significant loss of revenue or a significant unanticipated expenditure.

Buena Regional Commercial Township et al. v. New Jersey Department of Education et al. This lawsuit was filed in Superior Court, Chancery Division, Cumberland County on December 9, 1997, on behalf of 17 rural school districts seeking the same type of relief as has been mandated to be provided to the poor urban school districts in *Abbott v. Burke,* which included, without limitation, sufficient funds to allow the school districts to spend at the average of wealthy suburban school districts, to implement additional programs such as full-day kindergarten, half-day preschool programs for three and four year olds, technology, alternative school, accountability and school-to-work and college transition programs, and to upgrade school facilities. The *Buena* school districts are seeking to be treated as special needs districts and to receive parity funding with the *Abbott* school districts as a remedial measure. They also are seeking additional funding as may be necessary to provide an education equivalent to that being provided in the *Abbott* districts. The State and the plaintiffs entered into a consent order to transfer the matter to the Commissioner of Education (the "Commissioner") for a hearing. The plaintiffs' petition was amended to include three more rural districts for a total of 20. On February 24, 2000, the Commissioner decided the State's final motion to dismiss and ordered that the matter be transmitted to the Office of Administrative Law ("OAL") for a hearing limited to whether each petitioning district has fully effectuated the provisions of the Comprehensive Educational Improvement and Financing Act ("CEIFA"). Upon transmittal, three districts withdrew from the litigation. On December 29, 2000, the Administrative Law Judge ("ALJ") rendered a decision finding that all of the petitioning school districts established that they were using CEIFA funding appropriately and recommended that the second part of the hearing process move forward. Subsequently, with a modification as to the standard of review, the Commissioner affirmed the ALJ's decision. The matter was remanded to the OAL to determine whether educational deficiencies exist in the districts and, if so, whether the deficiencies are linked to the funding formula. On September 26, 2002, the ALJ issued an Initial Decision (the "Initial Decision"), finding that 5 of the 17 petitioning school districts were unable to provide a thorough and efficient education to their students: Salem City, Commercial, Buena Regional, Fairfield and Woodbine. As a remedy, the ALJ recommended full "Abbott" funding for these five districts. On November 9, 2002, the parties submitted written exceptions to the Initial Decision. Of the twelve (12) districts that were unsuccessful in demonstrating a failure to provide a thorough and efficient education to their students and therefore no remedy was proposed by the ALJ, only six filed exceptions that the ALJ was incorrect as to them: Clayton, Egg Harbor City, Lakehurst, Lawrence, Maurice River and Lakewood.

Following a review of the Initial Decision, exceptions and record, the Commissioner, on February 10, 2003, adopted in part and rejected in part the Initial Decision. The Commissioner rejected the finding that Buena Regional, Commercial, Fairfield and Woodbine met the standard for "special needs district" status. The Commissioner adopted the finding that Salem City met the standard for special needs status and recommended to the Legislature that Salem be included within CEIFA's definition of an "Abbott District." Additionally, the Commissioner adopted the finding that the other twelve petitioning districts did not demonstrate that CEIFA is insufficient to enable them to provide a thorough and efficient education to their students. On March 6, 2003, the districts of Buena Regional, Clayton, Commercial, Egg Harbor, Fairfield, Lakehurst, Lakewood, Lawrence, Maurice River, and Woodbine appealed the decision of the Commissioner to the State Board of Education. On July 2, 2003, the districts of Commercial and Maurice River withdrew their appeals.

On June 15, 2005, the Legal Committee of the State Board of Education ("Legal Committee") issued a report ("Initial Report") to the parties. The Initial Report found that the current methods of funding school districts in the State are ineffective and cause disparities. Moreover, the Initial Report found that the appealing school districts in this litigation and those school districts in this litigation which did not pursue an appeal are entitled to relief. The Initial Report directed the Commissioner to undertake a Statewide study of components necessary for a thorough and efficient education and for the Commissioner to conduct individual school district needs assessments for all of the original school districts in this litigation. The Department of Education (the "Department") filed exceptions to this Initial Report on July 25, 2005. On September 26, 2005, the Department received a revised report from the Legal Committee which came virtually to the same conclusions as the Initial Report. The Department filed exceptions to the revised report. On January 4, 2006, the State Board of Education adopted the revised report, with

slight modifications, from the Legal Committee, thereby finding CEIFA unconstitutional as applied to the school districts in this litigation. The State Board of Education directed the Commissioner to design a needs assessment to be performed in each of the school districts participating in this litigation. The Commissioner was directed to submit the proposed design of the needs assessment to the State Board of Education by February 1, 2006. Additionally, the State Board of Education found problems with the method of school funding on a Statewide basis and directed the Commissioner to analyze the current system and provide the State Board of Education with findings and recommendations as to the educational components essential to the establishment of a unified system for public education which meets constitutional goals.

On January 11, 2006, a notice of appeal was filed with the New Jersey Superior Court, Appellate Division on behalf of the plaintiffs. On February 23, 2006, the State filed a motion to dismiss the appeal as to all parties except Buena Regional, Clayton, Egg Harbor City, Fairfield, Lakehurst, Lakewood, Lawrence and Woodbine. On March 28, 2006, the Appellate Division granted the State's motion to dismiss ("March 28th Order"). The plaintiffs filed a motion for reconsideration of the Appellate Division's March 28th Order on March 31, 2006. On April 17, 2006, the plaintiff's motion for reconsideration was denied. On January 29, 2007, the plaintiffs filed with the New Jersey Supreme Court (the "Supreme Court") a notice of motion for certification of appeal pending unheard in the Appellate Division. On that date, plaintiffs also filed with the Appellate Division a motion to accelerate the appeal. By order filed on February 21, 2007, the Supreme Court denied the plaintiffs' motion for certification of appeal pending unheard in the Appellate Division. By order filed on February 21, 2007, the Appellate Division denied the plaintiffs' motion to accelerate the appeal. Oral arguments were heard by the Appellate Division on December 3, 2007. On March 14, 2008, the Appellate Division affirmed the decision of the State Board of Education. The Appellate Division ordered the Commissioner to complete the needs assessment within six months, and, based on that needs assessment, determine whether the remedial measures in the School Funding Reform Act of 2008 afford students in the *Buena* school districts the thorough and efficient education to which they are constitutionally entitled. On September 24, 2008, the Appellate Division granted the Commissioner's request to extend the time to complete the records assessment until December 31, 2008. The needs assessments were completed by the December 31, 2008 deadline. The Commissioner is currently compiling reports detailing the results of the needs assessments. The State is vigorously defending this matter.

2001-2002 Abbott District Appeals. Several Abbott districts filed administrative petitions of appeal to the Commissioner regarding departmental decisions rendered on approved programs and funding for the 2001-2002 school year. Four districts (Elizabeth, Neptune, Passaic and Pemberton) filed appeals of decisions on the early childhood program plans. Each of the districts asked that their programs be approved as originally requested. These appeals were amicably resolved. Additionally, four districts (Elizabeth, Gloucester City, Neptune and Passaic) filed appeals on behalf of each of the schools in their districts challenging the Department's determinations on each school's Whole School Reform Plan/School-Based Budgets. The matters involving Gloucester City, Neptune and Passaic were amicably resolved. With regard to Elizabeth, upon notice by the district, the initial decisions of the ALJ were not acted upon by the Commissioner and, instead, the matter was dismissed as withdrawn by the district. Also, eleven districts (Asbury Park, Camden, East Orange, Elizabeth, Gloucester City, Neptune, New Brunswick, Passaic, Pemberton, Trenton and Vineland) filed petitions of appeal on the Department's decisions awarding Additional Abbott v. Burke State aid seeking, in total, over $353 million in additional aid. The districts disagreed with the Department's findings of budget reallocations, revenues and the final award of Additional Abbott v. Burke State aid. Motions to dismiss in lieu of answers were filed in the Camden, Trenton, Vineland, and New Brunswick matters. The State's motion to dismiss the Camden petition was granted and the remaining matters were transferred to the OAL for hearing. Amicable resolutions were reached in the Asbury Park, East Orange, Gloucester City, Neptune, New Brunswick, Passaic, Pemberton, Trenton, Vineland and Elizabeth matters. The Education Law Center (the "ELC") filed a petition and amended petition challenging the decisions and non-decisions of the Department in this regard on behalf of students in the thirty Abbott districts. Generally, the ELC took issue with the Department's process and decisions regarding Additional Abbott v. Burke State aid. On August 24, 2001, the State filed a motion for summary decision in lieu of answer and will continue to vigorously defend this appeal.

J.D., J.G., v. Lucille E. Davy, Commissioner of the New Jersey Department of Education. In late January 2007, plaintiffs filed a complaint in the New Jersey Superior Court, Chancery Division, Essex County for injunctive and declaratory relief striking down provisions of State law, specifically *N.J.S.A.* 18A:36A-10, *N.J.S.A.* 18A:36A-

12 and *N.J.A.C.* 6A:10A-1.2, that plaintiffs alleged unconstitutionally discriminate against children attending Newark public charter schools. The action is styled as a class action for all students currently attending public charter schools in Newark. The complaint further states that the disparity between *Abbott* funding in Newark's district schools and the public charter schools in Newark is $9,600 annually per pupil and $37,000 per pupil in facilities funding. By not allowing Newark's public charter schools access to *Abbott* funding and State facilities funding, plaintiffs allege the State is violating the Equal Protection Clause of the New Jersey Constitution. The State filed a motion to dismiss the complaint on April 10, 2007. On September 29, 2008, the Chancery Division granted the State's motion to dismiss the complaint. On November 13, 2008, the plaintiffs' filed a notice of appeal with the Appellate Division. Upon the filing of the notice of appeal, the plaintiffs sought a stay of the appeal pending the outcome of *Abbott v. Burke (Review of Constitutionality of School Funding Reform Act)* remand. The Appellate Division granted the stay. The State is vigorously defending this matter.

Abbott v. Burke (Review of Constitutionality of School Funding Reform Act). On March 17, 2008, the State moved before the New Jersey Supreme Court seeking constitutional review of the School Funding Reform Act of 2008 ("SFRA"). The ELC filed an opposition to the State's motion on both jurisdictional and substantive grounds. While briefing by the primary parties progressed, numerous Abbott districts and other stakeholders sought to participate in the matter. The Court granted amicus status to all movants. Oral argument was held on September 22, 2008.

On November 18, 2008, the Court issued a decision remanding the matter for an expedited hearing before Special Master Peter Doyne, A.J.S.C. The remand proceeding commenced on February 9, 2009, and ended March 3, 2009, with closing summations. Both parties and amici filed post-trial briefs. Additionally, the Court directed that the remedial orders of the Abbott rulings remain in place pending the outcome of the remand proceeding. On March 23, 2009, Judge Peter Doyne, AJSC and Special Master, issued his findings and recommendations. Judge Doyne found the SFRA to be a "well considered, even expansive, formula to allow a thorough and efficient education for all children in the State." However, Judge Doyne determined that absent a safety net of supplemental funding for at least the first three years, the SFRA is not constitutional as applied to the *Abbott* districts. The matter returned to the Supreme Court for consideration. The Court heard oral argument by the parties on April 28, 2009.

On May 28, 2009, the Court ruled that to the extent that the record permitted its review, SFRA is constitutional and may be applied in Abbott districts subject to the State continuing to provide school funding aid during the 2008-2009, 2009-2010 and 2010-2011 school years at the levels required by SFRA's formula each year, and subject further to the mandated review and retooling of the formula's weights and other operative parts after three years of implementation.

Disability Rights New Jersey v. Jennifer Velez (I). Plaintiff, a non-profit agency designated as New Jersey's protection and advocacy organization ("DRNJ") pursuant to 42 *U.S.C.* § 10801 *et seq.*, filed this action on April 5, 2005. DRNJ filed an amended complaint on May 19, 2005, eliminating the state law claims from its original complaint. The suit alleges that the New Jersey Department of Human Services ("DHS") is in violation of the Due Process provisions of the United States Constitution; the integration mandate of Americans with Disabilities Act, 42 *U.S.C.* 12130 *et seq.*, as interpreted by the Supreme Court in *Olmstead v. L.C.*, 527 *U.S.* 581 (1999); and Section 504 of the federal Rehabilitation Act, 29 *U.S.C.* § 794.

Specifically, DRNJ is seeking to vindicate the rights of all patients in state psychiatric hospitals on Conditional Extension Pending Placement ("CEPP") status, pursuant to *IMO S.L.*, 94 *N.J.* 128 (1983)). DRNJ is seeking prospective injunctive relief, specifically an order requiring DHS to promptly take all necessary steps to enable patients on CEPP status to receive services in the most integrated setting appropriate to their needs; monetary penalties, prevailing party costs, disbursements and attorneys' fees pursuant to 42 *U.S.C.* § 1988; and an injunction requiring DHS to report to DRNJ on the number and names of CEPP patients and other information as DRNJ may require, on a ongoing basis. The State filed a motion to dismiss the complaint. In its opposition to the motion, DRNJ agreed to strike the portion of the complaint in which it requested a *per diem* penalty. The remainder of the motion to dismiss was denied by the court on September 30, 2005. The State filed its answer denying liability on all claims asserted by DRNJ on October 13, 2005. In February 2008, DHS issued a written plan, *Home to Recovery — CEPP Plan,* to develop a system over the next six years that ensures persons placed on CEPP status are placed within six

months. At this time, the State estimates its exposure for these claims to be in excess of $20 million per year in increased costs for community placements. The State is vigorously defending this matter.

Disability Rights New Jersey et al. v. Jennifer Velez (II). Plaintiff, DRNJ and two clients of the New Jersey Department of Human Services, Division of Developmental Disabilities ("Department") filed this action on September 29, 2005. On October 7, 2005, Plaintiff served defendant, Commissioner of Human Services ("Commissioner") with a summons complaint and waiver of service. The Plaintiff alleges that the Department is in violation of Title II of the Americans With Disabilities Act (the "ADA"), as interpreted in *Olmstead v. L.C.*, 527 *U.S.* 581 (1999), Section 504 of the Rehabilitation Act and the Medicaid Act. The Plaintiff is seeking declaratory and prospective injunctive relief, attorneys fees, litigation expenses and other relief. More specifically, the Plaintiff seeks community placements for the people that Plaintiff alleges are in State-operated developmental centers while awaiting community placement. The State filed its answer on December 5, 2005.

On February 1, 2008, the Plaintiff filed an amended complaint, alleging that the Commissioner is in violation of the Fourteenth Amendment of the United States Constitution and the ADA because the Commissioner fails to provide for commitment hearings before a developmentally disabled individual is admitted to a State developmental center and fails to provide for on-going commitment hearings during an individual's continued residence at a State developmental center. In addition, the Plaintiff seeks injunctive relief requiring that the State conduct hearings on notice and with representation for the developmentally disabled individual prior to admission and annually thereafter. Pursuant to L. 2006, c. 61, on May 21, 2007, the Department submitted to the State Legislature an eight-year plan to make community placements for all people who are assessed to be appropriate for community placement and wish to be so placed. The State filed its answer on June 4, 2007. The State is vigorously defending this matter.

Disability Rights New Jersey v. Jennifer Velez (III). Plaintiff, DRNJ filed suit on April 23, 2008 against the Commissioner of the Department seeking relief for individuals who are eligible for services from the Department, seeking reformation of the Department's Home and Community Based Waiver services, which are implemented by the Department pursuant to State and federal law. Part of that cost is borne by the federal government as part of the New Jersey Community Care Waiver, which is part of the State's Medicaid plan. DRNJ alleges that there are approximately 8,000 developmentally disabled persons on the waiting list for community placements. Although both State law and the Medicaid Act allow waiting lists, DRNJ's suit, brought under 42 *U.S.C.A.* § 1983, alleges that the waiver program, as currently utilized, violates Title II of the ADA, Section 504 of the Rehabilitation Act, and Sections 1396a(a)(8) and 1396n(c)(2)(C) and (d)(2)(c) of the Medicaid Act. DRNJ seeks an injunction requiring the State to provide the community services within specified reasonable time frames and to eliminate the waiting list within 3 years, as well as other relief, attorneys' fees other and costs. The State filed a motion for a more definite statement and to strike portions of the complaint, which motion was granted by the court on September 9, 2008. DRNJ filed an amended complaint on September 26, 2008. The State filed a motion to dismiss the complaint on December 31, 2008. The United States Attorney's Office was notified of the federal constitutional challenges involved in the motion to dismiss and filed a brief in opposition on June 29, 2009. On July 23, 2009, the court denied the State's motion to dismiss the complaint. The State is vigorously defending this matter.

