

SOUTH JERSEY PORT CORPORATION
\$58,115,000* MARINE TERMINAL REVENUE REFUNDING BONDS, SERIES 2012 Q

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

The \$58,115,000* Marine Terminal Revenue Refunding Bonds, Series 2012 Q of the South Jersey Port Corporation (the “Corporation”) (the “Series 2012 Q Bonds”), will be issued 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 (“DTC”), New York, New York. DTC will act as securities depository for the Series 2012 Q Bonds. Purchases of beneficial interests in the Series 2012 Q Bonds will be made in book-entry form in denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their beneficial interests in the Series 2012 Q Bonds. For as long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2012 Q Bonds, all payments of principal or sinking fund installments of and interest on the Series 2012 Q Bonds are payable by U.S. Bank National Association, Morristown, New Jersey, as registrar and paying agent (the “Registrar and Paying Agent”) to DTC. As more fully described herein, disbursement of such payments to the Direct Participants (defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants (defined herein). See “THE SERIES 2012 Q BONDS – Book-Entry Only System.”

The Series 2012 Q Bonds are being issued pursuant to the Act (defined herein) and the Marine Terminal Revenue Bond Resolution of the Corporation adopted on June 5, 1985, as amended and supplemented (as so amended and supplemented, the “General Bond Resolution”), as further supplemented by the “Amended and Restated Fourteenth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Refunding Bonds, Series 2012 Q” (collectively with the General Bond Resolution, the “Bond Resolution”).

The proceeds of the Series 2012 Q Bonds, together with other funds, are being used to: (i) refund certain callable maturities of the 2002 Bonds (the “Prior Bonds”); (ii) fund the required deposit to the Debt Reserve Fund and (iii) pay the costs of issuance of the 2012 Q Bonds. See “THE PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Series 2012 Q Bonds will be payable on an equal and ratable basis with all Outstanding Bonds and any Additional Bonds issued by the Corporation, from time to time pursuant to the Bond Resolution from Revenues, certain funds and accounts established pursuant to the Bond Resolution (excluding the Series 2012 Q Bond Rebate Fund and the Tax Reserve Fund, each defined herein), including the investments, if any, thereof, and all amounts received from the State as appropriations for the Bond Account (as defined herein) in the Debt Reserve Fund. See “SECURITY FOR THE SERIES 2012 Q BONDS.” Interest on the Series 2012 Q Bonds will be payable initially on July 1, 2012 and on each January 1 and July 1 thereafter until maturity or earlier redemption.

The Series 2012 Q Bonds are subject to redemption prior to maturity at the prices, at the times and in the manner described herein. See “THE SERIES 2012 Q BONDS – Redemption.”

The Act provides that, in order to maintain the balance in the Debt Reserve Fund established under the Bond Resolution at a level at least equal to the largest amount required for the payment of principal or sinking fund installments and interest on any Bonds of the Corporation during any succeeding calendar year, the State will make an annual appropriation to the Corporation, for deposit in the Bond Account of the Debt Reserve Fund, in the amount certified by the Corporation as the necessary required amount. **However, all moneys to be paid to the Corporation pursuant to the provisions of the Act described above are subject to appropriation by the New Jersey State Legislature (the “State Legislature”) for such purpose from time to time. The State Legislature has no legal obligation to make such appropriations, and the provisions of the Act described do not constitute a legally enforceable obligation on the part of the State, nor does it create a debt or liability of the State. See “SECURITY FOR THE SERIES 2012 Q BONDS – Maintenance of the Debt Reserve Fund.”**

THE SERIES 2012 Q BONDS ARE DIRECT AND GENERAL OBLIGATIONS OF THE CORPORATION. THE CORPORATION HAS NO TAXING POWER. THE SERIES 2012 Q BONDS ARE NOT IN ANY WAY A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE AND ARE NOT AND DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY SUCH POLITICAL SUBDIVISION.

In the opinion of Capehart & Scatchard, P.A., Bond Counsel, assuming continuing compliance by the Corporation with certain covenants described herein, under current law: (i) interest on the Series 2012 Q Bonds is not includable in gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (“Code”), for purposes of computing the federal alternative minimum tax and, pursuant to the Recovery Act, is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. Further, in the opinion of Bond Counsel, under current law interest on the Series 2012 Q Bonds and any gain on the sale thereof are not includable as gross income under the New Jersey Gross Income Tax Act. See “TAX MATTERS” herein.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to their making an informed investment decision.

The Series 2012 Q Bonds are offered subject to prior sale, when as and if issued, subject to the approval of the legality by Capehart & Scatchard, P.A., Bond Counsel to the Corporation. Certain other legal matters will be passed upon for the Corporation by its general counsel. It is expected that the Series 2012 Q Bonds in definitive form will be available for delivery to DTC in New York, New York on or about May 17, 2012.

BIDS WILL BE RECEIVED ON TUESDAY, MAY 8TH, 2012 UNTIL 11:00 A.M. EASTERN TIME
AT THE OFFICES OF THE SOUTH JERSEY PORT CORPORATION
2ND STREET AND JOSEPH A. BALZANO BOULEVARD
CAMDEN, NEW JERSEY
OR
ELECTRONICALLY VIA PARITY®

* Preliminary, subject to change

SOUTH JERSEY PORT CORPORATION

\$58,115,000* MARINE TERMINAL REVENUE BONDS, SERIES 2012 Q

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

<u>January 1*</u>	<u>Principal*</u>	<u>Interest Rate (%)</u>	<u>Price or Yield</u>
2014	\$1,950,000		
2015	3,840,000		
2016	3,960,000		
2017	4,110,000		
2018	4,275,000		
2019	4,450,000		
2020	4,670,000		
2021	2,710,000		
2022	2,845,000		
2023	2,990,000		
2024	860,000		
2025	1,945,000		
2026	2,040,000		
2027	2,145,000		
2028	2,255,000		
2029	2,365,000		
2030	2,485,000		
2031	2,610,000		
2032	2,735,000		
2033	2,785,000		

* Preliminary, subject to change

SOUTH JERSEY PORT CORPORATION

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Camden, New Jersey 08103
(856) 757-4969

MEMBERS

Richard A. Alaimo	Chairman
Chad Michael Bruner	Director
Robert A. DeAngelo, Sr.	Director
Jonathan S. Gershen	Director
Joseph M. Maressa, Jr.	Director
Eric E. Martins	Director
Craig F. Remington	Director
Sheila Lynn Roberts	Director
Francis Smith	Director
Rev. Carl E. Styles	Director
Christopher Chianese, Designee for State Treasurer	Ex-officio

EXECUTIVE DIRECTOR

Kevin Castagnola

TREASURER

Patrick A. Abusi

SECRETARY

Jay Jones

GENERAL COUNSEL

Raymond Zane, Esq.
Woodbury, New Jersey

AUDITOR

Holman & Frenia, P.C.
Medford, New Jersey

BOND COUNSEL

Capehart & Scatchard, P.A.
Trenton, New Jersey

FINANCIAL ADVISOR

Goldman Beale Associates
Titusville, New Jersey

IN CONNECTION WITH THE OFFERING OF THE SERIES 2012 Q BONDS, THE UNDERWRITERS (AS DEFINED HEREIN) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 Q BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2012 Q BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

No dealer, broker, salesperson or other person has been authorized by the Corporation or the Underwriters to give any information or to make any representations with respect to the Series 2012 Q 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 the Corporation. This Official Statement does not constitute an offer to sell or the solicitation by any person of an offer to buy, nor shall there be any sale of the Series 2012 Q Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Corporation.

The information and expressions of opinion 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 parties referred to above since the date hereof.

The Series 2012 Q Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Bond Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2012 Q Bonds in accordance with applicable provisions of the securities laws of the states, if any, in which the Series 2012 Q Bonds have been registered or qualified and the exemption from registration or qualification in certain other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2012 Q Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement contains a general description of the Series 2012 Q Bonds, the Corporation and the plan of financing and sets forth summaries of certain provisions of the Bond Resolution. The descriptions and summaries herein do not purport to be complete. Persons interested in purchasing the Series 2012 Q Bonds should carefully review this Official Statement (including the Appendices attached hereto) as well as copies of such documents in their entirety, which are held by the Trustee at its corporate trust office located at 21 South Street, 3rd Floor, Morristown, New Jersey 07960.

The order and placement of materials in this Official Statement, including the Appendices hereto, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices hereto, must be considered in its entirety.

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**OFFICIAL STATEMENT
RELATING TO
SOUTH JERSEY PORT CORPORATION
\$58,115,000* MARINE TERMINAL REVENUE REFUNDING BONDS, SERIES 2012 Q**

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page and the Appendices hereto, is furnished by the South Jersey Port Corporation (the “Corporation”) in connection with the offering of its \$58,115,000* Marine Terminal Revenue Refunding Bonds, Series 2012 Q (the “Series 2012 Q Bonds”). Capitalized terms used herein and not otherwise defined have the meanings set forth in the definitions contained in Appendix III.

The Corporation. The Corporation was created and exists and operates under the South Jersey Port Corporation Act, constituting Chapter 60 of the Pamphlet Laws of 1968 of the State of New Jersey, effective June 13, 1968, as amended and supplemented (as so amended and supplemented, the “Act”) as an instrumentality of the State of New Jersey (the “State”). The Corporation is empowered to exercise its statutory functions within the South Jersey Port District (the “District”), which includes the counties of Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer and Salem, and the lands and waters in the Delaware River and Delaware Bay contiguous thereto, subject to the right, title and interest of the State under the waters of the Delaware River and Delaware Bay. Under the Act, the Corporation is empowered, among other things, to establish, acquire, construct, rehabilitate, improve, own, operate and maintain marine terminals at such locations within the District as it shall determine.

The Corporation owns three marine terminals and is in the process of developing a fourth terminal (the “Paulsboro Marine Terminal”) in the Borough of Paulsboro (“Paulsboro”), in Gloucester County (“Gloucester County”), New Jersey that is being constructed with a portion of the proceeds of the Corporation’s Series 2009 P Bonds. See “THE CORPORATION” and “OPERATIONS AND FACILITIES” herein for a more detailed description of the development of the Paulsboro Marine Terminal, the Corporation, and the Corporation’s operations and facilities.