East Cape May Associates v. New Jersey Department of Environmental Protection. This matter is a regulatory taking case in which the plaintiff claims that it is entitled to in excess of $30 million in damages for a taking of its property without just compensation. The property is approximately 96 acres of freshwater wetlands in the City of Cape May. Plaintiff filed its complaint in Superior Court, Law Division, on December 8, 1992, after the Department of Environmental Protection ("DEP") denied an application for 366 single family homes. On motion for summary judgment, the trial court ruled that the State was liable for a regulatory taking as of December 1992. Thereafter, the New Jersey Appellate Division held that DEP could avoid liability by approving development on the property under Section 22(b) of the Freshwater Wetlands Protection Act. In addition, the Appellate Division remanded the case for a determination of whether the "property" also included 100 acres previously developed by the plaintiff's principals. On remand from the Appellate Division, the trial court ruled on October 8, 1999 that the "property" did not include the 100 acres previously developed, and that DEP could not approve development of the 80 remaining acres without first adopting rules. Since DEP had not adopted rules, the trial court held that DEP's development offer of 64 homes on the 80 acres was ineffective and DEP was liable for a taking of the property. The State filed an appeal of the trial court's decision and East Cape May Associates filed a cross-appeal. Oral argument was held on May 14, 2001. On

July 25, 2001, the Appellate Division affirmed the trial court's decision, and found that before DEP could approve limited development to avoid a taking, it was required to adopt rules. The Appellate Division remanded the case for such rule-making, the making of a development offer under the rules, and a determination by the trial court as to whether the new offer complies with the rules and avoids a taking. East Cape May Associates petitioned the New Jersey Supreme Court for certification of this decision, which was denied. Upon remand from the Appellate Division, DEP promulgated regulations to implement Section 22(b), which took effect on January 22, 2002 and is now implementing those rules. The case remains on remand pending DEP's full implementation of the regulations. In July 2003, the trial judge referred the case to mediation and appointed former Justice Daniel O'Hern as mediator. On February 17, 2005, mediator Justice O'Hern advised the trial court that mediation had concluded without agreement. On July 1, 2009, the parties reached a settlement of the case, and submitted a consent order and stipulation of dismissal to the trial court. The settlement will allow development of approximately 20 acres of the property with 71 market rate units and 14 affordable housing units. The remaining approximately 78 acres of the property will be purchased by the State and City of Cape May for approximately $7 million. The proposed development also requires approval from the United States Army Corps of Engineers.

FiberMark North America, Inc. v. State of New Jersey, Department of Environmental Protection. This lawsuit was filed in Superior Court, Law Division, Hunterdon County on May 27, 2008 by FiberMark North America, Inc. ("FiberMark") as owner of the Warren Glen waste water treatment facility ("Warren Glen") in Hunterdon County. FiberMark's complaint asserts claims against DEP under the New Jersey Eminent Domain Act, *N.J.S.A.* 20:3-1 *et seq*., Article 1, Paragraph 20 of the State Constitution and the 5th and 14th Amendments of the United States Constitution, and for trespass, private nuisance, negligence and dangerous condition under the New Jersey Tort Claims Act, N.J.S.A. 59:1-1 *et seq*. Specifically, FiberMark alleges that DEP is responsible for unpermitted discharges of landfill pollutants into FiberMark's waste water treatment lagoon #1 at Warren Glen from a neighboring landfill. FiberMark also claims that it has suffered damages due to incurred maintenance costs for Warren Glen, taxes, utility fees, license fees and operating fees and costs associated with Warren Glen, costs to operate the wastewater treatment system for Warren Glen, costs associated with delay in the clean-up of Warren Glen under the ISRA statutes, consulting and legal fees, and other costs resulting from being unable to cease operations and to decommission and sell Warren Glen.

FiberMark claims it is the successor to a 1991 landfill agreement ("1991 Agreement"), by which FiberMark was obligated to receive and treat leachate from the neighboring landfill in FiberMark's waste water treatment lagoons before discharge into the Musconetcong River. FiberMark claims that as part of a voluntary Chapter 11 bankruptcy petition for reorganization filed in the State of Vermont, the bankruptcy court granted FiberMark's motion to reject the 1991 Agreement on June 23, 2005. FiberMark claims it has had no responsibility to treat the leachate from the neighboring landfill since that date and has suffered damages from DEP's alleged illegal discharges of leachate onto Warren Glen, but that DEP forced FiberMark to continue treating leachate discharged from the neighboring landfill from March 2006 through September 13, 2007. In April 2007, DEP successfully rerouted the leachate so that it no longer runs onto Warren Glen and is permanently enjoined, on a prospective basis, from allowing leachate to run onto Warren Glen pursuant to a partial consent judgment entered into by the parties on September 12, 2007 in a related case, *FiberMark North America Inc. v. Jackson*, previously filed in the United States District Court. The State filed its answer to FiberMark's complaint filed in State court on June 23, 2008. The trial on this matter began on May 4, 2009. At the conclusion of FiberMark's presentation of its case on May 7, 2009, DEP moved to dismiss the matter, which the court granted. On May 26, 2009, Fibermark filed several motions with the court. Fibermark has also filed a notice of appeal with the Appellate Division. On July 6, 2009, Fibermark filed a motion with the Appellate Division requesting the Appellate Division compel the court to decide the motions previously filed with the court. The State is vigorously defending this matter.

New Jersey Department of Environmental Protection et al. v. Occidental Chemical Corporation, et al. In December 2005, the NJDEP, the Commissioner of NJDEP, and the Administrator of the New Jersey Spill Compensation Fund (collectively, "Plaintiffs") filed suit in the Superior Court, Law Division, Essex County against Occidental Chemical Corporation ("Occidental"), Maxus Energy Corporation ("Maxus"), Tierra Solutions, Inc. ("Tierra"), Repsol YPF, S.A., YPF, S.A., YPF Holdings, Inc. and CLH Holdings, Inc. seeking costs and damages relating to the discharge of dioxin into the Passaic River and its environs by Diamond Shamrock Corporation, a predecessor of defendant Occidental. In November 2008, Maxus and Tierra filed counterclaims against

the Plaintiffs seeking, among other things, (a) contribution under the New Jersey Spill Compensation and Control Act, *N.J.S.A.* 58:10-23.11 to -23.24 (the "Spill Act"), for an equitable share of any Passaic River cleanup and removal costs and damages for which Maxus and Tierra may be found liable, (b) claims under the Environmental Rights Act, *N.J.S.A.* 2A:35A-1 to 35A-14, and an injunction against the issuance of permits issued in violation of *N.J.S.A.* 58:14-7 and -8; (c) the abatement of discharges of untreated or inadequately treated wastewater in the Newark Bay Complex; the abatement of pollution sources from outside the Newark Bay Complex; and an order removing NJDEP as trustee for natural resources within the Newark Bay Complex, (d) a judgment finding NJDEP liable for aiding and abetting discharges of polluting matter into the Passaic River, and an injunction prohibiting NJDEP from permitting or condoning the further discharge of polluting matter into the Passaic River or its tributaries, (e) the reduction or extinction of any judgment rendered against Maxus and Tierra under the doctrine of recoupment, (f) a judgment that NJDEP is liable for public nuisance in the event that all or part of the Newark Bay Complex is determined to be a public nuisance; an order imposing on the Plaintiffs' an equitable share of any relief the court might order on the Plaintiffs' public nuisance claims, (g) an order setting off the Plaintiffs' share of liability for discharges of hazardous substances into the Newark Bay Complex and an order setting off any benefits that the Plaintiffs' have received from activities that contaminated the Newark Bay Complex against any liability that Maxus and Tierra may have, and (h) contribution for a proportionate share of cleanup and removal costs, damages or other losses for which Maxus and Tierra may be held liable or that they have incurred or may incur for the Newark Bay Complex. In February 2009, Maxus and Tierra filed third party complaints against the State, the Department of Agriculture and the Department of Transportation ("NJDOT") seeking contribution from each of these third party defendants. With respect to NJDOT, Maxus and Tierra allege that hazardous substances were discharged into the Newark Bay Complex from the Kearny Oil Lake Site while NJDOT owned and operated that site and that NJDOT is a dischargee under the Spill Act. The State is vigorously defending this matter.

New Jersey Education Association et al. v. State of New Jersey et al. This matter was filed in the New Jersey Superior Court, Law Division, Mercer County. Plaintiffs' third amended complaint alleges that the State violated various constitutional provisions, statutes and common law by failing to fund the Teachers' Pension and Annuity Fund ("TPAF") in the amount and manner prescribed by law while increasing the contribution paid by employees who participate in the fund from 3% to 5%. In particular, plaintiffs allege that the Treasurer failed to submit to the Legislature a request for the monies certified by the TPAF's actuary to be necessary to fund the State's contribution to the TPAF for Fiscal Years 2004 through 2007 and that the State Legislature failed to properly fund the TPAF as required by law and required the local school boards to increase the employees' contributions from 3% to 5% in violation of applicable law.

Plaintiffs are seeking a judgment declaring that defendants' failure to "properly and adequately fund" the TPAF violates various constitutional and statutory provisions, including provisions of the Internal Revenue Code of 1986. In their complaint, plaintiffs ask that the defendants be directed to make a payment into the TPAF or in the alternative, that the employees' contribution be maintained at 3% and not increased. In addition, plaintiffs are seeking attorneys fees, disbursements and costs pursuant to 42 *U.S.C.* § 188 or any other legal basis.

On April 28, 2004, the State moved to dismiss the complaint for failure to state a claim upon which relief can be granted. Oral argument on the motion was held on June 11, 2004. On July 15, 2004, the court issued its decision granting the State's motion to dismiss as to claims of violation of the constitutional principles of uniformity and fairness in taxation, violation of the Internal Revenue Code of 1986 and *N.J.S.A.* 43:3C-9.1, and breach of promissory estoppel. The court denied the State's motion on the other claims. On or about June 28, 2004, the plaintiffs filed an amended complaint which included allegations of underfunding the TPAF for the Fiscal Year 2005 and which sought an additional payment of $675 million into the TPAF. On November 23, 2004, the State moved to dismiss the amended complaint which motion was denied. The State then moved for leave to appeal to the Appellate Division seeking review of the court's denial of the State's motion to dismiss. On January 13, 2005, the Appellate Division denied the State's motion. On February 2, 2005, the State moved for leave to appeal to the Supreme Court of New Jersey seeking review of the court's order declining to dismiss the amended complaint against the State. By order dated September 12, 2005, the Supreme Court denied the State's motion for leave to appeal. On April 2, 2008, the trial court held that the plaintiffs had failed to prove a substantial impairment of a contractual right and dismissed the complaint in its entirety. On May 22, 2008, the plaintiffs filed a notice of appeal. The parties have filed their briefs with the Appellate Division. The Appellate Division has not yet issued a scheduling order or set a date for oral argument. The State is vigorously defending this matter.

Professional Firefighters Association of New Jersey et al. v. State of New Jersey et al. This matter was filed in the New Jersey Superior Court, Law Division, Mercer County, on October 4, 2005 and was served on the State on October 20, 2005. The plaintiffs' complaint alleges that the State violated various constitutional provisions (federal and State), statutes and common law by failing to fund the Police and Firemen's Retirement System ("PFRS") for Fiscal Year 2004 and Fiscal Year 2005 in the amount required by law. The plaintiffs also challenge the constitutionality of P.L. 2003, c. 108, which reduces the PFRS contributions required of local employers for Fiscal Year 2004 through Fiscal Year 2007. In addition to a judgment declaring that the defendants' failure to properly and adequately fund PFRS in Fiscal Year 2004 and Fiscal Year 2005 violates various constitutional provisions, statutes and common law, the plaintiffs seek an order requiring the State "to make a payment to PFRS for FY2004 and FY2005 to properly fund the PFRS, in accordance with fiscally responsible actuarial calculations." On January 26, 2007, the court heard arguments on motions made by the State to dismiss the complaint. On March 13, 2007, the court granted the State's motion to dismiss three counts of the seven count complaint and to merge the other counts. The only count before the court is the plaintiffs' claim that the State's funding decisions constitute an unconstitutional impairment of contract. Discovery in the case is stayed. The plaintiffs filed a motion for summary judgment in August 2008. The State filed a cross-motion for summary judgment to dismiss the complaint, or in the alternative, a stay of the proceedings pending resolution of the *New Jersey Education Association et al. v. State of New Jersey et al.* matter. On May 9, 2009, the court granted the plaintiffs' motion for an order allowing the plaintiffs' to amend their complaint to assert claims based on L. 2009, c. 19, which allows for local governments to defer certain of their pension contributions for Fiscal Year 2009. On June 10, 2009, the State filed its answer to the amended complaint. The State is vigorously defending this matter. Oral argument on the summary judgment motions is scheduled for October 9, 2009.

AMEC Civil, LLC v. State of New Jersey, Department of Transportation (MON-L-003174-03), (MON-L-004675-03) and (MON-L-3671-04). These matters were filed in the Law Division of the Superior Court of New Jersey in Monmouth County in 2003 and 2004. They involve claims against NJDOT arising from a construction contract involving the N.J. Route 35 Shark River Bridge Replacement in Belmar, New Jersey. Plaintiff alleges that NJDOT breached the contract on various grounds including, without limitation, the NJDOT placed limitations on plaintiff's work hours and work days in the river channel; the NJDOT gave instructions to plaintiff during a beam erection which resulted in an accident; the project was defectively designed so that it could not be constructed as designed; the NJDOT failed to disclose access problems and differing site conditions; the NJDOT failed to obtain permits and utility relocations; and the NJDOT is generally responsible for a host of delay-causing issues resulting in significant alleged damages to the plaintiff. By order of the court dated December 15, 2004, all three matters were consolidated for all purposes. On March 18, 2005, cross-motions for summary judgment on the issues concerning access to the river channel were denied by the court. The discovery period ended on May 9, 2007. In June 2007, the parties took part in mediation in an effort to settle the litigation. Such efforts were unsuccessful. Motions for summary judgment were filed on October 1, 2007. On May 22, 2008, the motions for summary judgment were argued. With one exception (pre-judgment interest), all motions and cross-motions for summary judgment were decided in favor of NJDOT on December 16, 2008. The plaintiff has filed a motion for reconsideration and other in-limine motions. The plaintiff's motion for reconsideration and motion to disqualify the trial court judge was denied on April 17, 2009. The plaintiff's motion for leave to appeal the trial court's decision regarding the summary judgment motions and the motion to disqualify the trial court judge, or in the alternative, to change venue, was denied by the Superior Court, Appellate Division as untimely on June 3, 2009. The State is vigorously defending these matters.

Railroad Construction Company, Inc. v. State of New Jersey, Department of Transportation. Railroad Construction Corporation, Inc. ("RCC") filed a complaint on April 21, 2009, in the Superior Court, Law Division, Hunterdon County against NJDOT alleging claims of approximately $47.4 million by RCC against NJDOT arising from a construction contract. The construction contract was for the construction of weigh stations and commercial vehicle inspection stations with complex weighing/monitoring and signaling systems to monitor truck traffic located in either direction of Route 78, at Exit 6 off of Route 78 in Greenwich Township, Warren County. Additionally, the commercial vehicle inspection station on the eastbound side was expanded for use by the New Jersey State Police to provide offices, a break room and a jail cell. Associated roadway improvements constructed include 15 sign structures, lighting, drainage, reconstruction of two bridges, and removal and replacement of a third bridge. The old weigh station at Exit 3 eastbound was demolished. RCC alleges that NJDOT breached its contract

on various grounds, including, but not limited to: unanticipated rock removal; unusual weather conditions; errors in the construction documents; changes in the character of the work; additional work; inaccurate plans to perform milling and paving; acceleration required by NJDOT; State shutdown during the summer of 2006; JCP&L utility strike; lane occupancy charges; and subcontractor issues. Completion of the project occurred in summer 2008, but the project closeout is not yet fully complete. The complaint is being dismissed without prejudice to allow the NJDOT Claims Committee to review the claims and to proceed into mediation, if necessary. Document discovery will commence. The State is vigorously defending this matter.

Twenty First Century Rail Corporation v. New Jersey Transit Corporation. In December 2008, Twenty First Century Rail Corporation ("TFC") filed claims against the New Jersey Transit Corporation ("NJ Transit") concerning the construction by TFC of a major portion of the second phase of NJ Transit's Hudson Bergen Light Rail Transit Project ("HBLRT"). TFC is the prime contractor on the long-term design, construction and operation of the HBLRT. Although the entire project was bid out by NJ Transit as a design/build/operate/maintain contract to be constructed in several major phases, one portion of the second phase was designed in its entirety by NJ Transit's design consultant firm, Parsons, Brinkerhoff, Quade & Douglass (the "Design Consultant"), for construction by TFC (the "N-30 Tunnel Contract"). The N-30 Tunnel Contract involved the enlargement and rehabilitation of the existing Weehawken Tunnel under the Palisades, the construction of a new street-level station to be connected to the Weehawken Tunnel by an elevator system, and the installation of necessary light rail tracks, signals and communications. The contract with TFC required it to subcontract out the work after soliciting competitive bids. The subcontract was issued by TFC to a joint venture of Frontier-Kemper Constructors, J.F. Shea Construction and Beton-Und Monierbau (collectively, "Frontier-Kemper"). TFC and Frontier-Kemper claim that substantial design errors and omissions by NJ Transit's Design Consultant led to significant delays on the N-30 Tunnel Contract by Frontier-Kemper, resulting in substantial damages to TFC and Frontier-Kemper. TFC has also asserted claims for breach of contract and breach of the covenant of good faith and fair dealing. TFC and Frontier-Kemper have also asserted claims of unjust enrichment/quantum meruit against NJ Transit and claims for negligence and negligent misrepresentation against the Design Consultant. In March 2009, NJ Transit filed an answer to TFC's complaint, counterclaims and cross-claims against TFC and Frontier-Kemper and a motion for summary judgment. In March 2009, the Design Consultant filed cross-claims against NJ Transit and a third party complaint against other parties involved in the matter.