The Series 2012 Q Bonds. The Series 2012 Q Bonds are being issued pursuant to the Act and the Marine Terminal Revenue Bond Resolution of the Corporation adopted on June 5, 1985, as amended and supplemented (as so amended and supplemented, the “General Bond Resolution”), as further supplemented by the “Amended and Restated Fourteenth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Refunding Bonds, Series 2012 Q” (the “Fourteenth Supplemental Resolution”, and together with the General Bond Resolution, the “Bond Resolution”) and by the Series Certificate to be executed by an Authorized Officer of the Corporation simultaneously with the issuance and delivery of the Bonds (the “Series Certificate”).

Certain provisions of the Bond Resolution are summarized in Appendix III. See “THE SERIES 2012 Q BONDS.”

The proceeds of the Series 2012 Q Bonds, together with other funds, are being used to: (i) refund the Refunded Bonds, as defined herein; (ii) fund the required deposit to the Debt Reserve Fund; and (iii) pay the costs of issuance of the 2012 Q Bonds. For a more detailed description of the use of proceeds of the Series 2012 Q Bonds, see “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

U.S. Bank National Association, Morristown, New Jersey has been appointed to serve as trustee, paying agent and registrar (respectively, the “Trustee,” the “Paying Agent” and the “Registrar”) for the Series 2012 Q Bonds.

Security for the Series 2012 Q Bonds. The Series 2012 Q Bonds are direct and general obligations of the Corporation and, upon their issuance, will be equally and ratably secured with all Outstanding Bonds and any other Additional Bonds of the Corporation issued and to be issued from time to time and Outstanding pursuant to the Bond Resolution (collectively, the “Bonds”), by a pledge of: (i) the Revenues of the Corporation; (ii) certain funds and accounts established under the Bond Resolution (excluding the 2012 Q Bond Rebate Fund and the Tax Reserve Fund), including the investments, if any, thereof; and (iii) all amounts received from the State as appropriations for the Bond Account in the Debt Reserve Fund, as described below.

* Preliminary, subject to change

The Act provides that the Corporation maintain a reserve fund equal to the maximum annual debt service for all Outstanding Bonds of the Corporation, and the Bond Resolution establishes the Debt Reserve Fund, which is held by the Trustee, in satisfaction of this requirement of the Act. The Bond Resolution further establishes a Bond Account in the Debt Reserve Fund that is pledged to the payment of the Bonds. In order to assure that the amount on deposit in the Debt Reserve Fund is maintained at a level equal to the maximum amount coming due in any succeeding calendar year with respect to the principal or redemption price of and interest on all Bonds of the Corporation, Section 14 of the Act provides in substance that there will be annually appropriated and paid to the Corporation for deposit in the Debt Reserve Fund, the amount, if any, as certified by the Corporation to the Governor of the State as necessary to restore the amount in the Debt Reserve Fund to its required level.

Funds received from the State are deposited directly into the Bond Account in the Debt Reserve Fund and applied to restore the Debt Reserve Fund to its required level, and moneys on deposit in the Debt Reserve Fund are then used to cover any deficiency in amounts available in the Debt Service Fund established under the Bond Resolution to pay debt service on any Bonds of the Corporation. **However, all moneys to be paid to the Corporation for deposit into the Debt Reserve Fund pursuant to these provisions of the Act are subject to appropriation by the New Jersey State Legislature (the “State Legislature”) for such purpose. Such provisions of the Act do not constitute a legally enforceable obligation on the part of the State nor do they create a debt or liability of the State.**

From 1990 through 2011, the Net Revenues of the Corporation after paying Operating Expenses have been insufficient to meet the debt service requirements on its presently Outstanding Bonds. The Corporation also currently believes that its Net Revenues will not be sufficient to meet the debt service requirements on its Outstanding Bonds, including the Series 2012 Q Bonds for the foreseeable future.

CONSEQUENTLY, PURCHASERS OF THE SERIES 2012 Q BONDS SHOULD ASSUME THAT THE NET REVENUES OF THE CORPORATION AFTER PAYING OPERATING EXPENSES WILL BE INSUFFICIENT TO MAKE DEBT SERVICE PAYMENTS ON THE SERIES 2012 Q BONDS, AND THAT ALL OR A PORTION OF THE REQUIRED DEBT SERVICE PAYMENTS ON THE SERIES 2012 Q BONDS WILL BE MADE WITH FUNDS APPROPRIATED TO THE CORPORATION BY THE STATE, FROM TIME TO TIME, FOR SUCH PURPOSE; PROVIDED, HOWEVER, THAT THE STATE LEGISLATURE HAS NO LEGAL OBLIGATION TO MAKE ANY SUCH APPROPRIATIONS. See “SECURITY FOR THE SERIES 2012 Q BONDS – Maintenance of Debt Reserve Fund.”

Additional Bonds. On December 5, 2002, the Corporation issued \$79,295,000 of its Marine Terminal Revenue and Revenue Refunding Bonds, Series 2002 K (the “Series 2002 K Bonds”, to be refunded by the 2012 Q Bonds) and \$42,030,000 of its Marine Terminal Revenue and Revenue Refunding Bonds, Series 2002 L (AMT) (the “Series 2002 L Bonds” and, together with the Series 2002 K Bonds, the “Series 2002 Bonds”). On October 29, 2003, the Corporation issued \$11,305,000 of its Marine Terminal Revenue Bonds, Series 2003M (AMT) (the “Series 2003 Bonds”). On November 20, 2007, the Corporation issued \$11,235,000 of its Marine Terminal Revenue Bonds, Series 2007 N (the “Series 2007 Bonds”). On January 22, 2009, the Corporation issued \$25,885,000 of its Marine Terminal Revenue Bonds, Series 2009 O (the “Series 2009 O Bonds”). On December 22, 2009, the Corporation issued \$157,880,000 of its Marine Terminal Revenue Bonds, Series 2009 P (the “Series 2009 P Bonds”). The Bond Resolution permits the Corporation to issue Additional Bonds, if certain conditions therein are satisfied. Any such Additional Bonds will be secured equally and ratably with the Series 2002 Bonds, the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 O Bonds, the Series 2009 P Bonds, and the Series 2012 Q Bonds that are Outstanding under the Bond Resolution.

PLAN OF FINANCE

A portion of the proceeds of the 2012 Q Bonds will be used to advance-refund certain callable maturities of the Corporation’s Series 2002 K Bonds (the “Prior Bonds”). Monies will be deposited in an irrevocable escrow (the “Escrow Account”) sufficient to pay interest on the Prior Bonds until the date of redemption of the Prior Bonds, as well as the Redemption Price of the Prior Bonds.

A portion of the proceeds, together with other available funds, of the 2012 Q Bonds will be deposited the Debt Reserve Fund in an amount sufficient to bring the balance in the Debt Reserve Fund to the Debt Reserve Requirement; see “Debt Reserve Fund” under “SECURITY FOR THE BONDS”, herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following is an estimate of the sources and uses of funds in connection with the issuance of the Series 2012 Q Bonds:

Sources

Principal Amount of Bonds
2002 K Debt Reserve Fund
Net (Discount)/Premium
TOTAL SOURCES

Uses

Deposit to Escrow for Prior Bonds⁽¹⁾
Deposit to Debt Reserve Fund⁽²⁾
Costs of Issuance⁽³⁾
TOTAL USES

- (1) Amount sufficient to pay the interest on and Redemption Price of the Prior Bonds through the date of redemption of the Prior Bonds
- (2) Amount sufficient to bring the balance in the Debt Reserve Fund to the Debt Reserve Requirement
- (3) Estimated amount for underwriting, legal, consulting and Trustee fees, printing costs, accounting expenses, verification agent fees, associated issuance costs and a rounding amount

THE SERIES 2012 Q BONDS

General

The Series 2012 Q Bonds are being issued pursuant to the Act and the Bond Resolution. Certain provisions of the Bond Resolution are summarized in Appendix III.

The Act provides that the Corporation must obtain certain approvals of the Governor and the Treasurer of the State in connection with the authorization and issuance of bonds or other obligations of the Corporation. The Corporation has obtained the approval of the Governor and the Treasurer of the State as to the adoption of the Fourteenth Supplemental Resolution and the issuance of the Series 2012 Q Bonds currently being issued thereunder.

The Series 2012 Q Bonds are being issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Series 2012 Q Bonds will initially be dated and bear interest from their date of delivery, and shall mature, subject to prior redemption, as herein described, in the amounts, at the rates and on the dates set forth on the inside front cover page of this Official Statement. Interest on the Series 2012 Q Bonds will be payable initially on July 1, 2012 and on each January 1 and July 1 thereafter until maturity or earlier redemption (each an “Interest Payment Date”). Interest will be payable to the registered owners of the Series 2012 Q Bonds (the “Registered Owners”) on the books of the Corporation maintained by the Registrar as of the fifteenth day (whether or not a business day) of the month preceding the month in which such Interest Payment Date occurs (the “Record Date” with respect to the Series 2012 Q Bonds).

The Series 2012 Q Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee, to be held in DTC’s book-entry only system. So long as the Series 2012 Q Bonds are held in DTC’s book-entry only system, DTC (or a successor securities depository) or its nominee will be the Registered Owner of the Series 2012 Q Bonds for all purposes of the Bond Resolution, the Series 2012 Q Bonds and this Official Statement, and payments of principal or Redemption Price of and interest with respect to the Series 2012 Q Bonds will be made solely through the facilities of DTC. See “Book-Entry Only System”, below.

In the event that DTC discontinues providing its services as a securities depository and a successor securities depository is not obtained or the Corporation decides to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository), Series 2012 Q Bond certificates in fully registered form will be authenticated and delivered in accordance with the Bond Resolution and the instructions of DTC or its successor except that, if the Corporation decides to discontinue use of the system of book-entry transfer through DTC, it shall deliver the Certificates to DTC. Thereafter, the principal of the Series 2012 Q Bonds and any premium thereon will be payable at the designated corporate trust office of the Paying Agent and interest on the Series 2012 Q Bonds will be payable by check or draft mailed by the Paying Agent to the Registered Owners.

Redemption

Optional Redemption.

The Series 2012 Q Bonds maturing on or after January 1, 2023 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2022. The Series 2012 Q Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity at the written election of the Corporation signed by an Authorized Officer, as set forth in said written election, and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2012 Q Bonds called for redemption, without premium, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption.

The Series 2012 Q Bonds maturing January 1, ____ are subject to mandatory sinking fund redemption prior to maturity, on January 1 of each of the years and in the respective principal amounts set forth below, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

\$ _____ * 2012 Q Bonds Due January 1.

Year

Amount

* Final Maturity

The Series 2012 Q Bonds subject to mandatory sinking fund redemption shall be selected by the Trustee by lot or in any other customary manner determined by the Trustee.

Notice of Redemption. Notice of the Corporation's election to redeem any of the Series 2012 Q Bonds and the redemption date must be given by the Corporation to the Trustee by written notice at least forty (40) days prior to the date fixed for redemption or at such later date as is acceptable to the Trustee. Upon receipt of such notice to redeem Series 2012 Q Bonds, the Trustee is required to select the Series 2012 Q Bonds to be redeemed and to give written notice, by mail, postage prepaid, not less than twenty-five (25) days before the redemption date to each Registered Owner of the Series 2012 Q Bonds to be redeemed, at their last address appearing on the registration books of the Corporation kept and maintained by the Registrar. Such mailing shall not be a condition precedent to such redemption, and failure to mail any such notice shall not affect the validity of the proceedings for the redemption of Series 2012 Q Bonds. So long as DTC or its nominee (or any successor or assign) is the Registered Owner of the Series 2012 Q Bonds, all notices of redemption shall be given to DTC (or its successor or assign).

If notice of redemption is given as described above, the Series 2012 Q Bonds or portions thereof specified in such notice will become due and payable on the redemption date fixed in such notice and if, on the redemption date, moneys sufficient to pay the Redemption Price of the Series 2012 Q Bonds to be redeemed plus accrued interest thereon to the redemption date are available for payment, then interest shall cease to accrue on such redeemed Series 2012 Q Bonds.

If at the time of mailing of any notice of optional redemption, there shall not have been deposited with the Trustee moneys sufficient to redeem all the Series 2012 Q Bonds called for redemption, such notice (if requested by the Corporation) may state that the redemption itself is subject to the deposit of the redemption moneys with the Trustee no later than the opening of business on the redemption date, and that the redemption will be of no effect unless such moneys are so deposited.

Book-Entry Only System

The information set forth herein concerning The Depository Trust Company (“DTC”), New York, NY and the book-entry-only system described below has been extracted from materials provided by DTC for such purpose, is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Corporation.

The Corporation cannot, and in fact does not, give any assurance that (1) DTC will distribute payments of debt service on the Series 2012 Q Bonds or notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2012 Q Bonds) or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

DTC will act as securities depository for the Series 2012 Q Bonds. The Series 2012 Q 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 the Series 2012 Q Bonds, and will be deposited with DTC.

DTC, the world’s largest securities 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. 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’s 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. DTCC 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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Series 2012 Q Bonds and Exchange Commission.

Purchases of Series 2012 Q Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Q Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Series 2012 Q Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2012 Q Bonds, except in the event that use of the book-entry system for the Series 2012 Q Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Q 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 Series 2012 Q Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Q Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Q 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 Participants 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. Beneficial Owners of Series 2012 Q Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Q Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Series 2012 Q Bonds may wish to ascertain that the nominee holding the Series 2012 Q Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Q Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Q Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation 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 Series 2012 Q Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and redemption price of and interest on the Series 2012 Q 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 Corporation or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Q Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2012 Q Bond certificates will be printed and delivered to DTC.

NEITHER THE CORPORATION OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 2012 Q BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2012 Q BONDS; (4) THE DELIVERY BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2012 Q BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

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ANNUAL DEBT SERVICE REQUIREMENTS OF THE CORPORATION

Currently Outstanding

The following table sets forth for each 12-month period ending January 1 of the year set forth below, the amount required for the payment of principal and interest due on the Corporation's Outstanding Bonds (whether at maturity or by sinking fund redemption) prior to the issuance of the Series 2012 Q Bonds. Prior to the issuance of the Series 2012 Q Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 O Bonds, and the Series 2009 P Bonds are the only Bonds Outstanding under the Bond Resolution.

Year Ended January 1	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2013	\$ 9,120,000	\$16,774,858	\$ 25,894,858
2014	9,040,000	16,384,759	25,424,759
2015	9,410,000	16,021,334	25,431,334
2016	9,835,000	15,607,479	25,442,579
2017	10,265,000	15,166,354	25,431,354
2018	10,730,000	14,705,754	25,435,754
2019	11,215,000	14,146,127	25,361,127
2020	11,675,000	13,548,408	25,223,408
2021	9,745,000	12,920,928	22,665,928
2022	10,195,000	12,384,716	22,579,716
2023	10,730,000	11,844,684	22,574,684
2024	8,130,000	11,275,620	19,405,620
2025	8,540,000	10,786,249	19,326,249
2026	8,940,000	10,260,373	19,200,373
2027	9,365,000	9,709,057	19,074,057
2028	9,825,000	9,128,529	18,953,529
2029	10,285,000	8,519,760	18,804,760
2030	10,810,000	7,875,704	18,685,704
2031	10,540,000	7,179,643	17,719,643
2032	11,060,000	6,491,250	17,551,250
2033	11,615,000	5,779,000	17,394,000
2034	9,105,000	5,010,843	14,115,843
2035	9,550,000	4,372,608	13,922,608
2036	10,020,000	3,701,609	13,721,609
2037	10,520,000	2,997,746	13,517,746
2038	11,035,000	2,259,065	13,294,065
2039	10,855,000	1,484,355	12,339,355
2040	9,635,000	709,618	10,344,618
TOTAL	\$281,790,000	\$267,346,130	\$549,136,130

Series 2012 Q Bonds

The following table sets forth for each 12-month period ending January 1 of the year set forth below, the amount required for the payment of principal and interest due on the Corporation's Series 2012 Q Bonds (whether at maturity or by sinking fund redemption).

<u>Year Ended January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
TOTAL			

Total Debt Service Schedule Including Series 2012 Q Bonds

The following table sets forth for each 12-month period ending January 1 of the year set forth below, the total amount required for the payment of principal and interest due on all of the Corporation's Outstanding Bonds, including the Series 2012 Q Bonds.

<u>Year Ended</u> <u>January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
TOTAL			

SECURITY FOR THE SERIES 2012 Q BONDS

General

The Series 2012 Q Bonds are direct and general obligations of the Corporation. The Series 2012 Q Bonds are secured by a pledge of the Revenues, by moneys on deposit in the Bond Account in the Debt Reserve Fund, and by certain other Funds and Accounts held in trust by the Trustee under the Bond Resolution, subject in certain cases to the application thereof for the purposes and on the terms and conditions set forth in the Bond Resolution, including Operating Expenses of the Corporation, all as more fully described in the Bond Resolution. The Series 2012 Q Bonds will be secured on an equal and ratable basis with all Outstanding Bonds and any Additional Bonds issued and to be issued from time to time by the Corporation under the Bond Resolution (all such bonds, including the Series 2012 Q Bonds, have been collectively defined herein as the Bonds) by a pledge of: (i) the Revenues of the Corporation; (ii) certain funds and accounts established under the Bond Resolution (excluding the 2012 Q Bond Rebate Fund and the Tax Reserve Fund) including the investments, if any, thereof; and (iii) all amounts received from the State as appropriations for the Bond Account in the Debt Reserve Fund.

Existing Indebtedness of the Corporation

Pursuant to the provisions of the General Bond Resolution, the Corporation has previously issued the Series 2002 K Bonds and 2002 L Bonds, which refunded all then-outstanding Bonds of the Corporation, the Series 2003 M Bonds which funded the construction of refrigerated warehouse space (and related site improvements) for use by a current Port tenant and the renovation of a fire protection system, the Series 2007 N Bonds, which funded preliminary expenses associated with the Paulsboro Marine Terminal Project, a cathodic protection project, and a warehouse replacement project, the Series 2009 O Bonds, which funded additional preliminary expenses associated with the Paulsboro Marine Terminal Project, the acquisition of land adjacent to the Broadway Terminal, and various capital projects, and the Series 2009 P Bonds, which funded acquisition and construction expenses related to the Paulsboro Marine Terminal Project.

The Bond Resolution permits the Corporation to issue Additional Bonds, if certain conditions therein are satisfied. Any such Additional Bonds will be secured equally and ratably with the Series 2002 K Bonds, the Series 2002 L Bonds, the Series 2003 M Bonds, the Series 2007 N Bonds, the Series 2009 O Bonds, the Series 2009 P Bonds, and the Series 2012 Q Bonds under the Bond Resolution. See “Additional Bonds.”

Rate Covenant

Under the Bond Resolution, in each year the Corporation is required to charge and collect rates, rents, fees and other charges for the use of its terminals sufficient to (1) pay its Operating Expenses, debt service, debt service reserve and maintenance reserve requirements, and other expenses expected to be paid from revenues in such year; and (2) provide Net Revenues in such year equal to at least 110% of the Aggregate Debt Service for such year. The Bond Resolution also provides that if Net Revenues in any year do not equal or exceed 110% of the Aggregate Debt Service plus principal and interest due or accrued on Subordinated Debt in such year, the Corporation is required to (i) engage a qualified independent engineer to make a study and recommend a schedule of rates, fees and charges that, in the opinion of such engineer, will provide Net Revenues in the following year sufficient to meet the requirements of the Bond Resolution, and (2) establish and place in effect such schedule.