In May 2009, the court heard oral argument on NJ Transit's motion for summary judgment. As a result of the summary judgment motion, TFC and Frontier-Kemper conceded to the dismissal of their unjust enrichment/ quantum meruit claims against NJ Transit. The court also issued a case management order, with the consent of all parties, which provides for limited document discovery and for mediation of this matter to take place in October 2009. The State is vigorously defending this matter.

Horizon Blue Cross Blue Shield of New Jersey v. The State of New Jersey et als. The New Jersey Legislature amended the insurance premiums tax to remove the availability of the insurance premiums tax "cap" for health service corporations. The Legislature projected that the amendment would have a positive revenue effect of approximately $40 million annually. On July 6, 2005, Horizon Blue Cross Blue Shield of New Jersey ("Horizon") filed a complaint in the Superior Court of New Jersey, Chancery Division, Essex County, contesting this tax amendment and seeking (i) a declaration that the statute is unconstitutional; (ii) to restrain and enjoin the State from collecting the tax; and (iii) other relief. Horizon asserts numerous Federal and State constitutional claims regarding the amendment, including violations of due process, equal protection, special legislation, retroactivity, the takings clause, and the attainder clause, and unauthorized state action under 42 *U.S.C.* Sec. 1983. The State filed an answer and a motion to transfer the matter to the Tax Court of New Jersey, on August 9, 2005, respectively. On October 28, 2005, the court granted the State's motion to transfer this matter to the Tax Court of New Jersey.

On February 9, 2006, Horizon filed an order to show cause seeking injunctive relief against enforcement by the State of the amendment. On February 21, 2006, the State filed its opposition to the order to show cause and also filed a cross motion to dismiss Horizon's Section 1983 and takings clause claims. On February 22, 2006, the Tax Court denied Horizon's request for injunctive relief, agreeing with the State that the payment of the insurance premium tax pursuant to the amendment did not cause irreparable harm to Horizon. The Tax Court also, on February 22, 2006, denied the State's cross motion. On May 4, 2006, the State filed a motion to dismiss Horizon's Section 1983 claim for failure to state a claim. On May 26, 2006, in response to the State's motion to dismiss Horizon's Section 1983

claim, Horizon filed a cross motion to compel discovery; which cross motion has been subsequently withdrawn. On June 9, 2006, the Tax Court dismissed Horizon's Section 1983 claim. On February 2, 2009, Horizon filed a motion for summary judgment. The State filed its opposition and a cross-motion to Horizon's motion for summary judgment on March 30, 2009. The State is vigorously defending this matter.

Oracle International Corporation v. Director, Division of Taxation On or about March 25, 2009, Oracle International Corporation ("Oracle") filed a complaint contesting the New Jersey Department of the Treasury, Division of Taxation's ("Division") December 17, 2008, Notice of Assessment Relating to Final Audit Determination, imposing Corporation Business Tax for the audit period June 1, 2001, through May 31, 2007. Oracle alleges it is not subject to tax in the State, and challenges the assessment on a number of grounds, including the claim that the State's throw out rule under *N.J.S.A.* 54:10A-6(b) is facially invalid and unconstitutional as applied under the State and federal constitutions. The State intends to vigorously defend this matter.

Pfizer Inc. et al.v. Director, Division of Taxation. Two taxpayers, Pfizer Inc. ("Pfizer") and Whirlpool Properties, Inc. ("Whirlpool"), challenge the New Jersey Tax Court's affirmance of the facial constitutionality of the Corporation Business Tax ("CBT") "Throw-Out Rule," which affects the amount of taxable income taxpayers "allocate" to the State. In pursuit of their facial challenges, the taxpayers asserted that the Throw-Out Rule (which requires the exclusion of certain receipts from the CBT "allocation formula") violates the Due Process and Commerce Clauses of the United States Constitution as well as various equitable principles. Two amici curiae further claimed that the Throw-Out Rule violates the Supremacy Clause of the United States Constitution. On May 29, 2008, the Tax Court granted the Division's cross-motion to sustain the facial constitutionality of the Throw-Out Rule. The Tax Court found that, on its face, this rule did not violate any of the constitutional provisions raised. Taxpayers' "as-applied" challenges remain. The taxpayers sought interlocutory review in the Appellate Division, which was denied. In August 2008, Pfizer and Whirlpool sought leave for interlocutory review in the New Jersey Supreme Court. The New Jersey Supreme Court granted interlocutory review, but concurrently remanded to the Appellate Division for review on the merits. Pfizer and Whirlpool have filed their opening briefs, along with the amici curiae, in the Appellate Division. The Division's responding briefs are due by July 31, 2009. The State intends to vigorously defend this matter.

Praxair Technology, Inc., v. Director, Division of Taxation. Praxair Technology, Inc. ("Praxair") challenges the New Jersey Tax Court's affirmance of the Division's application of the *Lanco v. Division of Taxation* ruling on the issue of "economic nexus" in connection with Praxair's 1994-1996 tax years Praxair appealed that ruling as well as the constitutionality of the 2002 Tax Amnesty penalty. On December 15, 2008, the Appellate Division reversed the Tax Court decision and struck the Division's 1994-1996 assessment, finding that a 'clarifying example' in N.J.A.C. 18:7-1.9 was required before the Division could impose Corporation Business Tax ("CBT") on Praxair. The Appellate Division did not address the 2002 Tax Amnesty penalty in its decision. The Division filed a petition for certification with the New Jersey Supreme Court and, in response, Praxair filed a cross-petition for certification regarding the constitutionality of the 2002 Tax Amnesty penalty. On April 2, 2009, the Supreme Court granted both petitions. The parties have filed their briefs and await an argument date from the Supreme Court. The State intends to vigorously defend this matter.

Lonegan v. State. On July 28, 2008, a complaint (the "Complaint") was filed in the Superior Court of New Jersey, Law Division, Bergen County, Docket Number BER-L-5712-08, against the State, the State Treasurer, the New Jersey Economic Development Authority ("NJEDA" and, together with the State and the State Treasurer, the "State Defendants"), the Governor of the State and the Commissioner of the Department of Education claiming that *P.L.* 2008, *c.* 39, which amends certain provisions of the Educational Facilities Construction and Financing Act (Chapter 72, §§ 1 through 30 and 57 through 71 of the Laws of New Jersey of 2000), and authorizes the issuance by NJEDA of an additional $3.9 billion of bonds, the debt service on which is payable from State appropriations under a contract between the NJEDA and the State Treasurer (collectively, the "School Construction Bonds"), violates Article VIII, Section 2, paragraph 3 of the New Jersey Constitution, commonly known as the "Debt Limitation Clause."

The plaintiff previously asserted that the School Construction Bonds were subject to voter referendum pursuant to the Debt Limitation Clause in the cases of *Lonegan v. State,* 174 N.J. 435 (2002) and *Lonegan v. State,* 176 N.J. 2 (2003), and the New Jersey Supreme Court ruled in favor of the State Defendants. The Superior Court

dismissed the complaint in its entirety, with prejudice on December 8, 2008. The plaintiff filed a notice of appeal in January 2009. The parties have submitted their briefs to the Appellate Division. The State plans to vigorously defend this matter.

Lukens v. State of New Jersey. This suit was filed on December 16, 2008 in the Superior Court, Law Division, Atlantic County by Charles Lukens, Doris Mann Lukens and Liberty & Prosperity 1776, Inc. (the "Plaintiffs"). Plaintiffs seek a declaration that the amendment to the Debt Limitation Clause of the New Jersey Constitution (Article VIII, Sec. 2 , para 3.), specifically to paragraph (b) of Article VIII, Sec. 2, para. 3 of the State Constitution adopted as Senate Concurrent Resolution No. 39 by the State Legislature and approved by the voters at the general election on November 4, 2008, is unconstitutional. The Plaintiffs claim that the ballot question and the interpretative statement were defective. On February 23, 2009, by order of the court, venue for this matter was changed to the Superior Court, Law Division, Mercer County. The State intends to vigorously defend this matter.

Tort, Contract and Other Claims. At any given time, there are various numbers of claims and cases pending against the State, State agencies and employees, seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 *et seq*.). The State does not formally estimate its reserve representing potential exposure for these claims and cases. The State is unable to estimate its exposure for these claims and cases.

The State routinely receives notices of claim seeking substantial sums of money. The majority of those claims have historically proven to be of substantially less value than the amount originally claimed. Under the New Jersey Tort Claims Act, any tort litigation against the State must be preceded by a notice of claim, which affords the State the opportunity for a six-month investigation prior to the filing of any suit against it.

In addition, at any given time, there are various numbers of contract and other claims against the State and State agencies, including environmental claims asserted against the State, among other parties, arising from the alleged disposal of hazardous waste. Claimants in such matters are seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. The State is unable to estimate its exposure for these claims.

At any given time, there are various numbers of claims and cases pending against the University of Medicine and Dentistry and its employees, seeking recovery of monetary damages that are primarily paid out of the Self Insurance Reserve Fund created pursuant to the New Jersey Tort Claims Act (N.J.S.A. 59:1-1 *et seq*.). An independent study estimated an aggregate potential exposure of $135,700,000 for tort and medical malpractice claims pending as of December 31, 2008. In addition, at any given time, there are various numbers of contract and other claims against the University of Medicine and Dentistry, seeking recovery of monetary damages or other relief which, if granted, would require the expenditure of funds. The State is unable to estimate its exposure for these claims.

APPENDIX I-A

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The State of New Jersey issues annually a Comprehensive Annual Financial Report ("CAFR") which includes the general purpose financial statements, the combining financial statements and supplemental schedules reported upon by the State Auditor, as well as, introductory and statistical sections.

The CAFR for the Fiscal Year ended June 30, 2008 has been separately filed with the MSRB and is incorporated by specific reference in this Appendix I and is considered to be a part hereof.

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APPENDIX I-B
DEMOGRAPHIC AND ECONOMIC INFORMATION

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TABLE I

STATE OF NEW JERSEY
THIRTY LARGEST
NON-GOVERNMENTAL EMPLOYERS
2007

Company	New Jersey Employees
Wakefern Food Corporation	31,671
The Great Atlantic & Pacific Tea Co., Inc. (A&P)	21,277
Verizon	17,996
Harrah's Entertainment, Inc.	16,167
United Parcel Service (UPS)	16,120
Wal-Mart Stores, Inc.	14,717
Johnson & Johnson	14,500
Continental Airlines	13,752
The Home Depot	12,000
Public Service Enterprise Group, Inc. (PSEG)	10,500
AT&T, Inc.	10,300
CVS Caremark	9,700
Trump Entertainment Resorts, Inc.	9,700
Macy's, Inc.	9,000
Commerce Bank	8,841
FedEx Corporation	8,800
Merrill Lynch & Co., Inc.	8,600
Prudential Financial, Inc.	8,143
Schering-Plough Corp.	>8,000
Merck & Company, Inc.	8,000
Bristol-Myers Squibb Company	7,900
Citigroup, Inc.	7,705
Acme Markets, Inc.	7,250
Wawa, Inc.	7,132
ARAMARK	7,102
The Stop & Shop Supermarket Co.	6,754
Borgata Hotel Casino & Spa	6,649
Bank of America	6,000
Wachovia	6,000
UBS	5,873

Source: New Jersey Business Magazine, May 2008

TABLE II

POPULATION CHANGES

	Population (Thousands)				Population Per Square Mile	Annual Rate of Growth (Percent)		
	Census 1980	Census 1990	Census 2000	Estimate 2008	2000	1970 to 1980	1980 to 1990	1990 to 2000
United States	226,546	248,710	281,422	304,060	80	1.09%	0.94%	1.24%
Northeast	49,135	50,809	53,594	54,925	308	0.02	0.34	0.54
New England	12,348	13,207	13,923	14,304	222	0.42	0.67	0.53
Middle Atlantic	36,787	37,602	39,672	40,621	357	(0.12)	0.22	0.54
New York	17,558	17,990	18,976	19,490	402	(0.38)	0.24	0.54
New Jersey	7,365	7,730	8,414	8,683	1,134	0.27	0.49	0.85
Pennsylvania	11,864	11,882	12,281	12,448	274	0.05	0.01	0.33

Source: US Census Bureau; release date December 22, 2008.

TABLE III

TOTAL PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
1999-2008
(Dollars in Millions)

Calendar Years	Total Personal Income			
	New Jersey	New York	Pennsylvania	United States
1999	$294,385	$619,659	$342,611	$ 7,796,137
2000	323,554	663,005	364,838	8,422,074
2001	332,951	679,886	372,339	8,716,992
2002	337,009	677,604	382,251	8,872,871
2003	342,858	693,533	393,908	9,150,320
2004	361,822	739,969	413,855	9,711,363
2005	376,912	788,561	429,522	10,252,973
2006	404,474	846,795	455,884	10,978,053
2007	428,425	900,819	481,806	11,634,322
2008	442,116	937,010	501,225	12,086,534

Calendar Years	Total Personal Income As a Percent of 1999 Base			
	New Jersey	New York	Pennsylvania	United States
1999	100.0%	100.0%	100.0%	100.0%
2000	109.9	107.0	106.5	108.0
2001	113.1	109.7	108.7	111.8
2002	114.5	109.4	111.6	113.8
2003	116.5	111.9	115.0	117.4
2004	122.9	119.4	120.8	124.6
2005	128.0	127.3	125.4	131.5
2006	137.4	136.7	133.1	140.8
2007	145.5	145.4	140.6	149.2
2008*	150.2	151.2	146.3	155.0

* 2008 data is preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 24, 2009.

TABLE IV

2008 PER CAPITA PERSONAL INCOME FOR NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES

	2007 Amount	2008 Amount	2008 Percent of National Average	Rank United States	Percent Change 2007-2008
United States	$38,615	$39,751	100.0%	—	2.9%
New Jersey	49,511	50,919	128.1	3	2.8
New York	46,364	48,076	120.9	7	3.7
Pennsylvania	38,793	40,265	101.3	20	3.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 24, 2009.

Definition: Per capita personal income is total personal income divided by total midyear population.

TABLE V
PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
1999-2008

Calendar Years	Per Capita Personal Income			
	New Jersey	New York	Pennsylvania	United States
1999	$35,215	$32,816	$27,937	$27,939
2000	38,377	34,898	29,698	29,847
2001	39,213	35,618	30,310	30,582
2002	39,428	35,363	31,080	30,838
2003	39,916	36,064	31,979	31,530
2004	41,971	38,338	33,550	33,157
2005	43,651	40,781	34,774	34,690
2006	46,813	43,724	36,800	36,794
2007	49,511	46,364	38,793	38,615
2008	50,919	48,076	40,265	39,751

Calendar Years	Per Capita Personal Income As a Percent of United States		
	New Jersey	New York	Pennsylvania
1999	126.0%	117.5%	100.0%
2000	128.6	116.9	99.5
2001	128.2	116.5	99.1
2002	127.9	114.7	100.8
2003	126.6	114.4	101.4
2004	126.6	115.6	101.2
2005	125.8	117.6	100.2
2006	127.2	118.8	100.0
2007	128.2	120.1	100.5
2008	128.1	120.9	101.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis, March 24, 2009.

TABLE VI
WAGE AND SALARY WORKERS IN NONAGRICULTURAL ESTABLISHMENTS*
ANNUAL AVERAGES BY NAICS INDUSTRY DIVISIONS, NEW JERSEY,
1999-2008
(In thousands)

Year	Total Non-Farm Employment	Manufacturing	Natural Resources & Mining	Construction	Trade Transportation & Utilities	Information	Financial Activities	Services and Miscellaneous***	Government
1999	3,901.0	422.5	2.2	143.6	873.6	123.0	260.8	1,497.7	577.6
2000	3,994.4	421.6	2.0	149.6	899.0	126.9	266.9	1,539.6	588.9
2001	3,997.0	401.3	1.8	158.6	890.7	126.4	269.8	1,545.8	602.6
2002	3,984.0	367.5	1.6	162.6	881.4	113.2	276.7	1,567.6	613.5
2003	3,978.7	350.5	1.6	160.4	876.2	102.0	276.2	1,590.0	621.9
2004	3,999.0	338.3	1.6	165.9	874.7	98.0	276.9	1,610.3	633.4
2005	4,039.3	330.4	1.7	169.2	877.3	97.1	279.7	1,642.2	641.6
2006	4,071.1	323.8	1.7	174.9	874.9	97.4	279.3	1,671.8	647.4
2007	4,079.0	311.3	1.7	172.3	874.5	96.0	275.7	1,699.8	647.7
2008**	4,057.7	298.8	1.7	164.7	863.8	92.3	269.3	1,716.1	651.0

Note:

* Seasonally adjusted.

** 2008 numbers are preliminary

*** Includes Professional and Business Services, Educational and Health Services, Leisure and Hospitality and Other Services

Source: U.S. Department of Labor, Bureau of Labor Statistics, June 19, 2009 release.

TABLE VII
CONSTRUCTION CONTRACTS AWARDED, NEW JERSEY
1999-2008
(Dollars in Millions)

Construction Type	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008**	2008/2007 % change
Nonresidential	$4,567.2	$ 5,274.0	$ 5,012.4	$ 4,915.2	$ 5,104.8	$ 4,336.8	$ 5,742.0	$ 5,050.8	$ 4,706.4	$ 5,074.8	7.83%
Residential	3,736.8	3,838.8	3,885.6	3,926.4	4,437.6	4,930.8	5,985.6	5,571.6	4,047.6	2,952.0	(27.07)
Nonbuilding*	1,305.6	1,827.6	2,545.2	2,581.2	2,175.6	1,918.1	2,661.6	3,061.2	3,313.2	2,551.2	(23.00)
Total Construction	9,609.6	10,940.4	11,443.2	11,422.8	11,718.0	11,185.7	14,389.2	13,683.6	12,067.2	10,578.0	(12.34)

Note:

* Nonbuilding includes public construction, such as streets and highways, bridges, systems as well as utilities and communications systems.

** 2008 numbers have been revised.

Source: N.J. Department of Labor and Workforce Development, Division of Labor Market and Demographic Research, Economic Indicators, May 2009.

TABLE VIII
AVERAGE ANNUAL UNEMPLOYMENT RATES*
NEW JERSEY AND UNITED STATES
1999-2008

Calendar Years	New Jersey	United States
1999	4.5%	4.2%
2000	3.7	4.0
2001	4.3	4.7
2002	5.8	5.8
2003	5.9	6.0
2004	4.9	5.5
2005	4.5	5.1
2006	4.6	4.6
2007	4.3	4.6
2008**	5.5	5.8

* Seasonally adjusted.

** 2008 numbers are preliminary

Source: U.S. Department of Labor, Bureau of Labor Statistics, Data Base & Tables, Unemployment, February 27, 2009.

TABLE IX

AVERAGE HOURLY WAGES (NAICS)*
PRODUCTION WORKERS ON MANUFACTURING PAYROLLS
NEW JERSEY AND SELECTED NEIGHBORING STATES
1999-2008

Calendar Years	New Jersey	New York	Pennsylvania
1999	$15.11	$13.87	$14.19
2000	15.47	14.24	14.60
2001	14.74	16.24	14.37
2002	15.19	16.75	14.75
2003	15.45	16.78	14.99
2004	15.89	17.29	15.16
2005	16.33	17.77	15.26
2006	16.56	18.29	15.38
2007	17.22	18.49	15.48
2008**	17.88	18.58	15.77

Note:

* Not seasonally adjusted.

** 2008 numbers are preliminary

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 11, 2009.

TABLE X

NEW VEHICLE REGISTRATIONS*
NEW JERSEY
1999-2008

Calendar Years	Car	Light Truck/Van	Total Vehicles Annual	Total Vehicles Monthly Average	% Change
1999	374,408	218,406	592,814	49,401	10.4%
2000	397,435	245,153	642,588	53,549	8.4
2001	380,003	257,804	637,807	53,151	(0.7)
2002	362,190	261,687	623,877	51,990	(2.2)
2003	337,791	305,220	643,011	53,584	3.1
2004	319,567	323,085	642,652	53,554	(0.1)
2005	314,383	307,086	621,469	51,789	(3.3)
2006	318,862	286,809	605,671	50,473	(2.5)
2007	321,236	286,737	607,973	50,664	0.4
2008**	299,592	229,987	529,579	44,132	(12.9)

Note:

* Not seasonally adjusted data.

** 2008 numbers are preliminary

Source: New Jersey Department of Labor and Workforce Development, Division of Labor Market and Demographic Research, Economic Indicators, May 2009.

TABLE XI

NAICS COMPOSITION OF NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT NEW JERSEY AND THE UNITED STATES-2008*
(Jobs in Thousands)

	New Jersey		United States	
	No. of Jobs	% of Total	% of Total	US jobs(mil.)
Total Nonfarm	4,057.7	100.0%	100.0%	137.0
Manufacturing	298.8	7.4	9.8	13.4
Natural Resources & Mining	1.7	0.0	0.6	0.8
Construction	164.7	4.1	5.3	7.2
Trade, Transportation and Utilities	863.8	21.3	19.2	26.4
Information	92.3	2.3	2.2	3.0
Financial Activities	269.3	6.6	5.9	8.1
Services	1,716.2	42.3	40.6	55.6
Government	651.0	16.0	16.4	22.5

Note: Percent of Total Column may not add to 100% due to rounding. Services include Professional and Business, Educational and Health, Leisure and Hospitality and other.

* 2008 numbers are preliminary.

Source: U.S. Department of Labor, Bureau of Labor Statistics, March 11, 2009.

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APPENDIX I-C
SUMMARY OF PRINCIPAL
STATE TAXES

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SUMMARY OF PRINCIPAL STATE TAXES

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Summary of Principal State Taxes

The following is a summary of state taxes in New Jersey:

Air Toxics Surcharge

The Air Toxics Surcharge was repealed effective July 7, 2005. The repealer applies retroactively to calendar year 2004 and thereafter (P.L. 2005, c. 141).

P.L. 2004, *c.* 51 imposes an air toxics surcharge upon the owner or operator of each "facility," as defined by Chapter 51. The surcharge is based on the annual emissions of each Category 2 toxic substance, Category 3 toxic substance and Category 4 toxic substance as reported in the release and pollution prevention report for that facility. The air toxics surcharge for each facility will be assessed as follows: (1) $10.00 for each pound of Category 4 toxic substances released as stack or fugitive emissions; (2) $1.00 for each pound of Category 3 toxic substances released as stack or fugitive emissions; and (3) $0.10 for each pound of Category 2 toxic substances released as stack or fugitive emissions.

Chapter 51 also provides that the owner or operator of each facility that releases any Category 2 toxic substance, Category 3 toxic substance or Category 4 toxic substance in any amount as stack or fugitive emissions as reported on the release and pollution prevention report, would pay a maximum of $500,000 per facility each year regardless of the amount of Category 2 toxic substances, Category 3 toxic substances and Category 4 toxic substances released in the year subject to the air toxics surcharge.

Chapter 51 also allows a credit of 50% of the amount of the air toxic surcharge due by the owner or operator of a facility if the owner or operator undertakes certain environmental improvements at the facility to reduce air emissions; and dedicates $2 million of the air toxics surcharges collected to a nuclear power plant security fund for the provision or enhancement of security at nuclear power plants in this State. *P.L.* 2004, *c.* 51.

Alcoholic Beverage Tax

The Alcoholic Beverage Tax applies to the first sale or delivery of beer, liquor and wine to retailers in New Jersey. This tax is collected from licensed manufacturers, wholesalers and State beverage distributors, based on the number of gallons, or fractions thereof, sold. License fees for manufacturing, distributing, transporting and warehousing alcoholic beverages are also imposed pursuant to this law.

Current Rates: Beer — $0.12 per gallon; Beginning August 1, 2009: Liquor — $5.50 per gallon; Wines — $0.875 per gallon; certain apple ciders — $0.15 per gallon. *P.L.* 2009, c.71.

Beginning Fiscal Year 2010, $22 million collected from the Alcohol Beverage Tax will be annually deposited in the Health Care Subsidy Fund. *L.* 2009, *c.* 71.

Casino Control Tax

The Casino Control Act imposes an 8% tax on the "gross revenues" of gambling casinos, as defined by the Act.

On July 1, 2003, the law was amended to impose a 7.5% fee on the annual adjusted net income of licensed casinos in calendar years 2003-2006. The law was also amended to impose a 4.25% fee on certain complimentary amenities, specifically entertainment, rooms, food and beverages provided at no cost or reduced prices to casino hotel patrons. The amendments also impose a $3 per day occupancy fee on hotel rooms in a casino hotel facility, leaving to the casinos' discretion whether to pay the charge on behalf of the patrons or charge the patrons for the fee. The measure imposes an 8% gross revenue tax on companies that administer and service multi-progressive casino slot machine systems and increases parking fees by $1 for casino hotel parking in Atlantic City as defined by the Act. *P.L.* 2003, *c.* 116.

As of August 25, 2004, the 4.25% tax imposed on complimentary amenities was phased for elimination as of June 30, 2009. In this regard, the rate shall be as follows: in State fiscal years 2004 through 2006, 4.25%; in State fiscal year 2007, 3.1875%; in State fiscal year 2008, 2.125%; and in State fiscal year 2009, 1.0625%. Furthermore, with respect to each year the tax is to be collected, the State will issue a rebate or assessment, as appropriate, to the

casinos if the amount of tax collected is more or less than the following: in State fiscal years 2004 through 2006, $26 million; in State fiscal year 2007, $19.5 million; in State fiscal year 2008, $13 million; and in State fiscal year 2009, $6.5 million. *P.L.* 2004, *c.* 128.

Cigarette Tax and Tobacco Products Wholesale Tax

The Cigarette Tax is imposed on the sale, use or possession of all cigarettes within New Jersey. This tax is collected from licensed distributors who receive cigarettes directly from out-of-state manufacturers. Receipts from the sale or use of tobacco products, other than cigarettes, by a distributor or wholesaler to a retail dealer or consumer are subject to the Tobacco Products Wholesale Tax. *P.L.* 1990, *c.* 39. As of March 1, 2002, the Tobacco Products Wholesale Tax is imposed on the price that a distributor pays to buy products from the manufacturer. *P.L.* 2001, *c.* 448. As of July 15, 2006, moist snuff is no longer taxed based on its wholesale price but is taxed based on its weight. *P.L.* 2006, *c.* 37. The weight-based tax will raise the price of moist snuff and reduce youth access.

Current Rates: Cigarette Tax — $0.135 per cigarette and $2.70 per pack; Moist snuff — $0.75 per ounce with a proportionate tax rate for fractional amounts; Tobacco Products Wholesale Tax — 30%. As of March 1, 2002, the tobacco products tax rate was decreased from 48% to 30%. *P.L.* 2001, *c.* 448. As of July 15, 2006, the cigarette tax increased from $2.40 per pack of cigarettes to $2.575 per pack. *P.L.* 2006, *c.*37. As of July 1, 2009, the cigarette tax increased from $2.575 per pack of cigarettes to $2.70 per pack. P.L. 2009, c. 70.

Annually, the sum of $1,000,000.00 from Cigarette Tax revenues is deposited into the Cancer Research Fund. *L.* 1982, *c.* 40. After this deposit, the first $150 million collected annually from the Cigarette Tax and the first $5 million collected annually from the Tobacco Products Wholesale Sales and Use Tax is deposited into the Health Care Subsidy Fund. For fiscal years beginning on or after July 1, 2006, but before July 1, 2009, $215 million collected annually from Cigarette Tax is deposited into the Dedicated Cigarette Tax Revenue Fund. For fiscal years beginning on or after July 1, 2009, $241,500,000.00 of revenue collected from the Cigarette Tax shall be deposited annually into the Dedicated Cigarette Tax Revenue Fund. *L.* 2009, *c.* 70.

Clean Communities and Recycling Grant User Fee (User Fee)

The user fee imposed by the Clean Communities and Recycling Grant Act (*P.L.* 2002, *c.* 128) replaces the former Litter Control Tax imposed on certain litter-generating products. See discussion of **"Litter Control Tax"** below. As amended, the Litter Control Tax was scheduled to expire on December 31, 2000 (*P.L.* 1995, *c.* 301). The Clean Communities and Recycling Grant Act, affirms the Legislature's intent to repeal the Litter Control Tax. (*P.L.* 2002, *c.* 128, § 12).

The Clean Communities and Recycling Grant user fee is imposed on receipts from non-exempt New Jersey sales of litter-generating products made by manufacturers, wholesalers and distributors at the rate of 3/100 of 1% (.0003), and upon receipts of certain non-exempt sales by retailers at the rate of 2.25/100 of 1% (.000225), effective January 1, 2002. (*P.L.* 2002, *c.* 128, §§ 4, 14). Retailers subject to the user fee as defined by the Act having less than $500,000 of annual retail sales are exempt from the fee. The user fees, as well as penalties also imposed by the Act and any applicable appropriations, are to be credited to the nonlapsing, revolving Clean Communities Program Fund in the Department of the Treasury. The fund is to be administered by the Department of Environmental Protection. The funds are allocated and to be distributed as provided by the Act in the form of State Aid to qualifying municipalities for specified litter remediation activities, projects and antilittering educational campaigns.

Corporation Business Tax (CBT) (As amended by the Business Tax Reform Act, P.L. 2002, c. 40).

The CBT is imposed on every corporation, including S corporations (*P.L.* 1993, *c.* 173) not expressly exempted by statute, real estate investment trusts (*P.L.* 1989, *c.* 59), savings institutions, and certain other business entities such as limited liability companies and limited liability partnerships that elect to be treated as corporations for federal income tax purposes. The CBT is imposed on corporations for the privilege of having or exercising their corporate franchises in New Jersey, of deriving receipts from sources or of engaging in contacts within New Jersey, or of doing business, employing or owning capital or property, or maintaining an office, in New Jersey.

Corporations are required to pay a tax that is the greater of the amount resulting from rates applied to corporate net income allocated to New Jersey, or the alternative minimum assessment (AMA). Corporate net income is based on federal taxable income with certain additions, exclusions and modifications. S corporations, professional corporations, investment companies, pass-through entities, and federally qualified cooperatives are exempted from the AMA. The AMA is computed using a formula that uses either allocated gross receipts or allocated gross profits. If a corporation's AMA exceeds its tax computed on entire net income in any one year, the difference is allowed as a credit to reduce the CBT in a future year, but to not less than 50% of the liability otherwise due. Many corporations not otherwise subject to the tax based on corporate net income or to the alternative minimum assessment are subject to a minimum tax. A number of tax credits against the CBT are provided, such as for investment in certain new or expanded business facilities which create new jobs in New Jersey. *P.L. 1993, c.* 70.

To determine the tax liability of a corporation's business activity in the State of New Jersey, a four-fraction apportionment formula is used. *P.L.*1945, *c.*162 The four-fraction formula determines the proportion of income subject to tax by measuring the activities of the corporation in the State to the total activity of the corporation. The apportionment formula consists of a double-weighted sales fraction, a property fraction, and a payroll fraction. Some of a corporation's income derived from other states is not taxed by those states. As a result, the apportionment formula omits these sales from the denominator of the sales fraction, which increases the sales fraction. The "throw out" of these sales increases the portion of entire net income of a corporation apportioned to New Jersey. For privilege periods beginning on or after July 1, 2010, *P.L.* 2008, *c.* 120 eliminates the throw-out provision in the apportionment formula. Also, the law eliminates the "regular place of business" requirement for taxpayers to allocate income. Taxpayers who allocate less than 100% of income to New Jersey are no longer required to show that a regular place of business exists outside of the State. *P.L.* 2008, *c.* 120.

For privilege periods beginning on or after January 1, 2001 and ending before January 1, 2002, a domestic or foreign limited liability company or a domestic or foreign limited partnership classified as a partnership for federal purposes, may obtain the consent of each of its corporate owners allowing New Jersey to tax the corporate owners' income derived from the activities of the limited liability company or limited partnership in New Jersey. For each non-consenting owner, the limited liability company or limited partnership must pay a corporation business tax on each of the non-consenting owner's share of the business' New Jersey income. Certain limited liability companies and limited partnerships are exempt, as are corporate owners already exempt under the CBT itself and non-corporate owners subject to the New Jersey Gross Income Tax. *P.L.* 2001, *c.* 136.

Current Rates: Prior to July 1, 1996, 9% of entire net income allocable to New Jersey; and beginning July 1, 1996, the rate is 7½% for taxpayers with entire net income of $100,000 or less (*P.L.* 1995, *c.* 246). For corporations with entire net income less than $50,000, the rate is 6½%.

For periods beginning on January 1, 2002, the AMA is computed on corporations with gross profits of more than $1 million, and on corporations with gross receipts of more than $2 million, at differing graduated rates. Corporations may elect which rate to use. The AMA for each period may not exceed $5,000,000, except for affiliated groups of five or more taxpayers, in which case the AMA is capped at $20 million. The AMA expires for periods beginning after June 30, 2006, except for corporations not subject to the CBT under federal P.L. 86-272.