In previous years beginning in 1972 and in every year since 1989, as set forth in the chart below in “Maintenance of the Debt Reserve Fund,” the Corporation’s Net Revenues failed to meet the requirements of the Bond Resolution. For each of these years, and most recently in 2011 the Corporation engaged a qualified, independent engineer for the purpose described above, as required under the Bond Resolution. In each case, the engineer’s study noted that a significant amount of the Corporation’s Revenue is based upon rates established by the Philadelphia Marine Terminal Association (“PMTA”) and, therefore, concluded that (1) increases in the Corporation’s other rates would only have a modest effect on the Corporation’s Revenues, and (2) the Corporation should focus on improving its operating efficiency and allocating its operating, maintenance and general and administrative costs to specific port activities and cargo and charging such costs to its customers. See “OPERATIONS AND FACILITIES – Port Revenues – Tariffs and Rate Covenant” for a discussion of the PMTA tariff schedule.

As discussed below under “Maintenance of the Debt Reserve Fund,” in previous years the Net Revenues of the Corporation have been insufficient to provide funds to pay the principal or mandatory sinking fund payments and interest on the then outstanding Bonds of the Corporation. In each instance, the State has provided the necessary funds by appropriation to restore the balance in the Debt Reserve Fund to its required level. Purchasers of the Series 2012 Q Bonds should assume that the Net Revenues of the Corporation will not be sufficient to pay the principal or mandatory sinking fund payments and interest on the Series 2012 Q Bonds as they become due, and that the source of payment for the Series 2012 Q Bonds will be funds provided by the State by appropriation to restore the balance in the Debt Reserve Fund to its required level.

However, all moneys to be paid to the Corporation pursuant to the provisions of the Act are subject to appropriation by the State Legislature for such purpose; and the State Legislature is not legally obligated to make such appropriations. The provisions of the Act calling for such appropriations do not constitute a legally enforceable obligation on the part of the State nor do they create a debt or liability of the State.

As described in greater detail in “LOCAL TAXES AND TAX RESERVE FUND,” the Act also provides for annual State appropriations to the Corporation to provide it with a funding source for the payment of certain amounts payable in lieu of taxes to local government units in New Jersey. In various instances, the State Legislature did not make the requested appropriations to the Corporation for payments to local governments in lieu of tax.

Debt Reserve Fund

The Act provides that the Corporation maintain a reserve fund to be called “South Jersey Port Corporation Reserve Fund” in an amount equal to the maximum annual debt service for all Outstanding Bonds of the Corporation issued pursuant to the Act. The Bond Resolution establishes the Debt Reserve Fund, which is held by the Trustee, in satisfaction of the South Jersey Port Corporation Reserve Fund requirement of the Act. The Bond Resolution further establishes a Bond Account in the Debt Reserve Fund which is pledged to the payment of the Bonds.

Currently, the amounts on deposit in the Bond Account within the Debt Reserve Fund are equal to the Debt Reserve Requirement (described below) for the currently Outstanding Bonds. Upon the issuance of the Series 2012 Q Bonds, a portion of the proceeds of the Series 2012 Q Bonds will be deposited into the Debt Reserve Fund so that the balance therein will be equal to the Debt Reserve Requirement applicable to all Outstanding Bonds, including the Series 2002 Bonds, the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 O Bonds, the Series 2009 P Bonds, and the Series 2012 Q Bonds.

The “Debt Reserve Requirement” under the Bond Resolution is the amount of money equal to the maximum sum required in any succeeding calendar year to pay interest on and maturing principal of Outstanding Bonds, including any sinking fund installments required under the Bond Resolution. Funds in the Bond Account in the Debt Reserve Fund may not be withdrawn if such withdrawal would reduce the amount in such Account to less than the Debt Reserve Requirement for the Bonds, except for payment of interest due and payable on or principal then maturing of Bonds or for the mandatory retirement of Bonds in accordance with the terms of the Bond Resolution and for which other moneys of the Corporation are not then available. Funds in the Bond Account in the Debt Reserve Fund at any time in excess of the Debt Reserve Requirement for the Bonds must be applied to eliminate any deficiency in the Maintenance Reserve Fund, the Tax Reserve Fund and the General Reserve Fund established under the Bond Resolution, in that order of priority, subject to all prior applications of such funds prescribed by the Bond Resolution.

Maintenance of the Debt Reserve Fund

In connection with the maintenance of the Debt Reserve Fund for the benefit of the Bonds, Section 14 of the Act provides in part as follows:

In order to assure the maintenance of the maximum debt service reserve in the South Jersey Port Corporation Reserve Fund, there shall be annually appropriated and paid to the corporation for deposit in said fund, such sum, if any, as shall be certified by the chairman of the corporation to the Governor as necessary to restore said fund to an amount equal to the maximum debt service reserve. The chairman shall annually, on or

before December 1 of each year, make and deliver to the Governor his certificate stating the sum, if any, required to restore said fund to the amount aforesaid, and the sum or sums so certified shall be appropriated and paid to the corporation during the then current State fiscal year.

All moneys to be paid to the Corporation pursuant to the provisions of the Act are subject to appropriation by the State Legislature for such purpose. Such provisions of the Act do not constitute a legally enforceable obligation on the part of the State nor do they create a debt or liability of the State. See “APPENDIX I – FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY”.

On or before December 1 in each year, the Chairman of the Corporation must certify to the Governor the amount of any deficiency in the Debt Reserve Fund. The Governor then requests the State Legislature to appropriate the amount so certified during the then current State fiscal year; that is, before June 30 following the December 1 certification. In recent years, the State budget has included language substantially as follows: “It is recommended that there be appropriated such additional sums as may be certified to the Governor by the South Jersey Port Corporation as necessary to meet the requirements of the ‘South Jersey Port Corporation Reserve Fund’ under Section 14 of P.L. 1968, c. 60 (C 12:11A- 14), the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.” When this language has been included in the State Appropriations Act, the State has been able to make payments to the Corporation in response to the Chairman’s deficiency certification without further legislative action. Moneys received from the State to fund deficiencies in the Debt Reserve Fund are deposited directly into the Bond Account in the Debt Reserve Fund.

The State’s Fiscal Year 2012 Appropriations Act, P.L. 2011 Chapter 85, includes the following language:

There are appropriated such additional sums as may be certified to the Governor by the South Jersey Port Corporation as necessary to meet the requirements of the South Jersey Port Corporation Debt Service Reserve Fund under Section 14 of P.L. 1968 c. 60 (C. 12:11A-14), and the ‘South Jersey Port Corporation Property Tax Reserve Fund’ under Section 20 of P.L. 1968, c. 60 (C. 12:11A-20), the expenditure of which shall be subject to the approval of the Director of the Division of Budget and Accounting.

In previous years, Revenues of the Corporation have not been sufficient to cover debt service on the Bonds and the Corporation applied funds from the Debt Reserve Fund to make such payments. In each instance, the State provided the necessary funds by appropriation to restore the balance in the Debt Reserve Fund to its required level. The calendar years in which deficiencies occurred and the amount of the deficiency (which, in each case, was provided by the State) are set forth in the table below:

<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>
1972	\$ 816,615	1997	\$ 4,720,879
1973	459,980	1998	5,250,413
1974	482,073	1999	3,375,643
1975	194,231	2000	4,374,513
1977	543,905	2001	5,215,899
1978	127,261	2002	3,126,514
1983	1,261,332	2003	4,189,690
1984	872,742	2004	6,962,739
1989	1,281,332	2005	6,455,167
1990	2,362,851	2006	6,878,287
1991	2,770,851	2007	6,881,543
1992	3,644,095	2008	7,459,997
1993	3,634,229	2009	8,471,746
1994	3,647,000	2010	7,013,389
1995	5,482,208	2011	19,847,053
1996	5,507,242		

Note: Increase from 2010 to 2011 is due to issuance of 2009 Series P Bonds.

The Act also provides that the State does pledge and agree with the holders of the Corporation's Bonds that the State will not limit or restrict the rights vested in the Corporation by the Act, among other things, to fulfill the terms of any agreements with holders of Bonds (including the Series 2012 Q Bonds) authorized by the Act or in any way impair the rights or remedies of the holders of such Bonds until such Bonds, together with interest thereon, are fully paid and discharged.

THE SERIES 2012 Q BONDS ARE DIRECT AND GENERAL OBLIGATIONS OF THE CORPORATION. THE CORPORATION HAS NO TAXING POWER. THE SERIES 2012 Q BONDS ARE NOT IN ANY WAY A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE AND ARE NOT AND DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY SUCH POLITICAL SUBDIVISION.

Application of Revenues, Flow of Funds

The Bond Resolution provides that all Revenues of the Corporation will be deposited with the Trustee to the credit of the Revenue Fund established under the Bond Resolution. In the Bond Resolution, the term "Revenues" includes, among other things, revenues, income, rents, charges, fees and receipts derived by the Corporation from the ownership and operation of the Marine Terminals, certain investment income and business interruption insurance proceeds. "Revenues" does not include appropriations made by the State for deposit into the Debt Reserve Fund or the Tax Reserve Fund.

Not later than the 25th day of each month, the Trustee is required to withdraw from the Revenue Fund and transfer to the Corporation for deposit in the Operating Fund, an amount equal to one-twelfth of the Corporation's Operating Expenses, as set forth in its budget for the then current calendar year. From time to time, the Corporation may direct that additional amounts be transferred from the Revenue Fund to the Operating Fund as a reserve for Operating Expenses, provided that the total amount of such reserve held at any time may not exceed 25% of the Corporation's Operating Expenses for the then current calendar year, as set forth in its budget. The Operating Fund is held by the Corporation.

Amounts in the Operating Fund are paid out from time to time by the Corporation for reasonable and necessary Operating Expenses. In the Bond Resolution, "Operating Expenses" is defined generally to include the Corporation's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Marine Terminals, including administrative and engineering expenses, legal and financial advisory expenses, investment financing expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums, lease payments and any other current expenses or obligations required to be paid by the Corporation, all to the extent properly and directly allocable to the Marine Terminals.