Beginning January 1, 2002, entities classified as partnerships for federal income tax purposes, including limited liability partnerships and companies (pass-through entities), that have income from New Jersey sources and more than two members, pay an annual $150 per owner filing fee, capped at $250,000 per entity. A filing fee of $150 per licensed professional for professional corporations with more than two licensed professionals, also capped at $250,000, is also paid. Partnerships make payments on the share of the income of each nonresident partner at a 9% rate for corporate owners and a 6.37% rate for individual owners. P.L. 2002, c. 40.

For S corporations, 2% of entire net income allocable to New Jersey if greater than $100,000 for periods ending on or after July 1, 1998 but before July 1, 2001, 1.33% for periods ending on or after July 1, 2001 but before July 1, 2006, and 0.67% for periods ending on or after July 1, 2006 but before July 1, 2007; and 0.5% of entire net income of $100,000 or less for periods ending on or after July 1, 1998 and before July 1, 2001, expiring July 1, 2001. P.L. 1997, c. 40. The rates for S corporation income of $100,000 or more expire July 1, 2007. P.L. 2002, c. 40.

For investment companies the rate is 25% of entire net income prior to June 30, 2002, and 40% as of July 1, 2002; and for real estate investment trusts, the rate is 4% of entire net income, but in no case less than $250.

As of July 7, 2006, the minimum tax imposed on corporations for the calendar year 2006 and thereafter, will be based on a corporation's New Jersey gross receipts as follows:

New Jersey Gross Receipts	Minimum Tax
Less than $100,000	$ 500
$100,000 or more but less than $250,000	$ 750
$250,000 or more but less than $500,000	$1,000
$500,000 or more but less than $1,000,000	$1,500
$1,000,000 or more	$2,000

The minimum tax for members of an affiliated group or a controlled group, as defined by federal tax law with a total payroll of $5 million or more, remains at $2,000 annually. *P.L.* 2006 *c.* 38.

Effective July 7, 2006, corporations are required to pay a 4% surcharge on Corporate Business tax liability for corporate business tax years ending in State fiscal years 2007, 2008, and 2009. The surcharge is applied after the allowance of any business incentive credits. Such credits are not permitted to be applied against the 4% surcharge but are permitted as a credit toward the prepayment of the tax liability. *P.L.* 2006 *c.* 38. The 4% surcharge on corporation business tax liability that was originally imposed for corporation tax years ending in State fiscal years 2007, 2008 and 2009 extends through corporation business tax years ending before July 1, 2010. *P.L.* 2009 *c.* 72

On November 5, 1996, Article VIII, Section II of the New Jersey Constitution was amended to provide that an amount equivalent to 4% of the revenue annually derived from the CBT (or any other law of similar effect) be deposited in a special account for appropriation only for the following purposes and in the following manner: 1) a minimum of 1/2 for funding State costs relating to hazardous discharge remediations; 2) a minimum of 1/3, dedicated until December 31, 2008, for funding loans and grants for underground storage tank upgrades and replacements; and 3) a minimum of 1/6 or $5 million, whichever is less, for funding costs related to water quality monitoring, watershed planning, and nonpoint source water pollution prevention.

Effective June 29, 2004, for privilege periods beginning during the 2004 and 2005 calendar years, "Net Operating Loss" deductions will be allowed to reduce the entire net income subject to corporate business tax to 50% of what it would otherwise be. *P.L.* 2004, c. 47. With respect to privilege periods beginning in the 2006 calendar year, Net Operating Loss deductions return to full deductibility. *P.L.* 2004, *c.* 47. In addition, under *P.L.* 2004, *c.* 47, the date on which the amount of the disallowed Net Operating Loss carryover deduction would otherwise expire is extended to a period equal to the period for which application of the Net Operating Loss was disallowed.

To encourage businesses to invest in the State of New Jersey, *P.L.* 2008, *c.* 102 extended the number of years to which a corporation business taxpayer can deduct net operating losses from its taxable income. For privilege periods ending after June 30, 2009, the net operating loss deduction period is extended from seven years to twenty years. Net operating losses for privilege periods ending before June 30, 2009 continue to have a seven-year deduction period.

For privilege periods after December 31, 2004, *P.L.* 2005, *c.* 127 disallows (*i.e.*, "uncouples") the deduction for certain qualified production activities income, which deduction is allowed for federal income tax purposes under the American Jobs Creation Act of 2004 (Pub. L. 108-377). Specifically, Section 1 of the Act amends C. 54:10A-4 of the CBT Act by modifying the definition of "entire net income" to disallow a deduction for amounts that may be deducted for federal tax purposes pursuant to the federal Internal Revenue Code of 1986, 26 *U.S.C.* 199. This exclusion shall not apply to amounts deducted pursuant to federal § 199 that are exclusively based upon domestic production gross receipts of the taxpayer derived solely from any lease, rental, license, sale, exchange, or other disposition of qualifying production property which the taxpayer demonstrates to the satisfaction of the director was manufactured or produced by the taxpayer in whole or in significant part within the United States (but excluding qualified production property that was grown or extracted by the taxpayer). C. 127 also defines the statutory term "manufactured or produced" for CBT purposes, which definition limits the term consistent with the other amendments implemented by c. 127 (*P.L.* 2005, *c.* 127, effective July 6, 2005).

For privilege periods beginning after December 31, 2008 and before January 1, 2011, P.L. 2009, c. 72 decouples the corporation business tax from section 1231 of the federal American Recovery and Reinvestment Act of 2009 (ARRA), which added subsection (i) to section 108 of the Internal Revenue Code, allowing businesses that repurchase debt in 2009 and 2010 to defer reporting discharge of indebtedness income as taxable income until 2014 and then to spread this income over the five tax years from 2014 through 2018. By decoupling New Jersey from the new federal subsection (i), New Jersey corporate taxpayers will not be able to defer this income but will be required to continue reporting the income in the year it is earned. However, corporate taxpayers will be able to exclude the income from New Jersey taxable income in future years when it is required to be recognized federally as taxable income under subsection (i), thus it will not be taxed twice under the Corporation Business Tax.

Cosmetic Medical Procedures Gross Receipts Tax

P.L. 2004, *c.* 53 imposes a 6% gross receipts tax on certain cosmetic medical procedures, defined as any medical procedure performed on an individual which is directed at improving the subject's appearance, and which does not meaningfully promote the proper function of the body or prevent or treat illness or disease. The tax must be collected from the subject of the procedure by each person billing for services, property or occupancy associated with the cosmetic medical procedure.

This tax will be reported and paid on a quarterly basis in a manner prescribed by the Director of the Division of Taxation in accordance with regulations to be promulgated. The tax imposed will be governed by the provisions of the State Uniform Tax Procedure Law. *P.L.* 2004, *c.* 53.

Energy Tax Receipts

To preserve certain revenues while transitioning to more competitive markets in energy and telecommunications, the law concerning taxation of gas and electric public utilities, and certain telecommunication companies was amended. The tax laws concerning sales of electricity, natural gas, and energy transportation service, were also amended. Effective January 1, 1998, the Gross Receipts and Franchise Tax previously collected by electric, gas and telecommunications utilities, was eliminated. *P.L.* 1997, *c*. 162. In its place, electric, gas, and telecommunications utilities, became subject to the State's Corporation Business Tax and the retail sale of electricity and natural gas, with certain exceptions, became subject to the State's Sales and Use Tax. *P.L.* 1997, *c*. 167.

A portion of the revenues derived from the energy tax receipts are credited to a special dedicated fund known as the "Energy Tax Receipts Property Tax Relief Fund" ("Fund"). The Fund guarantees annual State aid to municipalities. *P.L.* 1997, *c*. 167.

A Transitional Energy Facility Assessment ("TEFA") to be phased out over five years, is applied on electric and gas utilities. *P.L.* 1997, *c.* 162. This phase out has been extended through 2011. *P.L.* 2008, *c.* 32.

This act (*P.L.* 2008 *c.* 32) will freeze the TEFA unit rate surcharge at calendar year 2008 rates for 2009, 2010, and 2011 and then reduce those surcharges in calendar years 2012 and 2013 by the following percentages:

January 1, 2012	25%
January 1, 2013	50%

After December 31, 2013, the TEFA assessments will be eliminated to comport with the original planned phase-out of the tax as had been proposed in the 1997 energy tax reform law.

P.L. 2007, *c.* 94 grants a seven (7) year period of exemption from the State's Sales and Use Tax and the TEFA unit rate surcharge to qualified manufacturing facilities producing products meeting certain recycled content standards. However, qualified manufacturing facilities will continue to pay the sales tax and the TEFA surcharge but shall file for quarterly refunds within 30 days of the close of the calendar quarter.

Current Rates: For gas and electric companies: the standard tax rate as determined by the BPU plus 12½% surtax (5% if gross *receipts do not exceed $50,000).*

For sewerage and water corporations: 5% (2% if gross receipts do not exceed $50,000) plus 7.5% on gross receipts plus 0.625% surtax (.25% if gross receipts do not exceed $50,000) plus 0.9375%.

For other utilities — 5% (2% if gross receipts do not exceed $50,000) plus 0.625% surtax (.25% if gross receipts do not exceed $50,000) plus 0.5%.

Gross Income Tax (GIT)

The GIT is imposed on enumerated categories of gross income of New Jersey resident individuals, estates and trusts. New Jersey source income, except pension and annuity income (*P.L.* 1989, *c.* 219) or other retirement income, such as income from IRC § 401(k), 403, 414, 457 Plans (*P.L.* 104, *c.* 95, effective January 1, 1996), of non-resident individuals, estates and trusts, is also subject to GIT. Gambling winnings of non-residents other than from the New Jersey Lottery are subject to the GIT as well. *P.L.* 1993, *c.* 143. Non-residents pay GIT based on a statutory calculation which requires non-residents to compute liability as though they are residents and then prorate liability by the proportion of New Jersey source income to total income. *P.L.* 1993, *c.* 178. However, the requirement that non-residents must compute their tax liability on a prorated basis may be suspended provided New York State eliminates a similar requirement for its non-resident personal income taxpayers. *P.L.* 1993, *c.* 320.

The GIT includes many of the same taxable additions as the federal income tax, but allows only certain deductions such as for personal exemptions, medical expenses, alimony payments, property taxes on principal residences and qualified contributions of certain real property interests. Gross income does not include employer-provided commuter transportation benefits for employees who participate in ride-sharing programs; beginning in 1993, $720 of such benefits is excludible from income (*P.L.* 1993, *c.* 108) and beginning January 1, 1997, $1,000 is deductible, with this amount annually adjusted based on relevant C.P.I.'s. *P.L.* 1996, *c.* 121. Gross income also does not include earnings on or distributions from an individual trust account or savings account established pursuant to the New Jersey Educational Savings Trust Program (*P.L.* 1997, *c.* 237); or contributions to or distributions from a medical savings account excluded from federal gross income under 26 U.S.C. § 220 (*P.L.* 1997, *c.* 414). Roth IRA's also receive favorable tax treatment. *P.L.* 1998, *c.* 57. Additionally, under the "New Jersey Limited Liability Company Act," for State tax purposes, members or assignees of members of the newly created limited liability companies are treated as partners in a partnership and single member limited liability companies are treated as sole proprietorships, unless treated otherwise for federal income tax purposes. *P.L.* 1993, *c.* 210; *P.L.* 1998, *c.* 79. Beginning January 1, 2001 military pension and survivor benefits respecting service in the United States Armed Forces are included. *P.L.* 2001, *c.* 84. However, for taxable years beginning on or after January 1, 2004, *P.L.* 2005, *c.* 63 excludes from taxable income housing and subsistence allowances received by New Jersey National Guard members on State Active duty, and by members of the U.S. Armed Forces' active and reserve components (effective April 7, 2005).

For taxable periods commencing during 1996, resident taxpayers are allowed to take deductions against gross income tax pursuant to the "Property Tax Deduction Act." *P.L.* 1996, *c.* 60. Among the key provisions of *P.L.* 1996, *c.* 60 are the graduated deductions allowed over a three-year period to a maximum of $10,000 per year thereafter. Specifically, the allowable 1996 deductions are based on 50% of property taxes paid on the resident's homestead, not to exceed $5,000. In 1997, resident taxpayers are allowed deductions based on 75% of property taxes paid, not to exceed $7,500. Married residents filing separately are allowed one-half of the deduction permitted by law on the qualifying homestead. Allowable deductions are subject to certain limitations. The deductions are available in some instances for renters as well. The law also provides for a minimum benefit for certain classes of taxpayers in the form of a $50 credit, which was phased in for 1996 in the amount of $25 and for 1997 in the amount of $37.50. For sales or exchanges of principal residences occurring after May 7, 1997, gains of up to $500,000 on joint returns and $250,000 on single returns may be excluded, subject to certain limitations and qualifications. *P.L.* 1998, *c.* 3.

The minimum taxable income for gross income tax purposes is amounts in excess of $7,500 for unmarried individuals, estates, trusts, heads of households, surviving spouses and married couples filing joint returns for tax years commencing January 1, 1994 *P.L.* 1994, *c.* 8. With respect to married persons filing separate returns, the minimum taxable income subject to tax is amounts in excess of $3,750.

P.L. 2000, *c.* 80 created an Earned Income Tax Credit ("EITC") program in New Jersey. Effective January 1, 2007, an eligible New Jersey resident can claim a credit based upon a percentage of the individual's federal EITC,

which is allowed and applied for, under section 32 of the federal Internal Revenue Code of 1986 (26 U.S.C. 32). *P.L.* 2007, *c.* 109. The credit percentages for eligible claimants are as follows: 20% from 2003 through 2007, 22.5% in 2007, and 25% thereafter.

P.L. 2003, *c.* 9, effective January 27, 2003, creates an exemption from New Jersey gross income tax for income of decedent victims of the September 11, 2001 terrorist attacks. The exemption applies to income received in tax years 2000 and 2001. *P.L.* 2003, *c.* 9 also provides for the refund, without interest, of any income tax paid for the applicable tax years. Further, the measure extends the deadline for filing refund claims for the applicable tax years to four years from the end of the tax year in which the decedent died.

P.L. 2004, *c.* 55 amends the Gross Income Tax Act by imposing a Gross Income Tax obligation on nonresident individuals, estates, or trusts to report and pay estimated Gross Income Tax on any gain derived from the sale or transfer of real property in the State of New Jersey. Chapter 55 specifies that county recording officers will act as agents of the Director, Division of Taxation, in collecting the estimated gross income tax due at an amount no less than 2% of the consideration stated in the deed for the sale or transfer of property and transmitting those funds, net of the administrative fee, to the Division of Taxation in such form and manner as the Director will determine.

Chapter 55 further requires that no deed for the sale or transfer of real property by a nonresident will be accepted or recorded by the county recording officer without the simultaneous filing of the appropriate forms and the payment of the tax due or proof of payment. The act became effective on August 1, 2004. *P.L.* 2004, *c.* 55. *See also*, summary of *P.L.* 2004, *c.* 66, amending the Realty Transfer Tax, below.

For tax years 2005 and thereafter, Chapter 139 creates a deduction from the GIT for certain health care providers who practice in or near a Health Enterprise Zone. *P.L.* 2004, *c.* 139.

For the same taxable periods, *P.L.* 2005, *c.* 127 disallows (*i.e.*, "uncouples") the deduction for certain qualified production activities income, which deduction is allowed for federal income tax purposes under the American Jobs Creation Act of 2004 (Pub. L. 108-377). Specifically, Section 2 of c. 127 specifies that the deduction of any amounts pursuant to § 199 of the federal Internal Revenue Code of 1986, 26 *U.S.C.* 199, shall be disallowed. However, this disallowance shall not apply to amounts deducted pursuant to section 199 of the federal Internal Revenue Code of 1986 that are exclusively based upon domestic production gross receipts of the taxpayer, or allocable to the taxpayer under that section, which are derived only from any lease, rental, license, sale, exchange, or other disposition of qualifying production property.

The uncoupling required by *c.* 127 will not apply to gross receipts from qualifying production property manufactured or produced by the taxpayer. The uncoupling will apply to the other activities described above and that are set forth under the American Jobs Creation Act of 2004, will apply to qualified production property that was grown or extracted by the taxpayer (*P.L.* 2005, *c.* 127, effective July 6, 2005).

Chapter 130 eliminates the GIT pension exclusion and other retirement income exclusion for certain taxpayers. Section 1 of the Act amends C. 54A:6-10 by eliminating the pension exclusion from gross income for taxable years beginning on or after January 1, 2005, unless a taxpayer's gross income does not exceed $100,000. Similarly, Section 2 of the Act amends C. 54A:6-15 to eliminate exclusion of other retirement income for taxable years beginning on or after January 1, 2005, unless a taxpayer's gross income does not exceed $100,000 (*P.L.* 2005, *c.* 130, effective July 2, 2005).

Rates: Beginning in 1996 and thereafter, further rate reductions enacted pursuant to P.L. 1995, c. 165 will result in cumulative decreases from the 1993 taxable year levels of 30%, 15% and 9% for certain taxable income levels.

The graduated rate effective for tax years commencing January 1, 1996 for married couples filing jointly and certain qualified individual filers is: 1.400% on taxable income not exceeding $20,000; $280.00 plus 1.750% on taxable income in excess of $20,000 but not over $50,000; $805.00 plus 2.450% on taxable income in excess of $50,000 but not over $70,000; $1,295.50 plus 3.500% on taxable income in excess of $70,000 but not over $80,000; $1,645.00 plus 5.525% on taxable income in excess of $80,000 but not over $150,000; and $5,512.50 plus 6.370% on taxable income exceeding $150,000.

The graduated rate effective for tax years commencing January 1, 1996 for qualified individual filers is: 1.400% on taxable income not exceeding $20,000; $280.00 plus 1.750% on taxable income in excess of $20,000 but not over $35,000; $542.50 plus 3.500% on taxable income in excess of $35,000 but not over $40,000; $717.50 plus 5.525% on taxable income in excess of $40,000 but not over $75,000; and $2,651.25 plus 6.370% on taxable income exceeding $75,000.

Beginning in 2004 and thereafter, a new graduated gross income tax rate of 8.97% will be imposed on taxpayers with income over $500,000. *P.L.* 2004, *c.* 40.

Beginning on January 1, 2009 and before January 1, 2010, a new graduated gross income tax rate of 8% will be imposed on taxpayers with income over $400,000, a new graduated rate of 10.25% will be imposed on taxpayers with income over $500,000 but not over $1,000,000 and a new graduated rate of 10.75% will be imposed on taxpayers with income over $1,000,000. P.L. 2009, c.69.

P.L. 2009, c. 69 also suspends the property tax deduction for taxable years beginning on or after January 1, 2009 for taxpayers who have gross income for that taxable year of more than $250,000 and are not: (1) 65 years of age or older; or (2) allowed a personal exemption as a blind or disabled individual and caps the maximum property tax deduction to $5,000 for taxpayers who have gross income for that taxable year of more than $150,000, but not exceeding $250,000, and are not: (1) 65 years of age or older; or (2) allowed a personal exemption as a blind or disabled individual.

Chapter 69 also provides that New Jersey Lottery winnings from prizes exceeding $10,000 are taxable under the GIT and authorizes the New Jersey State Lottery to withhold a percentage of such winnings for GIT.

Hazardous Substance Transfer Tax and Hazardous Substance Cleanup and Remediation Fees

P.L. 2004, *c.* 50 changes the tax for transfers of hazardous substances to $0.023 per barrel for petroleum or petroleum products, precious metals, elemental phosphorus, or in certain circumstances, antimony or antimony trioxide sold for use in the manufacture or the purpose of fire retardants. For hazardous substances other than petroleum products, precious metals, elemental phosphorus, or, in certain circumstances, antimony or antimony trioxide sold for use in the manufacture or for the purpose of fire retardants, the tax is 1.53% of the fair market value of the product.

The Act is retroactive to January 1, 2004, thus requiring a taxpayer to file an amended tax return on or before the third month following the date of enactment and pay the additional taxes owed on transfers occurring between January 1, 2004, and the date of enactment of this act.

Chapter 50 also makes permanent a provision (section 1 of *P.L.* 2002, *c.* 37) scheduled to expire on June 30, 2004. This provision defines the circumstances under which the Department of Environmental Protection may establish or impose fees for Department oversight of hazardous substance cleanups and remediations, which include indirect costs.

Chapter 50 provides that sections 1 and 4 of the act became effective on June 30, 2004. Section 2 of the act pertaining to the tax rate changes, took effect immediately, is retroactive to January 1, 2004, and applies to all transfers of hazardous substances occurring on or after January 1, 2004. Section 3 took effect immediately. *P.L.* 2004, *c.* 50.

Homestead Property Tax Credit Act

In April 2007, the Legislature enacted the "Homestead Property Tax Credit Act" (the "Act"). The Act amends the current Homestead Property Tax Rebate Act, *P.L.* 1990 *c.* 61 (C. 54:4-8.57), to further reduce the property tax burden on New Jersey homeowners and renters. The Act also permits an electronic funds transfer of any credit allowed under the Act, to the local property tax account of the claimant. Although, in some instances, any homestead benefit applied for under the Act may still be issued as a rebate. *P.L.* 2007 *c.* 62.

Under *P.L.* 2007 *c.* 62, the credit or rebate is calculated based upon a percentage of the property taxes, not in excess of $10,000, paid by the claimant on the claimant's homestead as follows:

For Resident Taxpayer With Tax Year Gross Income:	Percentage
Not over $100,000	20%
Over $100,000 but not over $150,000	15%
Over $150,000 but not over $250,000	10%

Taxpayers who are 65 years or older, or a taxpayer who is allowed to claim a personal deduction as a blind or disabled taxpayer, shall be allowed a homestead credit or rebate equal to the greater of (a) the amount of property taxes paid based on the taxpayer's gross income as set forth above, or (b) the amount equal to property taxes paid by the taxpayer in excess of 5% of the taxpayer's gross income, but not more than the property taxes actually paid, as follows:

With Tax Year Gross Income:	Range
Not over $70,000	$1,200 to $1,000
Over $70,000 but not over $125,000	$800 to $600
Over $125,000 but not over $200,000	$500

P.L. 2008, *c.* 35 provides that resident homeowners with gross income in excess of $150,000 for the 2007 tax year are excluded from the program. Residents with gross income in excess of $100,000 but not in excess of $150,000 for the 2007 tax year, are eligible for rebates in the amount of 10% of the first $10,000 of property taxes paid.

P.L. 2008 c. 35 provides that for the 2007 tax year, resident tenants who are not 65 years of age or older, or who are not blind or disabled are eligible for rebates of $80. Resident tenants who are 65 years of age or older, or who are blind or disabled are eligible for rebates between $160 and $860 if their gross income is $70,000 or less, or rebates of $160 if their gross income is in excess or $70,000 but not in excess of $100,000.

P.L. 2009, c. 68 provides that for the 2008 tax year residents with gross income in excess of $75,000 for the 2008 tax year are excluded from the program. Residents with gross income in excess of $50,000 but not in excess of $75,000 for the 2008 tax year are eligible for rebates in the amount of 13.34% of the first $10,000 of property taxes due and paid in 2006. Residents with gross income of $50,000 or less are eligible for rebates in the amount of 20% of the first $10,000 of property taxes due and paid in 2006.

P.L. 2009 c. 68 provides that for the 2008 tax year, resident tenants who are not 65 years of age or older, or who are not blind or disabled are excluded from the program. Resident tenants who file as married or head of household who are 65 years of age or older, or who are blind or disabled are eligible for rebates between $160 and $860 if their gross income is $70,000 or less, or rebates of $160 if their gross income is in excess or $70,000 but not in excess of $100,000. Resident tenants whose filing status is single who are 65 years of age or older, or who are blind or disabled are eligible for rebates between $160 and $860 if their gross income is $35,000 or less, or rebates of $160 if their gross income is in excess or $35,000 but not in excess of $100,000.

Hotel and Motel Occupancy Fee

A State hotel and motel occupancy fee is imposed by P.L. 2003, c. 114, effective July 1, 2003. The law also authorizes an optional municipal hotel and motel occupancy fee. The amount of the tax will vary year to year. For Fiscal Year 2004, the State imposed a 7% fee. For Fiscal Year 2005 and thereafter, a 5% fee will be imposed.

In addition, the law authorizes an optional tax, which applies to most municipalities, at the rate of 1% for Fiscal Year 2004 and up to 3% for Fiscal Year 2005 and thereafter. Some municipalities have existing hotel taxes, such as Atlantic City, the Wildwoods, Newark and Jersey City. The combined rates of the new fee imposed under *P.L. 2003, c. 114*, plus the Sales and Use Tax and any tax and assessment imposed under *P.L. 1992, c. 165,* section 4 cannot exceed 14% (P.L. 2006, c. 44). In municipalities with existing hotel taxes pursuant *P.L. 1981, c. 77*, the law provides that the State will receive a 1% hotel and motel occupancy fee. *P.L. 2003, c. 114.*

Effective January 26, 2007, an eligible municipality that establishes a sports and entertainment district, may dedicate by ordinance, the hotel and motel occupancy fees that municipalities are authorized to impose pursuant to *P.L.* 2003, *c.* 114 (C. 40:48F-1), and may charge an additional 2 percent fee from hotels within the district, for a period of no more than 30 years. An eligible municipality may dedicate some or all of the fees collected, to the project costs of the sports and entertainment facility. *P.L.* 2007, *c.* 30.

Insurance Premiums Tax

The Insurance Premiums Tax is imposed on net premiums collected by every stock, mutual and assessment insurance company transacting business in New Jersey for insurance contracts covering property and risks in this state. Effective January 1, 1992, health service corporations became subject to tax on their experience-rated health insurance. *P.L.* 1989, *c.* 295. A surtax on all automobile insurance premiums, except as exempted by statute, was imposed from June 1, 1990 through May 31, 1992. *P.L.* 1990, *c.* 8.

Current Rates: 1.40% on group accident and health or legal insurance policies; 2.1% on life and non-life insurance companies; 5% on surplus lines coverage; 5.25% on marine insurance companies; 2% on foreign fire insurance companies.

Chapter 128 modifies the insurance premiums tax treatment of health service corporations. Specifically the Act amends the maximum tax rule, which rule caps taxable premiums at 12.5% of total premiums for any company whose taxable premiums in New Jersey exceed 12.5% of its total taxable premiums. The amendment excludes all health service corporations established pursuant to the provisions of *P.L.* 1985, *c.* 236 (C. 17:48A-1 *et seq.*) from the coverage of the cap. Additionally, the Act imposes the insurance premium tax on all premiums of health services corporations and on any life, accident or health insurance corporation in which a health services corporation owns stock in, controls, or with which it otherwise becomes affiliated (*P.L.* 2005, *c.* 128, effective July 2, 2005). Effective January 1, 2009, accident and health insurance premiums are excluded from the taxable premiums cap. *L.* 2009, *c.* 75.

For Fiscal Year 2010, $19.5 million is dedicated to the Health Care Subsidy Fund from the revenue collected from accident and health insurance premiums. Also, *L.* 2009, *c.* 75, allows for a one-time transfer of $60 million from the New Jersey Surplus Lines Insurance Guaranty Fund to the Health Care Subsidy Fund but provides a contingency appropriation not to exceed $27 million from the General Fund in the event the New Jersey Surplus Lines Insurance Guaranty Fund is left with insufficient funds to meet its obligations under the law. *L.* 2009, *c.* 75.

P.L. 2009, c. 75 increases the tax on group accident and health insurance premiums from 1.05% to 1.40% for one year. Thus, the tax rate on group accident and health insurance premiums for 2009 is 1.40% and will return to a rate of 1.05% starting in 2010.

Chapter 75 also excludes accident and health insurance premiums from the 12.5% limitation of tax on a company's total premiums when the ratio of New Jersey's business to total business is greater than 12.5%. Moreover, the act changes the definition of insurance company to include dental service corporations for purposes of the insurance premiums tax provisions for a period of one year from January 1, 2009 through December 31, 2009. A dental service corporation must file and remit the tax at a rate of 1.40% for the 2009 calendar year on March 1, 2010. L. 2009 c. 75.

Litter Control Tax

The Litter Control Tax is imposed on all gross receipts from sales of litter-generating products sold within New Jersey by every person engaged in business in this State. Originally set to expire on December 31, 1991 (*P.L.* 1986, *c.* 187), the expiration date of this tax has been extended to expire on December 31, 2000 (*P.L.* 1995, *c.* 301). Any retailer with less than $250,000 in annual retail sales of litter-generating products is exempt from the tax. *P.L.* 1985, *c.* 533.

The user fee imposed on sales of certain litter-generating products under the Clean Communities and Recycling Grant Act (*P.L.* 2002, *c.* 128) replaces the former Litter Control Tax. See discussion "Clean Communities and Recycling Grant User Fee," above. As amended, the Litter Control Tax was scheduled to

expire on December 31, 2000 (*P.L.* 1995, *c.* 301). The Clean Communities and Recycling Grant Act affirms the Legislature's intent to repeal the Litter Control Tax. (*P.L.* 2002, *c.* 128, § 12).

Former Rate: 3/100 of 1% (.003) on manufacturers, wholesalers and distributors. 2.25/100 of 1% (.000225) on certain retailers of litter-generating products.

Local Tire Management Program Fee

P.L. 2004, *c.* 46 took effect on August 1, 2004. Chapter 46 imposes on the purchaser a fee of $1.50 on the sale of a new motor vehicle tire if the sale is subject to tax pursuant to the "Sales and Use Tax Act," *P.L.* 1966, *c.* 30 (C.54:32B-1). If the purchaser or transferee is exempt under subsections (a) or (b) of section 9 of the Act, no fee is imposed. This fee is also imposed on new motor vehicle tires as a component part of a motor vehicle and motor vehicle tires as a component part of a leased motor vehicle. The Director of the Division of Taxation will have all of the powers and authority granted under the Sales and Use Tax Act in order to carry out the fee provisions of this Act. Also, the fee provisions of this act will be governed by the provisions of the State Uniform Tax Procedure Law, R.S. 54:48-1 *et seq.*

Also, Chapter 46 establishes a Local Tire Management Program in the Department of Environmental Protection for the proper cleanup of abandoned tire piles and to provide grants to counties and municipalities for proper cleanup of abandoned tire piles within their respective jurisdictions. To fund these grants, and for other purposes, Chapter 46 establishes the Tire Management and Cleanup Fund, a nonlapsing fund in the Department of Environmental Protection. After collection costs, the first $2.3 million in fees collected will be deposited in this fund. Additional fee revenues will be available for appropriation to the Department of Transportation to support snow removal operations. *P.L.* 2004, *c.* 46.

Motor Fuels Tax

The Motor Fuels Tax is collected on a per-gallon basis by every distributor, importer and gasoline jobber on sales of motor fuels, including gasoline, diesel fuel, liquified petroleum gas, natural gas, aviation and jet fuels and alcohol-blend motor fuels. Motor fuels taxes attributable to aviation fuels are deposited in the Airport Safety Fund. *P.L.* 1983, *c.* 264. Liability for payment of the tax on special fuels (including diesel fuel used interchangeably for home heating and in motor vehicles and sales to unlicensed buyers) is on the person who places fuel in the fuel tank of a motor vehicle. *P.L.* 1992, *c.* 23.

Article VIII, Section 2, Paragraph 4 of the New Jersey Constitution provides for a dedication of revenue from the Motor Fuels Tax to the Transportation Trust Fund Account for improvements to the State Transportation infrastructure. Effectively July 1, 2007, the dedicated funds shall be an amount equivalent to $0.105 per gallon.

Current Rates: General motor fuels — $0.105; special fuels — $0.135; LP gas and natural gas — $0.0525; aviation fuel — $0.105; turbine fuel — $0.02; fuel sold to aviation airports — $0.125.

Nursing Home Quality of Care Improvement Fund Act

The "Nursing Home Quality of Care Improvement Fund Act" establishes a non-lapsing fund for enhancement of the quality of nursing home care in New Jersey. Each nursing home provider is to pay a quarterly assessment not to exceed 6% of the aggregate amount of annual statewide nursing home revenues. These assessments will, in turn, be used to attract federal matching funds. *P.L. 2003, c. 105*.

Petroleum Products Gross Receipts Tax

The Petroleum Products Gross Receipts Tax applies to gross receipts from the first sale or use of petroleum products in New Jersey. Exempt sales include home heating oil and propane gas used exclusively for residential heating, certain sales to non-profit or governmental entities, sales to the Federal government (*P.L.* 1991, *c.* 19) and asphalt. The applicability of this tax to the sale of fuel oil used by any utility, co-generation facility or wholesale operation facility to generate electricity was phased out over a period ending December 31, 2004. *P.L.* 2000, *c.* 156.

In November 2000 Article VIII, Section 4 of the New Jersey Constitution was amended to dedicate to the Transportation Trust Fund Account in the General Fund not less than $100 million for the fiscal year commencing July 1, 2000, and not less than $200 million for each fiscal year thereafter from the petroleum products tax to fund transportation infrastructure improvements.

Current Rate: 2¾%. For fuel oil, aviation fuel and motor fuels, tax is fixed at $0.04 a gallon. *P.L.* 2000, *c.* 48.

Public Community Water System Tax

The Public Community Water System Tax is imposed on the owner or operator of every public community water system for water delivered after January 1984. *P.L.* 1983, *c.* 443.

Current Rate: $0.01 per 1,000 gallons of water delivered to consumers.

Realty Transfer Tax

The Realty Transfer Tax is imposed on grantors recording deeds or other writings which transfer title to real property located in New Jersey for consideration greater than $100. Certain transfers of title are exempt from this tax. The Neighborhood Preservation Nonlapsing Revolving Fund is funded by the increase in taxes ($0.75 per $500) collected on transfers greater than $150,000, *P.L.* 1985, *c.* 222.