The Bond Resolution also specifically provides that "Operating Expenses" includes payments made under two financing lease arrangements between the Corporation and the Delaware River Port Authority ("DRPA") involving an electrical substation and a refrigerated warehouse building. The aggregate amounts due under these financing lease arrangements with the DRPA are estimated to be approximately \$620,000 annually through 2012 and then \$84,000 for the ensuing five years.

Each month, after the transfer to the Operating Fund described above to pay Operating Expenses, the Trustee is required to withdraw the remaining amount in the Revenue Fund and to allocate the withdrawn amount in the following order of priority:

First, to the Debt Service Fund (held by the Trustee), the amount required to make the balance therein equal to the Debt Service Requirement (taking into account any Bond proceeds therein available to pay interest on the Bonds on the next ensuing interest payment date for the Bonds).

Second, to the Bond Account in the Debt Reserve Fund (held by the Trustee), the amount necessary to make the balance therein equal to the Debt Reserve Requirement.

Third, to the Maintenance Reserve Fund (held by the Trustee), the amount, required to make the balance therein equal to the Maintenance Reserve Requirement.

Fourth, to the Tax Reserve Fund (held by the Trustee), the amount, if any, required to make the balance therein at least equal to the Property Tax Reserve Requirement.

Fifth, to the General Reserve Fund (held by the Corporation), any remaining balance withdrawn from the Revenue Fund.

However, no transfers are required to be made to the Debt Service Fund if the amount held in the Debt Service Fund and in the Bond Account in the Debt Reserve Fund is sufficient to pay in full principal or mandatory sinking fund installments and interest on all Outstanding Bonds in accordance with their terms. See Appendix III for a description of the Funds established under the Bond Resolution and the application of Revenues.

Additional Bonds

Following the issuance and delivery of the Series 2012 Q Bonds, the Corporation may issue one or more series of Additional Bonds secured equally and ratably with the Series 2012 Q Bonds under the General Bond Resolution for the purpose of (1) paying the Costs of a Project, and (2) raising funds to complete a Project for which Additional Bonds were issued.

Prior to the delivery and issuance of Additional Bonds to pay the Costs of a Project, the Trustee must receive the following:

- Pursuant to the “Ordinary Issuance” procedures contained in Section 205 of the General Bond Resolution, an Accountant’s Certificate setting forth: (i) the Net Revenues of the Corporation for any period of twelve (12) consecutive calendar months out of the fifteen (15) calendar months next preceding the authentication and delivery of the Additional Bonds (the “Selected Period”) and the Debt Service on all Bonds Outstanding for the same period, (ii) the Aggregate Debt Service with respect to all Bonds Outstanding for each future calendar year, to and including the year next preceding the date of the latest maturity of any Bond of any series to be Outstanding immediately after such Additional Bonds are authenticated and delivered, and (iii) the annual average of the Aggregate Debt Service determined for each future calendar year.
- A Certificate of the Consulting Engineers setting forth estimates of Net Revenues for each of the five (5) consecutive calendar years following the year in which the Project financed is estimated to be completed and the annual average of the Net Revenues for such period.
- A Certificate of an Authorized Officer of the Corporation demonstrating that: (A) the Net Revenues (i) for the Selected Period are at least equal to 1.10 times the Debt Service with respect to all series of Bonds then Outstanding, (ii) the estimated Net Revenues for the five years set forth above, are at least equal to the Aggregate Debt Service for each such year, and (B) the annual average estimate of Net Revenues for the five year period following the estimated completion of the Project is at least equal to 1.10 times the annual average of the Aggregate Debt Service for each future calendar year.
- A Certificate of the Consulting Engineers setting forth: (i) the estimated total Cost of the Project, (ii) the estimated date of completion, and (iii) an opinion that the proceeds of the Additional Bonds, together with any other funds that may be available for the Project, will be sufficient to complete the Project.

Notwithstanding the foregoing, the Bond Resolution provides that Additional Bonds may be authorized and delivered to pay the Costs of a Project without the delivery of the above mentioned certificates pursuant to the “Extraordinary Issuance” procedures contained in Section 206 of the General Bond Resolution for:

- Projects for which a certificate of the Consulting Engineers has been delivered estimating the Net Revenues derived directly or indirectly from the Project for the 5 years following the estimated completion and which have been certified by an Authorized Officer of the Corporation to equal or exceed the Debt Service for each of such five years as calculated by the Accountant, and that the annual average of the Net Revenues for such 5 year period will equal 120% of such annual average of Debt Service for the Project.
- Projects consisting of the acquisition of real property and improvements thereon determined by resolution of the Corporation to be necessary to maintain or to enhance Revenues of the Corporation, with no more than \$10,000,000 of Additional Bonds authorized pursuant to this provision of the Resolution to be outstanding at a time.
- Projects consisting of the repair or replacement of facilities that are deemed to be essential for the production of Revenues of the Corporation or for the elimination of conditions deemed to be hazardous to person or property.

In addition, the Bond Resolution provides that Additional Bonds may be authorized and delivered pursuant to Section 207 of the Original Bond Resolution to refund any or all Outstanding Bonds of any maturity within a series. The Series 2012 Q Bonds are being issued pursuant to this provision of the Bond Resolution.

All series of Additional Bonds must be issued under a Supplemental Resolution authorizing and setting forth the terms of such Additional Bonds. In addition, the Bond Resolution provides that the Trustee must receive certain additional certificates and opinions in connection with the issuance of any Additional Bonds.

For a further description of the conditions upon which Additional Bonds may be issued, including Refunding Bonds, see Appendix III.

Subordinated Debt

Pursuant to the provisions of the Bond Resolution, the Corporation may, by resolution, authorize and issue Subordinated Debt, including in anticipation of receiving government grants and may pledge such grants for repayment thereof. Subordinated Debt is a direct and general obligation of the Corporation and, in addition to the pledge of any government grants, may also be secured by a subordinated pledge of amounts in the General Reserve Fund established under the General Bond Resolution as may be available for withdrawal from time to time after all transfers from the General Reserve Fund required by the General Bond Resolution are made. The pledge of the General Reserve Fund is subordinate in all respects to the pledge of the Revenues, the moneys, the securities and the Funds and Accounts created by the General Bond Resolution and to the lien and pledge created by the General Bond Resolution in favor of the Bonds. For a description of the application of amounts in the General Reserve Fund prescribed by the Bond Resolution, see Appendix III.

LOCAL TAXES AND TAX RESERVE FUND

The Act provides that the Corporation will not be required to pay any taxes or assessments upon any property acquired or used by the Corporation under provisions of the Act or upon the income therefrom.

However, the Act authorizes and directs the Corporation to enter into an agreement (a "Tax Agreement") with any county and municipality with respect to property to be acquired and improved therein to make payments in lieu of taxes. Such Tax Agreements are to be entered into prior to the issuance of Bonds to finance the acquisition of such property or the expenditure of moneys (other than the proceeds of such Bonds) for improvement of such property. The Act provides that the Corporation's obligation to make any payments in lieu of taxes (other than payments into the Tax Reserve Fund hereinafter referred to) shall be at all times subject to the prior use of the funds and moneys of the Corporation to provide for its operating and maintenance expenses and reserves and for debt service and debt service reserves for its Bonds.

The Bond Resolution establishes a Tax Reserve Fund to be held in trust by the Trustee. The Tax Reserve Fund is not pledged to secure the Bonds. The provisions of the Act relating to the maintenance of a Tax Reserve Fund require (and the Bond Resolution provides) that any moneys held in the Tax Reserve Fund are to be applied solely to in lieu of tax payments of the Corporation as the same become due and payable and that said moneys shall not be withdrawn if the withdrawal would reduce the amount in such Fund to less than the "property tax reserve" (as defined in the Act), except for the payment of in lieu of tax payments then due and payable for which other moneys of the Corporation are not then available in accordance with the terms of any Tax Agreement. Section 20 of the Act provides further:

In order to assure provision of the property tax reserve in said fund, there shall be annually appropriated and paid to the corporation for deposit in said fund, such sum, if any, as shall be certified by the chairman of the corporation to the Governor as then necessary to provide in said fund an amount equal to the property tax reserve. The chairman shall annually, on or before December 1, make and deliver to the Governor his certificate stating the sum, if any, needed to provide in said fund the amount of the property tax reserve as of said date, and the sum or sums so certified shall be appropriated and paid to the corporation during the then current fiscal year.

All moneys to be appropriated and paid to the Corporation pursuant to the above-quoted provisions of the Act, prior to the payment thereof, are subject to appropriation by the State Legislature for such purpose. Accordingly, such provision of the Act does not constitute a legally enforceable obligation on the part of the State nor does it create a debt or liability of the State.

Revenues of the Corporation have not been sufficient to cover such payments in-lieu-of taxes and the State has appropriated the necessary funds to the Tax Reserve Fund from time to time.

There are currently payment in lieu of tax agreements between the Corporation and the City of Camden, the County of Camden, the City of Salem, the Borough of Paulsboro and the County of Gloucester.

THE CORPORATION

General

The Corporation was created and exists and operates pursuant to the Act as an instrumentality of the State. The Corporation was established as a body corporate and politic in 1968 in the Department of Conservation and Economic Development, which became the State Department of Environmental Protection in 1970. The Corporation was transferred in 1976 from the State Department of Environmental Protection to the State Department of Labor and Industry and was transferred again in 1982 to the State Department of Commerce and Economic Development. The principal office of the Corporation is located at 2nd & Beckett Streets in the Beckett Street Terminal in Camden, New Jersey. The Corporation is empowered to exercise its statutory functions in the District and is empowered, among other things, to establish, acquire, construct, rehabilitate, improve, own, operate and maintain marine terminals at such locations within the District as it shall determine. The Corporation has the right of eminent domain, but does not have the power to levy or collect taxes or to mortgage its real property. For a description of the Corporation's facilities and operations, see "OPERATIONS AND FACILITIES" herein.