Current Rates: Counties collect the tax at a rate of $1.75 for each $500 of consideration up to $150,000 ($0.50 is retained by the county, $1.25 is sent to the State Treasurer) plus $0.75 per $500 of consideration over $150,000. Pursuant to *N.J.S.A.* 46:15-10.1(b), new construction is exempt from 80% of the state portion of the tax imposed by *N.J.S.A.* 46:15-7 (i.e. $1.00), for each $500 of consideration under $150,000. Sales of one and two family, owner-occupied residences owned by senior citizens, blind persons and disabled persons and sales of low and moderate income housing are exempt from the state portion of the tax for each $500 of consideration or fraction thereof (i.e. $1.25). *P.L.* 2004, c. 66.

Pursuant to *N.J.S.A.* 46:15-7.1, a supplemental fee is imposed under the Act in addition to the above-recited Realty Transfer Tax upon presentation for filing of deeds evidencing transfers of real property. The supplemental fee will also be collected by the counties. The supplemental fee is $.25 for each $500 of consideration not in excess of $150,000; $.85 for each $500 of consideration in excess of $150,000 but not in excess of $200,000; and $1.40 for each $500 of consideration in excess of $200,000. The law also imposes an additional fee of $1.00 for each $500 consideration, not in excess of $150,000, for transfers of title to property on which there is new construction. The new supplemental fee does not apply to the transfers that are now completely exempt from the current fee and does not apply to the transfers by senior citizens, blind persons, or disabled persons and the transfers of low and moderate income housing. *P.L. 2003, c. 113.*

A new general purpose fee is imposed under *N.J.S.A.* 46:15-7.1 in addition to the above-recited Realty Transfer Tax on grantors upon presentation for filing deeds evidencing transfers of real property whose value is more than $350,000. *P.L.* 2004, *c.* 66. The general purpose fee will also be collected by the counties. The general purpose fee is $0.90 for each $500 on the first $550,000 of the value recited in the deed of transfer; $1.40 on each $500 of the value between $550,000 and $850,000; $1.90 on each $500 of value between $850,000 and $1,000,000; and $2.15 for each $500 of the value over $1,000,000. *P.L.* 2004, *c.* 66.

In addition, the grantee (buyer) of real property zoned residential, whether improved or not, for consideration in excess of $1,000,000 is required to pay a separate fee equal to 1% of the full amount of the consideration. The fee imposed by subsection a. of *P.L.* 2004 *c.* 66 § 8 (C.46:15-7.2) shall not apply to a deed if the transfer of real property is incidental to a corporate merger or acquisition if the equalized assessed value of the real property transferred is less than 20% of the total value of all assets exchanged in the merger or acquisition. *P.L.* 2006 *c.* 66. Pursuant to Section 9 of *P.L.* 2004, *c.* 66, the 2004 RTT amendments apply to deeds presented for recording that evidence real property transfers occurring on or after August 1, 2004. Effective February 1, 2005, *P.L.* 2005, *c.* 19, amended the one percent fee so that it only applies to the purchase of certain types of residentially-zoned property for consideration in excess of $1,000,000, including real property that: (1) is classified for assessment purposes as Class 2 (residential); (2) includes certain property classified for assessment purposes as Class 3A (farm property (regular)) and other real property sold in conjunction with such property; or (3) that is a cooperative unit; or (4) that

is classified pursuant to the requirements of *N.J.A.C.* 18:12-2.2 as Class 4A (commercial properties). *P.L.* 2006 *c.* 66. If a transfer includes property classified pursuant to the requirements of *N.J.A.C.* 18:12-2.2 as Class 4 property or any type, the parties to the transaction shall file affidavits of consideration indicating the consideration, the county and municipality in which the property is situated, and the block and lot description of the real property conveyed.

Chapter 66 of *P.L.* 2006 did not alter *P.L.* 2005 *c.* 19, which exempts from the fee any transfer to a 501(c)(3) charitable organization, and permits a full refund to be provided to a buyer who paid the fee but would not have been required to do so under the amended law.

Roadside Sign Control and Outdoor Advertising Fee

Effective July 1, 2003, the Roadside Sign Control and Outdoor Advertising Act was amended to impose a 6% fee on the gross amounts collected by a retail seller for billboard advertising space. The fee is imposed directly on the retail seller of the advertising space, as defined by the amendments to the Act. The law imposing the fee applies to collections for any period on or after July 1, 2003, through June 30, 2004. *P.L.* 2003, *c.* 124. Effective June 29, 2004, the law was amended to reduce and ultimately eliminate the fee. *P.L.* 2004, c. 42. In this regard, the fee will be phased-out as follows: 1) for the period beginning July 1, 2003 through June 30, 2006 — the rate is 6%, 2) for the period beginning July 1, 2006 through June 30, 2007 — the rate is 4%, and 3) for the period beginning July 1, 2007 and thereafter — the rate is 0%. *P.L.* 2004, *c.* 42.

Sales and Use Tax

The Sales and Use Tax is imposed on the receipts from: (a) the retail sale, rental or use of tangible personal property not specifically exempted by statute; (b) the retail sale of services, except for resale, including producing, fabricating, processing, installing, maintaining, repairing, storing and servicing tangible personal property and certain advertising services; (c) sales of food and drink by restaurants and other similar establishments; and (d) the sale, except for resale, of telecommunications. This tax is also imposed on the rental of hotel and motel rooms, and certain admission charges including those for professional wrestling. Effective July 1, 1992, retail sales of alcoholic beverages are also subject to this tax. *P.L.* 1990, *c.* 40, § 11.

As of October 1, 2006, the scope of the Sales and Use Tax Act is broadened to include "digital property" and some services. Digital property includes delivered music, ringtones, movies, books, audio and video works and similar products where the customer is granted a right or license to use, retain, or make a copy of such an item. *P.L.* 2006, *c.* 44.

The Sales Tax is also extended as of October 1, 2006, to services, subject to some exemptions, including, but not limited to, furnishing of space for storage; parking, storing or garaging a motor vehicle; tanning services, massage services, tattooing, investigation and security services, information services, limousine services originating within New Jersey; initiation fees, membership fees or dues for access to the use of property or facilities of a health and fitness, athletic, sporting or shopping club or organization. *P.L.* 2006, *c.* 44.

Exemptions from the Sales and Use Tax include, but are not limited to: prescription medicines and drugs; enumerated medical equipment and supplies; clothing (except fur clothing) and footwear; household paper products; recycling equipment; certain sales of direct mail advertising materials and related printing and production costs; certain sales of materials and supplies for contractors' use in constructing, improving or rehabilitating housing projects financed by the New Jersey Housing and Mortgage Financing Agency and other government subsidies; sales of telephones, telephone lines, cables, central office equipment or station apparatus or other similar equipment, provided that the sale is made to a service provider subject to the jurisdiction of the Board of Public Utilities or the FCC; coin-paid charges for coin-operated telecommunications devices; and property used directly and primarily on farms. The Sales and Use Tax is reduced by 50% in counties in which there is an entrance to an interstate bridge or tunnel connecting New Jersey with a state which does not impose a sales and use tax or imposes such a tax at a rate at least five percentage points lower than the New Jersey rate. *P.L.* 1993, *c.* 373.

Qualified businesses engaged in making retail sales in designated urban enterprise zones are authorized to collect sales tax equal to 50% of the tax in effect but not on sales of alcoholic beverages, cigarettes, motor vehicles,

restaurant meals, room rentals, catalog sales and services. *P.L.* 1983, *c.* 303; *P.L.* 1993, *c.* 40. As of July 1, 2006, *P.L.* 2006 *c.* 34 amended *P.L.* 1983 *c.* 303 § 20 (C.52:27H-79). *P.L.* 2006, *c.* 34 limits the types of business purchases included in the exemptions for business and contractors under the Urban Enterprise Zone ("UEZ") program. Chapter 34 of *P.L.* 2006, however, does not affect the reduced tax rates on retail sales made in these zones. Rather, *P.L.* 2006, *c.* 34 provides that the goods purchased for the building of a commercial structure for a qualified business and the physical expansion of a qualified business are exempt purchases. In addition, purchases for the initial equipping of the business and for equipping the business in relation to a physical expansion of the business are exempt. Chapter 34 of *P.L.* 2006 excludes energy, motor vehicles and supplies from the exemption, and it does not exempt services. Notably, *P.L.* 2006, *c.* 34 requires qualified businesses to obtain their UEZ sales tax exemptions savings in rebate form, rather than exempting the sales tax at the point of sale. *P.L.* 2008, *c.* 118, broadens the qualified business sales tax exemptions from businesses with annual gross receipts of under $3 million to businesses with gross receipts under $10 million. *P.L.* 2001, *c.* 347 provides for the extension of urban enterprise zone designations and for the new designation of an urban enterprise zone-impacted district.

Effective November 6, 1996, eligible developers under redevelopment agreements negotiated with the State may receive reimbursement of 75% of the costs of closure and remediation of municipal solid waste landfills after the sites are redeveloped, from one half the sales tax collected on non-exempt sales generated from businesses located on the sites. *P.L.* 1996, *c.* 124. *P.L.* 2001, *c.* 332 permits a refund of the tax on the purchase of wastewater effluent and conveyance equipment placed in an exempt use.

On November 3, 1998 Article VIII, Section II of the New Jersey Constitution was amended to dedicate up to $98 million annually from sales tax revenues for open space, farmland and historic preservation commencing on July 1, 1999. In November 2000 this Article and Section was amended to dedicate not less than $80 million from sales tax revenue for the fiscal year commencing July 1, 2001, not less than $140 million for the fiscal year commencing July 1, 2002, and not less than $200 million for each fiscal year thereafter, for credit to the Transportation Trust Fund Account in the General Fund to be used to fund improvements to the State's transportation infrastructure.

Effective July 15, 2006, car rental fees are increased from $2 per day to $5 per day (up to 28 days) for each rental motor vehicle. The rental fee is imposed on each rental company in New Jersey with the first $2 to fund disaster and security related purposes. The remainder of the rental fee is to be used to support the State General Fund. *P.L.* 2006, *c.* 44

P.L. 2003, *c.* 136, effective August 1, 2003, exempts from sales tax, receipts from rentals of tangible personal property between related business entities. To qualify for this exemption, the entities must be 80% or more owned by each other or 80% owned by the same third parties. This exemption became operative November 1, 2003.

Effective October 1, 2005, *P.L.* 2005, *c.* 126 conforms New Jersey's SUT Act to the Streamlined Sales and Use Tax Agreement. These amendments to the Act enable the State to join with 42 other states and the District of Columbia to continue the task of seeking common definitions and uniformly understood tax principles. Key features of the Agreement incorporated in the SUT Act by *c.* 126 include certain uniform definitions and determinations of transactions subject to sales and use taxation, uniform exemptions from tax, rate simplification, various administrative provisions, and an amnesty program for uncollected or unpaid sales and use tax for certain sellers under specified circumstances (Approved July 2, 2005).

Current Rate: 7% (P.L. 2006, c.44).

Sanitary Landfill Facility Taxes

The Landfill Closure and Contingency Tax is levied on the owner or operator of every sanitary landfill facility located in New Jersey on all solid waste accepted for disposal on or after January 1, 1982. *P.L.* 1981, *c.* 306.

Current Rate: $0.15/cubic yard for solids or $0.002/gallon for liquids

Savings Institution Tax

This tax is applicable to every savings institution (any state or federally chartered building and loan association, savings and loan association, or savings bank) operating a financial business in New Jersey. The tax is prepaid (80% of the following year's tax) when the current year's tax is due. A tax credit is available to savings institutions that provide employees incentives for participating in ride-sharing programs, *P.L.* 1993, *c.* 150.

The Savings Institution Tax was repealed by the Business Tax Reform Act, *P.L.* 2002, *c.* 40, § 23, effective July 2, 2002. Notwithstanding the repeal of this tax, any pre-existing liabilities, whether self-assessed or assessed by audit, remain due and collectible. *P.L.* 2002, *c.* 40, § 24.

Former Rate: 3% of net income; minimum of $50 for associations with assets of less than $1 million and $250 for associations with assets of $1 million or more.

Solid Waste Recycling Facility Tax

This tax is imposed on the owner or operator of every solid waste facility located in New Jersey based on all solid waste accepted for disposal on or after January 1, 1982, *P.L.* 1981, *c.* 278, and on all solid waste accepted for disposal or transfer on or after July 1, 1987. *P.L.* 1987, *c.* 102. Proceeds from the tax constitute the State Recycling Fund administered by the State Department of Environmental Protection and Energy. A credit against the Corporation Business Tax (CBT) is available for purchase of recycling equipment. *P.L.* 1987, *c.* 102. The tax and C.B.T. credit provision both expired on December 31, 1996. *P.L.* 1981, *c.* 278. The Solid Waste Recycling Facility Tax was repealed by the Clean Communities and Recycling Grant Act, *P.L.* 2002, *c.* 128, § 12, effective December 20, 2002.

Former Rate: $1.50/ton

Effective April 1, 2008, there is levied upon the owner or operator of every solid waste facility a recycling tax on all solid waste accepted for disposal or transfer at the solid waste facility. *P.L.* 2007, *c*. 314.

Current Rate (2008): $3.00/ton

Spill Compensation and Control Tax

This tax is imposed on the first transfer of hazardous substances (as determined by the State Department of Environmental Protection) in New Jersey.

Current Rates: (1) Non-petroleum hazardous substances/products — 1.53% of the fair market value of the product, (2) Petroleum substances/products — $0.023 per barrel, and (3) Precious metals (including elemental phosphorous, or, in certain circumstances, antimony or antimony trioxide sold for use in the manufacture or for the purpose of fire retardants) — $0.023 per barrel. *P.L.* 2004, *c.* 50.

The tax of qualified taxpayers has been capped at 125% of their 1986 tax liability, and does not apply to facilities entirely closed or decommissioned prior to January 1, 1996, but only those facilities existing at the time of assessment as well as in 1986. *P.L.* 1997, *c.* 143; *P.L.* 1999, *c.* 342. As of April 1, 2002, the tax is capped at 100% of the tax paid in 1999 for certain taxpayers; and the tax rates for certain transfers of elemental antimony or antimony trioxide were changed. *P.L.* 2001, *c.* 424.

Sports and Entertainment District Urban Revitalization Taxes

Pursuant to the newly enacted Sports and Entertainment District Urban Revitalization Act, effective January 26, 2007, an eligible municipality that establishes a sports and entertainment district, may by ordinance establishing the district, assess any or all of the following taxes for a period of not more than 30 years: (1) a 2 percent tax on receipts from every sale within the district of tangible personal property subject to taxation under subsection (a) of section 3 of *P.L.* 1966, *c.* 30 (C. 54:32B-3); (2) a 2 percent tax on sales within the district of food and drink subject to taxation pursuant to subsection (c) of section 3 of *P.L.* 1966, *c.* 30 (C. 54:32B-3); (3) a 2 percent tax on hotel rooms occupied within the district and subject to taxation pursuant to subsection (d) of section 3 of *P.L.* 1966, *c.* 30 (C. 54:32B-3); and (4) a 2 percent tax on admission charges to places of amusement within the district subject to taxation pursuant to subsection (3) of *P.L.* 1966, *c.* 30 (C. 54:32B-3). An

eligible municipality may dedicate some or all of the taxes collected, to the financing of a sports and entertainment facility within the district. *P.L.* 2007, *c.* 30.

Transfer Inheritance and Estate Tax

The Transfer Inheritance Tax applies to the transfer of all personal property, New Jersey real property and intangible personal property wherever situated, having a market value of $500 or more in estates of resident decedents and of real and tangible personal property located within New Jersey of non-resident decedents. No tax is imposed on transfers made to a husband, wife or child of a decedent. *P.L.* 1985, *c.* 57.

Current Rates: 11% to 16%, depending on the relationship of the beneficiaries to the decedent and the amount received by each beneficiary.

For decedents dying on or before December 31, 2001, the estate tax constitutes the amount of any available federal estate tax credit remaining after state inheritance and estate taxes are paid, under the provisions of the federal estate tax in effect on December 31, 2001. The federal estate tax in effect on December 31, 2001 is on the value of a decedent's estate after allowing a credit calculated as a percentage of the federal liability, for any state inheritance or estate taxes paid. For decedents dying after December 31, 2001, the estate tax is computed in accordance with the federal estate tax as of December 31, 2001 or under a simplified method prescribed by the Director of the Division of Taxation, as the estate representative may elect. *P.L.* 2002, *c.* 31. The estate tax is due nine months after the death of the decedent, at the time the federal return is filed.

Tourism Tax

This tax may be imposed on certain tourism related retail receipts within tourism improvement and development districts created by ordinances of two or more contiguous municipalities located in counties of the sixth class. *P.L.* 1992, *c.* 165; *P.L.* 1997, *c.* 273.

Current Rate: not to exceed 2%.