Corporation Members

On January 13, 2008, legislation was enacted which expanded the Corporation's Board of Directors from seven to eleven members. The State Treasurer was added as a Director, ex officio, and a Director representing each of the following was added: City of Camden; Borough of Paulsboro; and the Port subdistrict of Cumberland, Cape May, and Salem Counties. The Act provides that each member shall be a resident of the District and shall have been a qualified elector therein for a period of at least three years next preceding his appointment. No more than six members may be of the same political party. Each member is appointed by the Governor of the State with the advice and consent of the State Senate (except for the member(s) from the City of Camden, who shall be appointed by the Governor on the recommendation of the President of the State Senate, and the member(s) from the City of Paulsboro, who shall be appointed by the Governor on the recommendation of the Speaker of the State General Assembly) for a term of five years and serves until his successor has been appointed and qualified. Public members may be removed from office by the Governor or by the State Legislature, for cause, after a public hearing. The Governor designates one of the members of the Corporation as Chairman and another as Vice Chairman, with each member so designated serving at the pleasure of the Governor and until their respective successors have been designated. The Corporation is empowered under the Act to elect a secretary and a treasurer, neither of whom need be members of the Corporation. Six members constitute a quorum, and a vote of six members is necessary for any action taken by the Corporation. The members of the Corporation do not receive compensation for their services as members; however, each member is entitled to be reimbursed by the Corporation for expenses necessarily incurred in the performance of his duties. The members of the Corporation appoint the Executive Director, who is responsible for managing the operations of the Corporation and who serves at the pleasure of the members.

The members of the Corporation are as follows:

Richard A. Alaimo, Chairman. Mr. Alaimo is founder and President of the Alaimo Group, Consulting Engineers, located in Mount Holly and Paterson, New Jersey, and is a Consulting Civil and Sanitary Engineer. He is a Licensed Professional Engineer in New Jersey, Pennsylvania and Delaware, a Certified Public Works Manager, a member and past President of the Rancocas Valley Regional High School Board of Education, a Diplomat in the American Academy of Environmental Engineers, a member of the National Society of Professional Engineers, the New Jersey Society of Municipal Engineers, the Rutgers University Engineering Society, and the 1994 recipient of the "Distinguished Engineer of the Year Award" from the American Society of Civil Engineers. He has been a member of the Corporation since 1968, representing Burlington County.

Rev. Carl E. Styles, Director. Reverend Styles has served as pastor of Bethel United Methodist Church in Camden, New Jersey since 1993. He is also the President/Business Agent for Laborers International Union Local 222, based on Camden, New Jersey. He has also served youth at the Haven United Methodist Church in Bridgeton, New Jersey and as clinical pastoral care chaplain at Bridgeton Hospital. Reverend Styles received a Master of Divinity degree from Philadelphia's Palmer Theological Seminary (formerly Eastern Baptist Theological Seminary). He was appointed to the Corporation's Board in January 2008, representing Salem County.

Craig F. Remington, Director. Mr. Remington serves as Principal, Vice President and Treasurer of Remington & Vernick Engineers, located in Haddonfield, New Jersey serving clients throughout New Jersey, Pennsylvania and Delaware. Mr. Remington is a licensed Professional Land Surveyor and Professional Planner, and graduate of Drake University and Temple University. Mr. Remington is a member of the New Jersey Society of Professional Land Surveyors, New Jersey Federation of Planners, Our Lady of Lourdes Hospital Foundation Board, the Rotary Club of Haddonfield, the Boys and Girls Club of America, and is past president of the Gloucester/Salem Engineering Society. He has been a member of the Corporation Board since 2001, representing Camden County.

Eric E. Martins, Director. Mr. Martins is the Director of Public Affairs Management LLC, a government relations consulting firm affiliated with Duane Morris LLP. He is a member of the Board of Trustees for the Arts and Business Partnership of Southern New Jersey and a former Committee Chairman for the Mercer County College Board of Trustees Advisory Committee. His community involvement also includes service on the boards of the Mercer County Workforce Investment Board and the Mercer County Economic Development Committee. In addition, Mr. Martins is a former member and Vice Chairman of the New Jersey Council on Local Mandates. Mr. Martins holds a J.D. degree from the University of Pennsylvania Law School and is a graduate of The College of New Jersey, where he received a bachelor's degree in political science. Mr. Martins was appointed to the Port Corporation Board in 2004 representing Mercer County.

Jonathan S. Gershen, Director. Mr. Gershen is the Vice President and General Counsel of The Gershen Group, LLC located in Princeton, New Jersey. He is responsible for the regulatory, compliance and legal operation of the firm. The firm, and its affiliates provide management and consulting services throughout the State of New Jersey for real estate owners and developers. The Group's specialties include Affordable and Senior Housing. Mr. Gershen currently serves on the board of the New Jersey Apartment Association. Mr. Gershen graduated from Brandeis University and received his law degree from Benjamin N. Cardozo School of Law and he is admitted to the Bar in the State of New Jersey. Jonathan Gershen was appointed to the Corporation Board in 2002 representing Mercer County.

Joseph A. Maressa, Jr., Director. Joseph A. Maressa, Jr. is president of Title America Agency Corp., and is a partner in Cedarbrook Associates, a site location and development firm. A graduate Glassboro State College (Rowan University) and of the Widener University School of Law, Maressa is a partner in the law firm of Maressa, Goldstein, Birsner, Patterson, Drinkwater and Oddo. He is also managing member of Kimberly Builders, L.L.C., a residential developer that has constructed over 350 homes in Camden and Gloucester Counties, and is managing member of Chancellor Development Group, a commercial real estate developer. Admitted to the Bar in New Jersey, Pennsylvania and for the U.S. District Court for New Jersey, Maressa is a member of the American Bar Association, and the Camden County, New Jersey and Philadelphia Bar Association. He also holds membership in The Association of Trial Lawyers of America, the Camden, Gloucester and Salem County Board of Realtors, and the Builders League of South Jersey. A licensed realtor, Joseph Maressa is a past director of the New Jersey Savings and Loan and of the Covenant Bank Advisory Board. He is a current member of the Real Estate and Building Committee of the Diocese of Camden. Joseph Maressa was appointed to the SJPC Board in January 2004 representing Camden County.

Chad Michael Bruner, Director. Mr. Bruner is a deputy administrator for Gloucester County and director of the Gloucester County Department of Health and Institutions, a position he has held since late 1999. Mr. Bruner has been an adjunct professor at Rowan University since 1997, teaching management courses and information management courses. Mr. Bruner is a New Jersey licensed nursing home administrator. He graduated from Emory University School of Business Administration in Atlanta with a BBA in 1993 and received an MBA from Rowan University in 1996. He is a member of the Gloucester County Improvement Authority and the Mantua Township Planning Board. He was appointed to the SJPC Board of Directors in December 2002, representing Gloucester County.

Robert A. DeAngelo, Sr., Director. Mr. DeAngelo is one of three additional members to be appointed to the Board of Directors of the SJPC pursuant to legislation enacted in 2008. Currently a construction official for Greenwich Township, Mr. DeAngelo owned a plumbing, heating, and air conditioning business in Clarksboro for almost 30 years. He is presently the Chairman of the Gloucester County Construction Board of Appeals and has served as a construction official in West Deptford and a zoning and housing official in Paulsboro. Mr. DeAngelo was appointed to the Board of Directors as a representative of Paulsboro.

Francis Smith, Director. Fran Smith was appointed to the South Jersey Port Corporation Board of Directors in 2009 representing Cape May, Cumberland and Salem Counties. Mr. Smith is the President of UAW Local 2327 and is Vice President of the Southern NJ Central Labor Council. He has thirty-five years experience in various positions in a labor organization, responsible for the administration of all phases of union governance, worker representation and organizational campaigns. He served as chief negotiator for approximately 24 collective bargaining agreements and counseled for other bargaining teams within the labor organization. Mr. Smith is active in the organizational campaigns in Herman's (Brooks and Atlas) Retail Stores in Delaware, New Jersey and Pennsylvania (Brooks) and Maryland, Virginia and Washington (Atlas). He was responsible for the campaigns in American Institute for Mental Studies (Elwyn NJ), Cumberland County and the Vineland Board of Education. He served on the Executive Board of District 65, UAW.

Sheila Lynn Roberts, Director. Sheila Lynn Roberts was appointed to the South Jersey Port Corporation Board of Directors in 2009, representing the City of Camden. Ms. Roberts, a life long resident of Camden, NJ and former educator, is a co-founder and is the current president of the Cooper Lanning Civic Association, Inc. (CLCA). Through the CLCA and her many civic organization affiliations, she continues to be a strong advocate for the City of Camden, whether it be through serving as a member of Anti Crime Task Force "Eye in the Sky" Camera Project Oversight Board to improve public safety, serving as a resource parent for DYFS to assist Camden's youth, or serving on the Camden City Shady Tree Advisory Board to improve the city's environment. She has also received numerous awards recognizing her efforts on behalf of Camden residents including the Unsung Hero Award for Community Volunteerism in 2005, the Camden County Martin Luther King Freedom Award in 2007, and the Green Community Achievement Award from the NJDEP Division of Parks and Forestry in 2003.

Corporation Administration

The Corporation is administered by the Executive Director, who is responsible to the members of the Corporation. The principal management employees are as follows:

Kevin Castagnola, Executive Director. Mr. Castagnola was appointed Executive Director and CEO of the Corporation in January, 2012. His career at the Corporation began in 1986 in the capacity of Traffic Manager. Since 2004, he served as the Assistant Executive Director/Director of Operations. He presently serves on the Board of Directors for Ports of Philadelphia Maritime Society, the Seaman's Church Institute, the American Institute of International Steel, North American Ports Association, the Maritime Exchange of the Delaware River and Bay, and the International Wood Products Association. Mr. Castagnola is also the Board President of the Camden Shipyard Museum located in Camden, New Jersey.