Voice Grade Access Line and Service Number Fees

P.L. 2004, *c.* 48 imposes a fee of $0.90 to be charged by mobile telecommunications companies for each voice grade access service number as part of mobile telecommunications service provided to a customer, billed by or for the customer's home service provider, and provided to a customer with a place of primary use in this State. It further imposes a fee of $0.90 for each voice grade access line provided by a telephone exchange company.

It exempts from the fee charged by a telephone exchange company any customer enrolled in the Lifeline Telecommunications program or in receipt of Lifeline Telecommunications or Universal Service Fund benefits for a periodic bill. State government agencies, county or municipal governments or their agencies and school districts are further exempt from this fee charged by a telephone exchange company for any bill issued to them on or after January 1, 2005.

This act became effective immediately and applies to billing periods ending on or after July 1, 2004, except that for bills issued to Private Branch Exchange or Centrex systems, this act applies to bills issued for billing periods ending on or after August 1, 2004. *P.L.* 2004, *c.* 48.

2009 Tax Amnesty

P.L. 2009, *c.* 21 established a 45 day tax amnesty period ending no later than June 15, 2009. The amnesty applied to taxpayers who had failed to pay any State tax liability for tax returns due on or after January 1, 2002 and before February 1, 2009. During the amnesty period, a taxpayer who had failed to pay a State tax could pay the tax and one-half of the interest balance due as of May 1, 2009. The remaining portion of interest and all penalties, civil and criminal, were then waived. Amnesty was not available to a taxpayer, who at the time of payment, was under criminal investigation or charge for any State tax matter. Tax amnesty was available for matters pending administrative or judicial appeal on the effective date of Chapter 21 only upon the express approval by the Director of the Division of Taxation. The State expected to recover $100 million from the amnesty program with $10 million of those funds appropriated to the Division of Taxation solely to carry out and administer the program. The State actually received $725 million from the program.

APPENDIX II:

PROPOSED FORMS OF LEGAL OPINIONS

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PROPOSED FORM OF APPROVING OPINIONS OF EACH OF
THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY
AND BOND COUNSEL EXPECTED TO BE DELIVERED IN
CONNECTION WITH THE ISSUANCE OF THE BONDS

[Date of Closing]

The Honorable Jon S. Corzine,
Governor of the State of New Jersey

The Honorable R. David Rousseau,
New Jersey State Treasurer

The Honorable Charlene M. Holzbaur,
Comptroller of the Treasury and
Director of the Division of Budget
and Accounting in the Department of the Treasury

Dear Governor Corzine, Treasurer Rousseau and Comptroller and Director Holzbaur:

We have examined the Constitution and statutes of the State of New Jersey (the "State") and a record of the proceedings and other proofs relating to the sale and issuance of $205,000,000 aggregate principal amount of general obligation bonds of the State (the "Tax-Exempt Bonds"), consisting of nine (9) separate series as follows: Clean Waters Bonds (1976) (Series K), Water Supply Bonds (1981) (Series L), Pinelands Infrastructure Trust Bonds (1985) (Series D), 1989 New Jersey Open Space Preservation Bonds (Series J), Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989) (Series F), 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds (Series L), Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) (Series G), 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series C) and 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds (Series A).

We also have examined a record of the proceedings and other proofs relating to the sale and issuance of aggregate principal amount of general obligation bonds of the State (the "Taxable Bonds"), consisting of two (2) separate series as follows: Clean Waters Bonds (1976) (Series L) and 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series D). The Tax-Exempt Bonds and the Taxable Bonds shall be referred to collectively herein as the "Bonds".

The Bonds are dated the date of delivery thereof and shall bear interest from such date, payable initially on December 1, 2010 and semiannually thereafter on June 1 and December 1 of

each year at the respective rates per annum, and will mature on June 1 in each of the years and in the principal amounts, shown below:

General Obligation Bonds (Tax-Exempt) (Various Purposes)

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2011			2021		
2012			2022		
2013			2023		
2014			2024		
2015			2025		
2016			2026		
2017			2027		
2018			2028		
2019			2029		
2020			2030		

General Obligation Bonds (Taxable for Federal Income Tax Purposes)
(Various Purposes)

Year	Principal Amount	Interest Rate
2011		
2012		
2013		
2014		

Each series of the Tax-Exempt Bonds matures annually on June 1 in each of the years 2011 to 2030, inclusive. Each series of the Taxable Bonds matures annually on June 1 in each of the years 2011 to 2014, inclusive.

The Bonds are issuable as fully registered bonds, without coupons, and when issued will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, an automated depository for securities and clearinghouse for securities transactions. Purchases of the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof.

The Tax-Exempt Bonds maturing on or prior to June 1, 2019 are not subject to redemption prior to their respective stated maturity dates. The Tax-Exempt Bonds maturing on or after June 1, 2020 are subject to redemption prior to their respective stated maturity dates, at par, at the option of the State, acting through the Issuing Officials (as defined in the within mentioned Bond Acts), on any date on or after June 1, 2019, either in whole or in part.

The Taxable Bonds are not subject to redemption prior to their respective stated maturity dates.

The Clean Waters Bonds (1976) are authorized and issued under and pursuant to the provisions of the Clean Waters Bond Bond Act of 1976, constituting Chapter 92 of the Laws of New Jersey of 1976.

The Water Supply Bonds (1981) are authorized and issued under and pursuant to the provisions of the Water Supply Bond Act of 1981, constituting Chapter 261 of the Laws of New Jersey of 1981.

The Pineland Infrastructure Trust Bonds are authorized and issued under and pursuant to the provisions of the Pineland Infrastructure Trust Bond Act of 1985, constituting Chapter 302 of the Laws of New Jersey of 1985.

The Stormwater Management and Combined Sewer Overflow Abatement Bonds are authorized and issued under and pursuant to the provisions of the Stormwater Management and Combined Sewer Overflow Abatement Bond Act, constituting Chapter 181 of the Laws of New Jersey of 1989, as amended by Chapter 225 of the Laws of New Jersey of 1997.

The 1989 New Jersey Open Space Preservation Bonds are authorized and issued under and pursuant to the provisions of the Open Space Preservation Bond Act of 1989, constituting Chapter 183 of the Laws of New Jersey of 1989.

The 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds are authorized and issued under and pursuant to the provisions of the Green Acres, Clean Water, Farmland and Historic Preservation Bond Act of 1992, constituting Chapter 88 of the Laws of New Jersey of 1992.

The Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) are authorized and

issued under and pursuant to the provisions of the Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bond Act of 1996, constituting Chapter 70 of the Laws of New Jersey of 1996.

The 2003 Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project Bonds are authorized and issued under and pursuant to the provisions of the Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project Bond Act of 2003, constituting Chapter 162 of the laws of New Jersey of 2003.

The 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds are authorized and issued under and pursuant to the provisions of the Green Acres, Farmland, Blue Acres, and Historic Preservation Bond Act of 2007, constituting Chapter 119 of the Laws of New Jersey of 2007.

Based upon the foregoing, we are of the opinion that:

1. The sale and issuance of the Bonds are authorized by the Constitution and statutes of the State and by the resolutions of the Issuing Officials adopted on November 16, 2009 and December 8, 2009.

2. The Bonds are valid and legally binding direct and general obligations of the State and the full faith and credit of the State are pledged for the payment of the interest thereon as the same shall become due and the payment of the principal thereof and redemption premium, if any, thereon at the stated maturity date thereof or upon earlier redemption.

Further, we have examined an executed Bond of each series and, in our opinion, the form and execution of such Bonds are regular and proper.

Respectfully,

PROPOSED FORM OF TAX OPINION OF BOND COUNSEL

[Date of Closing]

Re: State of New Jersey
General Obligation Bonds (Tax-Exempt) (Various Purposes)
General Obligation Bonds (Taxable for Federal Income Tax Purposes)
(Various Purposes)

The Honorable Jon S. Corzine,
Governor of the State of New Jersey

The Honorable R. David Rousseau,
New Jersey State Treasurer

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The Honorable Charlene M. Holzbaur,
Comptroller of the Treasury and
Director of the Division of Budget
and Accounting in the Department of the Treasury

Dear Governor Corzine, Treasurer Rousseau and Comptroller and Director Holzbaur:

We have examined the Constitution and statutes of the State of New Jersey (the "State") and a record of the proceedings and other proofs relating to the sale and issuance of $205,000,000* aggregate principal amount of general obligation bonds of the State (the "Tax-Exempt Bonds"), consisting of nine separate series as follows: $200,000* Clean Waters Bonds (1976) (Series K), $20,250,000* Water Supply Bonds (1981) (Series L), $1,250,000* Pinelands Infrastructure Trust Bonds (1985) (Series D), $3,400,000* 1989 New Jersey Open Space Preservation Bonds (Series J), $3,000,000* Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989) (Series F), $10,900,000* 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds (Series L), $2,500,000* Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) (Series G), $22,500,000* 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series C) and $141,000,000* 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds (Series A); including a Tax Regulatory Agreement, dated the date hereof (the "Tax Regulatory Agreement"); and such other matters of fact and law as we have deemed necessary

BOSTON
HARTFORD
NEW YORK
NEWARK
PHILADELPHIA
STAMFORD
WILMINGTON

* Preliminary, subject to change.

to enable us to render the opinions set forth below. On the date hereof, the Attorney General of the State of New Jersey and our firm are also delivering opinions regarding the validity of the Tax-Exempt Bonds.

We also have examined a record of the proceedings and other proofs relating to the sale and issuance of $4,150,000* aggregate principal amount of general obligation bonds of the State (the "Taxable Bonds"), consisting of two separate series as follows: $150,000* Clean Waters Bonds (1976) (Series L) and $4,000,000* 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series D); and such other matters of fact and law as we have deemed necessary to enable us to render the opinions set forth below.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Tax-Exempt Bonds in order to assure that the interest on the Tax-Exempt Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. The State's Tax Regulatory Agreement, which is being delivered concurrently with the delivery of the Tax-Exempt Bonds, contains provisions and procedures regarding compliance with the requirements of the Code. The State, in executing its Tax Regulatory Agreement, has represented that the State expects and intends to comply and, to the extent permitted by law, will comply with the provisions and procedures set forth in the Tax Regulatory Agreement and will do all things necessary to assure that the interest on the Tax-Exempt Bonds will be excluded from gross income under Section 103 of the Code. Failure by the State to comply with the requirements of the Code may cause interest on the Tax-Exempt Bonds to be included in gross income retroactive to the date of issue of the Tax-Exempt Bonds. In rendering the opinions set forth below, we have assumed compliance by the State with its Tax Regulatory Agreement.

We are of the opinion that, under existing law, interest on the Tax-Exempt Bonds is excluded from gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes, pursuant to Section 103 of the Code, is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax. We express no opinion with respect to any exemption of interest on the Taxable Bonds from Federal income taxation.

We also are of the opinion that interest on the Tax-Exempt Bonds and the Taxable Bonds and any gain on the sale thereof are excluded from gross income under the existing New Jersey Gross Income Tax Act.

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* Preliminary, subject to change.

The opinions expressed herein are based upon and limited to the laws, exclusive of conflicts of law provisions, and judicial decisions of the State and the federal laws and judicial decisions of the United States as of the date hereof and are subject to any amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for our opinions, or laws or judicial decisions hereafter enacted or rendered. Our engagement by the State with respect to the opinions expressed herein does not require, and shall not be construed to constitute, a continuing obligation on our part to notify or otherwise inform the addressees hereof of the amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for this opinion letter or of laws or judicial decisions hereafter enacted or rendered which impact on this opinion letter.

This opinion letter is being furnished solely to the parties to whom it is addressed and may not be relied upon by any other person, except for holders of the Tax-Exempt Bonds and the holders of the Taxable Bonds, or quoted in whole or in part or otherwise referred to, except as required by law, without our prior written consent. This is only an opinion letter and not a warranty or guaranty of the matters discussed herein. Notwithstanding anything to the contrary contained herein, we acknowledge that this opinion is a government record subject to release under the Open Public Records Act (N.J.S.A. 47:1A-1et seq.).

Very truly yours,

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APPENDIX III:

FORM OF AGREEMENT WITH RESPECT TO CONTINUING DISCLOSURE

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AGREEMENT WITH RESPECT TO
CONTINUING DISCLOSURE

The State of New Jersey (the "State") hereby undertakes for the benefit of the beneficial holders of (i) the $205,000,000 State of New Jersey General Obligation Bonds (Tax-Exempt) consisting of $200,000 Clean Waters Bonds (1976) (Series K), $20,250,000 Water Supply Bonds (1981) (Series L), $1,250,000 Pinelands Infrastructure Trust Bonds (1985) (Series D), $3,400,000 1989 New Jersey Open Space Preservation Bonds (Series J), $3,000,000 Stormwater Management and Combined Sewer Overflow Abatement Bonds (1989) (Series F), $10,900,000 1992 New Jersey Green Acres, Clean Water, Farmland and Historic Preservation Bonds (Series L), $2,500,000 Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds (1996) (Series G), $22,500,000 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series C), and $141,000,000 2007 New Jersey Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds (Series A) and (ii) the $4,150,000 State of New Jersey General Obligation Bonds (Taxable for Federal Income Tax Purposes) consisting of $150,000 Clean Waters Bonds (1976) (Series L) and $4,000,000 2003 Dam, Lake, Stream, Water Resources, and Wastewater Treatment Project Bonds (Series D) (collectively, the "Bonds"), to provide information pertaining to the State generally of the type set forth in Section (b)(5)(i) of Rule 15c2-12 promulgated pursuant to the Securities Exchange Act of 1934 (as such Section is now in effect) (hereinafter, the "Rule"), while the Bonds are outstanding.

In connection therewith, (i) annual financial information and operating data of the State substantially of the type captioned as follows in Appendix I to the Official Statement, dated December 1, 2009, pertaining to the Bonds under the headings: "STATE FINANCES," "FINANCIAL RESULTS AND ESTIMATES," "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE," "TAX AND REVENUE ANTICIPATION NOTES," "OTHER OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION," "MORAL OBLIGATION FINANCING," "STATE EMPLOYEES," "FUNDING PENSION PLANS," "FUNDING POST-RETIREMENT MEDICAL BENEFITS," "LITIGATION" and (ii) the State's Comprehensive Annual Financial Report, being the report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, in accordance with provisions of the Governmental Accounting Standards Board Statements No. 34 and No. 35 (the "Report"), in each case, will be provided in an electronic format, accompanied by such identifying information as shall be prescribed by the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32 and which shall be in effect on the date of filing of such information, to the MSRB and to each state information depository designated in the State, if any, by not later than March 15 of each year thereafter during which any of the Bonds remain Outstanding, with respect to the fiscal year of the State ending the preceding June 30, commencing with the fiscal year of the State ending June 30, 2010; provided however, that the audited financial statements of the State may be submitted separately if such audited financial statements are not available by such date but only if the unaudited financial statements are in included in the submission.

Additionally, in connection therewith, to the extent such events may be applicable to the Bonds, notice of the occurrence of the events listed in paragraph (C) of such Section, which include principal and interest payment delinquencies, non-payment related defaults, unscheduled

draws on debt service reserves or credit enhancements reflecting financial difficulties, substitution of credit or liquidity providers or their failure to perform, adverse tax-opinions or events affecting the tax-exempt status of the Bonds, modifications to the rights of the holders of the Bonds, Bond calls (other than scheduled Bond calls), defeasances, release, substitution or sale of property securing repayment of the Bonds and ratings changes, in each case, if material, and any failure of the State to provide annual financial and operating data as set forth herein, in each case, will be provided to the MSRB as required or permitted by the Rule in a timely manner. The sole and exclusive remedy for any failure of the State to provide the information in the manner specified in this Agreement shall be the right to obtain specific performance of such obligation to provide such information in a judicial proceeding instituted in accordance with applicable legislation pertaining to suits against the State; provided, however, that the State shall have received written notice of any such failure at least sixty (60) days prior to the commencement of any such judicial proceeding.

This Agreement shall be governed by and construed in accordance with the laws of the State.

This Agreement shall constitute a contract with the beneficial holders of the Bonds. The State's obligations under this Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Notwithstanding any other provisions of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if such amendment or waiver is supported by a written opinion of counsel expert in federal securities law acceptable to the State, addressed to the State, to the effect that such amendment or waiver will not, in and of itself, cause the undertakings herein to violate the Rule.

Nothing in this Agreement shall be deemed to prevent the State from disseminating any other information using the means of dissemination set forth in this Agreement or any other means of communication in addition to that which is required by this Agreement. If the State chooses to include any information or notice of occurrence of an event in addition to that which is specifically required under this Agreement, the State shall not have any obligation under this Agreement to update or continue to provide such information.

Any information provided pursuant to this Agreement may be submitted as a single document or as separate documents constituting a package and may cross-reference other information submitted.

IN WITNESS WHEREOF, the State Treasurer has caused this Agreement to be executed and delivered on behalf of the State of New Jersey this 17th day of December, 2009.

TREASURER, STATE OF NEW JERSEY

_____

R. David Rousseau