Jay Jones, Board Secretary. Mr. Jones was appointed Board Secretary in 2011. He also serves as the Deputy Executive Director/Administrative Services, as well as the Public Information Officer, Ethics Liaison Officer, and Acting Facility Service Officer and is a certified Facility Security Officer through Hudson Trident. He is a graduate of Wesley College and the Rutgers Camden South Jersey Regional Leadership Institute program. He has served as the Recording Secretary for the Home Port Alliance for the USS New Jersey since its inception. He is a member of the U.S. Coast Guard's Sector Delaware Bay Area Maritime Security Committee, the American Association of Port Authorities Public Relations Committee and is a board member for the Southern New Jersey Development Council.

Patrick A. Abusi, Treasurer. Mr. Abusi was appointed Treasurer on October 23, 2006. Mr. Abusi received his B.S. degree from Philadelphia University formerly Philadelphia College of Textile and Science. Mr. Abusi has had diverse finance experience in both the private and public sector with a Certified Municipal Finance Official certification. Mr. Abusi is also a former Treasurer for the Greater Paulsboro Chamber of Commerce. He is a former Treasurer of the Gloucester County Boys and Girls Club and is an active participant in various other civic and community organizations. In 2008, Mr. Abusi was appointed by the Camden County Board of Chosen Freeholders to a five-year term as a Commissioner of the Camden County Library Commission.

OPERATIONS AND FACILITIES

Terminal Facilities

The Corporation owns two maritime facilities in the City of Camden, New Jersey and one in the City of Salem, New Jersey. The two Camden facilities are known as the Joseph A. Balzano Marine Terminal ("Balzano Terminal", formerly known as the Beckett Street Terminal) and Broadway ("Broadway Terminal"). The Camden facilities are public terminals open to all shipping. The City of Salem facility, known as the "Port of Salem," is leased to a private terminal operator.

Balzano Terminal, the heart of the Port of Camden, contains 27 buildings, consisting primarily of transit sheds and warehouses with a total floor area of approximately 1,118,000 square feet, of which approximately 90% is operated and maintained by the Corporation and the balance is leased to marine-related tenants.

Broadway Terminal contains 52 buildings with a total floor area of approximately 1,565,000 square feet, of which approximately one-half is under lease to a variety of tenants engaged in port-related activities. Leases require tenants to maintain the building, with the exception of roofs, structural repairs and fire systems, which are maintained by the Corporation. At present, the Corporation uses the Broadway Terminal for warehousing and storage of overflow cargo from Beckett Street Terminal.

The Salem Municipal Port Authority (the "Salem Port") was established in 1983 to finance and build a port for the City of Salem, New Jersey. In 1996, the Corporation purchased the Salem Port facilities located in the City of Salem, New Jersey. The Corporation entered into a lease with Salem Terminals, LLC and Midlantic Shipping Corporation providing for the maintenance and operation of the marine shipping terminal facilities at the Salem Port.

The buildings at Balzano Terminal were constructed primarily from 1931 to 1959, with one transit shed constructed in 1988, one warehouse constructed in 1990, one transit shed constructed in 1998, one transit shed constructed in 2001, one warehouse constructed in 2001, one refrigerated warehouse, and one tenant shed constructed in 2008. The buildings at Broadway Terminal are generally heavy industrial-type steel-frame structures, in most instances masonry walls combined with industrial ash, with many buildings containing overhead cranes. Approximately 52% of these buildings were built around 1900, 19% around 1918, 20% around 1940, 8% since 1956 and 1% since 1998. The buildings at both terminals are satisfactorily maintained and generally are in good to fair condition.

Approximately 3,830 people are employed by the Corporation and companies with operations at the Corporation's maritime facilities. The Corporation employs approximately 90 people directly in its operations. The Corporation employs 32 cargo handlers, 11 craftsmen and 9 supervisors engaged in the maintenance of the Corporation's buildings and facilities and for terminal operations of each facility. This force includes a roofing crew which maintains the roofs of buildings at the Camden terminals. The Corporation also maintains fire systems at the Camden terminals. Balzano Terminal is equipped with an elevated water tank and fire hydrants using City water; Broadway Terminal maintains a fire pumping station using City water and also fire hydrants. Buildings are protected by automatic sprinkler systems. Each terminal has a railroad network. A paved roadway system serves all buildings within both terminals and berthing back-up areas are paved with asphalt. Broadway Terminal has extensive underground electrical distribution systems for alternating current and rectifiers for direct current power, which is supplied to certain tenants, as required. Both terminals have city water distribution systems to accommodate sanitary and industrial requirements. The utility systems at both terminals are in good operating condition. The Corporation maintains a 18-man guard force, providing two guards on duty at each terminal at all times.

Paulsboro Marine Terminal Project

The Corporation and Paulsboro entered into a certain redevelopment agreement with respect to the Development and Construction of a Marine Terminal within the Borough of Paulsboro, South Jersey Port District dated January 16, 2006 (as amended, the "Redevelopment Agreement"). Under the Redevelopment Agreement, the Corporation was granted the right and obligation to develop the Paulsboro Marine Terminal located in Paulsboro, Gloucester County, in two phases, with (i) Phase I constituting a replacement for the loss of function of two berths

and other related infrastructure and equipment resulting from a pier collapse at the Corporation's Beckett Street Terminal and (ii) Phase II constituting an expansion of Phase I through the addition of another two piers adjacent to the two replacement berths (the "Paulsboro Marine Terminal Project").

The Corporation and the Gloucester County Improvement Authority ("GCIA") have also entered into that certain "Paulsboro Port Project Development and Management Agreement" dated as of August 1, 2009 (the "Development and Management Agreement"). Pursuant to the Development and Management Agreement, the Corporation shall set forth the overall parameters for the design and development of the Paulsboro Marine Terminal, and the GCIA shall enter into the various contracts required to implement this development. Among other things, this arrangement allows the Corporation to focus on the future leasing of the Paulsboro Marine Terminal, to maximize its revenue potential.

The Paulsboro Marine Terminal is located along the eastern bank of the Delaware River, across from the Philadelphia International Airport, just south of Mantua Creek. The site consists of primarily two parcels, both of which are controlled by Paulsboro: (1) a 130-acre parcel that was previously operated by BP Oil Company (the "BP Site") and (2) an adjacent 60-acre parcel that was operated by Essex Chemical, which is a wholly owned subsidiary of The Dow Chemical Company (the "Essex Site").

The Corporation has funded Phase I of the Paulsboro Marine Terminal Project with proceeds of the Series 2009 P Bonds, as well as a portion of the proceeds of the Series 2007 N Bonds and the Series 2008 O Bonds. The aggregate amount of Bonds issued for the Paulsboro Marine Terminal Project is \$176,737,986.

As of the end of 2011, the demolition of existing structures has been completed, certain permits have been applied for and received, and work has begun on the access road and bridge site, as well as various other site work. The schedule calls for commencement of waterside terminal operations in the Fall of 2013.

The Corporation is in the process of negotiating operation contracts for that portion of the Paulsboro Marine Terminal that shall house private operations, which in turn is expected to generate revenues for the Corporation. In particular, the Corporation is looking into certain renewable energy uses for the Paulsboro Marine Terminal, having executed a memorandum of understanding for the assemblage of offshore based wind turbine facilities, and is presently in negotiation for other similar facilities.

The Corporation has not yet funded, though it contemplates the possibility of funding, a third and fourth berth for the Paulsboro Marine Terminal Project. The costs for this Phase II of the Paulsboro Marine Terminal Project, and whether the Corporation would issue parity Bonds or subordinated debt to fund Phase II, has not yet been determined by the Corporation.

Possible Transfer of Balzano Terminal

The Bond Resolution also provides that, with the prior written approval of the Governor and the State Treasurer, the Corporation, by a resolution of its members, may transfer all of its right, title and interest in and to the Balzano Terminal to the New Jersey Economic Development Authority. In order for the Corporation to make such a transfer, an Authorized Officer of the Corporation must prepare a certificate describing the proposed transfer (including any replacement property and funds to be received by the Corporation) and the certificate must be delivered to each credit ratings agency then rating any Bonds of the Corporation. The certificate must request a written indication from each such credit ratings agency of what the rating on the Bonds would be after the implementation of such transfer (the "Indication"). Then, the transfer may occur only if: (i) the Corporation receives an Indication from each credit ratings agency then rating any Bonds of the Corporation; (ii) should any Indication suggest that a rating on any Bonds would change, then the Treasurer of the State, having reviewed (among other things) each such Indication, must certify to the Corporation and the Trustee that such transfer will not adversely affect the security for any Bonds of the Corporation; (iii) each bond insurance company or other financial institution providing credit enhancement for any of the Corporation's Bonds must give written consent to the transfer; and (iv) the Corporation and Trustee must receive an opinion of Bond Counsel to the effect that the transfer is permitted under the Act and will not adversely affect the exclusion of gross income for federal income tax purposes of interest on any series of tax exempt outstanding bonds.

Shipping Activity

Collective shipping activity at Balzano Terminal and Broadway Terminal is shown in the following table (note that figures include Salem):

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Indicator:					
Ship Calls	123	212	206	243	355
Ship Days	350	499	862	603	862
Tonnage of Cargo Handled:					
Dry Bulk	1,265,777	1,276,930	1,239,425	1,568,152	1,956,808
General Cargo	671	2,116	11,054	21,222	16,493
Fruit	0	296,326	344,957	323,033	311,326
Steel	392,539	287,624	201,098	249,236	427,253
Containers	10,152	228,884	325,178	301,048	313,866
Cocoa Products	102,090	98,767	167,665	137,536	131,731
Rubber	0	0	6,711	4,687	
Wood Products	<u>97,700</u>	<u>124,033</u>	<u>89,360</u>	<u>165,648</u>	<u>347,647</u>
<i>TOTAL</i>	1,868,930	2,314,679	2,385,449	2,770,562	3,505,124

Source: Corporation records.

Port Revenues

General. The Corporation derives its revenues by providing a variety of cargo-related and facility leasing services. Its primary sources of revenue are dockage and wharfage, storage, cargo handling, crane rental fees and lease payments.

Dockage is a per-diem charge for docking a ship which varies with the size and type of ship. Wharfage is a charge for unloading cargo and varies with the type of cargo. Demurrage is a charge for storing cargo until it is moved from the pier. Cargo handling is a charge for loading cargo from its point of rest onto modes of inland transportation.

The Corporation's financial statements for the years ended December 31, 2011 and 2010 and notes thereto, audited by Holman & Frenia, P.C., independent auditors, are included in this Official Statement as Appendix II. In the opinion of management, there has been no material adverse change in the financial condition of the Corporation since December 31, 2011.

Revenues and Expenses. The following table shows revenues (by source) and expenses of the Corporation ratio for each of the years 2008-2011. The information has been extracted from the audited financial statements of the Corporation. This summary should be read in conjunction with the audited financial statements of the Corporation and the related notes included as Appendix II to this Official Statement.

Year Ended December 31,

Revenues:	<u>2011</u> <u>(audited)</u>	<u>2010</u> <u>(audited)</u>	<u>2009</u> <u>(audited)</u>	<u>2008</u> <u>(audited)</u>
Marine Direct				
Handling	\$3,813,719	\$3,091,161	\$2,633,344	\$5,157,194
Dockage & Wharfage	4,486,742	4,169,726	4,474,413	4,966,341
Lease Income	6,082,593	6,138,438	5,265,044	5,169,218
Crane Rental	1,246,163	1,202,252	1,259,581	1,608,873
Storage	903,371	750,840	1,043,660	1,907,412
Other Income	<u>3,730</u>	<u>3,582</u>	<u>3,854</u>	<u>20,048</u>
Total Marine Direct	16,536,319	15,355,999	14,679,896	\$18,829,086
Marine Related	1,966,643	2,632,002	2,716,633	2,754,721
Other	<u>705,199</u>	<u>521,958</u>	<u>298,725</u>	<u>1,230,072</u>
TOTAL REVENUE	<u>\$19,208,161</u>	<u>\$18,509,959</u>	<u>\$17,695,254</u>	<u>\$22,813,879</u>
Expenses:				
Operating	9,370,948	9,897,334	9,963,468	\$11,827,644
Repairs/Maintenance	783,407	714,766	774,886	886,980
General Administration	<u>5,536,502</u>	<u>5,691,162</u>	<u>5,720,076</u>	<u>6,041,016</u>
TOTAL EXPENSES	<u>\$15,690,857</u>	<u>\$16,303,262</u>	<u>\$16,458,430</u>	<u>\$18,755,640</u>
Net Income before depreciation	<u>\$3,517,303</u>	<u>\$ 2,206,697</u>	<u>\$ 1,236,824</u>	<u>\$ 4,058,239</u>
Debt service, and other expenses				

2012 Budget. In December 2011, the Corporation adopted its 2012 operating budget. Upon the issuance of the Series 2012 Q Bonds, the Debt Reserve Fund will be fully funded (i.e., in an amount equal to the Debt Reserve Requirement). However, the Corporation currently does not expect that its Net Revenues will be sufficient to pay the principal or mandatory sinking fund payments of and interest on its Bonds, including the Series 2012 Q Bonds, as they come due for the foreseeable future, and prospective purchasers of the Series 2012 Q Bonds should assume that the source of payment for the Series 2012 Q Bonds will be funds provided by the State by appropriation for deposit in the Bond Account within the Debt Reserve Fund. The State Legislature has no legal obligation to make appropriations for such purpose. See “SECURITY FOR THE SERIES 2012 Q BONDS – Maintenance of the Debt Reserve Fund.”

Tariffs and Rate Covenant. The Philadelphia Marine Terminal Association, Incorporated (“PMTA”) is a group consisting of the South Jersey Port Corporation, the Port of Philadelphia & Camden (“PPC”) and Delaware River Stevedores, Tioga Terminal. This organization has established a tariff for specific commodities. The participating members of PMTA meet from time to time to review tariff rates with respect to the Port of Philadelphia and Camden’s competitive position with other East Coast ports. Revisions are issued as required, in particular, to keep pace with rising labor costs. The Corporation willingly participates in the PMTA in the spirit of supporting port unification, but has the opportunity to withdraw at any time should the PMTA rate schedule become detrimental to the Corporation’s interests. Effective July 2000, the Corporation adopted a tariff schedule as a member of the PMTA for its terminals. Approximately 50% of the Corporation’s income is derived from sources affected by the PMTA tariff schedule.

Urban Enterprise Zone

An area within the City of Camden has been selected by the State as an Urban Enterprise Zone. Under the enabling statute, qualified businesses within an Urban Enterprise Zone are eligible for various benefits. The purpose of the Urban Enterprise Zone legislation is to stimulate economic activity within these zones. All of the terminals, buildings, and real property owned by the Corporation within the City of Camden are located within the designated Urban Enterprise Zone.

Recent Facility Improvements

A Long Range Development Plan for the expansion and improvement of the Corporation's facilities, designed to meet projected demands for berthing and storage space, was adopted in 1988 and is periodically updated. Plans to expand the northern and southern ends of the Corporation's property had been put on hold pending completion of port unification. See "COMPETING FACILITIES – Port Unification." However, with the withdrawal of the port unification plan, the Port Corporation has developed its Five Year Plan.

In 1996, the Berth 4 Extension project added 360 feet of high-deck concrete pier at Beckett Street Terminal with both railroad and container crane capability. The pier is designed to service large bulk material ships with a draft of up to 43 feet. The previous wet slip behind the pier was built to create four acres of additional lay-down space for cargo. The new pier won an honorable mention award for innovative use of concrete from the New Jersey Concrete and Aggregate Association and the American Concrete Association. The project was completed in 1997.

In July 1998, the Corporation began construction of a modification and upgrade to the track system at Beckett Street and Broadway Terminals. The project was substantially funded by federal funds.

In 1999, a new refrigerated building was constructed by, and with funds made available to, the Port of Philadelphia & Camden on property owned by the Corporation. The Corporation has leased the refrigerated building to Del Monte Tropical Fruit Company for ten years with two five-year renewal options, exercisable by Del Monte, and the lease payments include, among other things, amounts necessary to fund the Port of Philadelphia and Camden's costs of construction.

The Corporation purchased two above-ground storage tanks to replace operational underground tanks. All other existing underground tanks have been closed or removed and any necessary remediation has been completed.

The Corporation also constructed two general cargo buildings at the Beckett Street Terminal (now known as the Joseph A. Balzano Terminal). One transit shed was constructed adjacent to berth 3 and berth 4 and one warehouse was built near the terminal's main gate. The additional 175,000 square feet helps enhance the operations and the cost efficiency of the Beckett Street Terminal, reducing the need to backhaul cargo to off terminal and Broadway facilities. These buildings were completed in 2001.

The Corporation completed construction of an electrical substation (at a cost of \$2,727,664) at the Broadway Terminal in 2002. Much of the electrical equipment at this terminal was no longer functional and the extreme age of the equipment made it difficult – and expensive – to maintain.

Also in 2002, general pier rehabilitation work was completed at the Beckett Street terminal at a cost of approximately \$2,672,000. This work included reinforcing the berth's lower concrete decking, installing precast pilings, excavation, backfill, and paving.

In 2003 the Corporation undertook the reconstruction of Berths 1 and 2 at Beckett Street Terminal (funded largely through insurance proceeds at a cost of \$8.7 million).

The construction of a new pier and purchase of a new cargo crane commenced during 2003 and was completed in late 2005. The pier and crane were undertaken solely for the use for a tenant at the Broadway Terminal. The tenant imports Slag and exports a by-product, Granchem. The total cost of the pier and crane was \$22,092,143 and \$8,047,271, respectively. These projects were funded with proceeds of Corporation bond issues.

In 2004, an expansion to a warehouse was completed at the Beckett Street Terminal. The 30,000 square foot addition was required for storage for the expanding cocoa bean market. The cost was \$1,504,331. The project was funded with proceeds of Corporation bond issues.

The Corporation completed construction of a 55,000 square foot refrigerated warehouse at its Broadway Terminal in 2005. The refrigerated building was constructed from prior Corporation bond proceeds and is leased to the Delmonte Tropical Fruit Company. The cost was \$6,099,371 to construct.

Also in 2005, the Corporation completed the replacement of its outdated fire water system at the Broadway Terminal. The \$753,296 cost of the new system was funded through prior Corporation bond proceeds.

In 2006, the Corporation completed construction of a 55,000 square foot storage building at its Beckett Street Terminal. The building was needed to accommodate the growing steel and woods product imports. It cost \$4,791,416 to build. A railroad upgrade crossing project was completed at the Broadway terminal in 2006 at a cost of \$259,224. Also in 2006, a project to add additional support to a pier seawall at the Broadway Terminal was completed. The cost was \$361,000. All of these 2006 projects were funded through prior Corporation bond issues.

A portion of the Series 2007 Bonds was authorized to be used to finance the preliminary costs in connection with the establishment, acquisition, construction, rehabilitation, improvement, ownership, operation and maintenance of a Marine Terminal to be located in Paulsboro, New Jersey. These funds have been expended.

A portion of the Series 2007 Bonds was authorized for the cathodic protection project to repair and preserve five (5) piers at the Beckett Street and Broadway Marine Terminals; this project has been completed.

A portion of the Series 2007 Bonds was authorized for a warehouse replacement project; this project has been completed.

The Series 2009 Bonds were authorized for the Paulsboro Marine Terminal Project; this project is currently underway. See “OPERATIONS AND FACILITIES”, herein, for more information.

Port Labor Relations

The Corporation employs both union and non-union personnel. The administrative, management and clerical personnel, supervisors and guard personnel are non-union. Maintenance and operations personnel are represented by Local 18, International Federation of Professional and Technical Engineers, AFL-CIO (“Local 18”). The Corporation has never experienced a strike by any of its workers and believes that its relations with its labor force are good. In recent years, the Corporation has negotiated a series of multi-year labor contracts with Local 18, the most recent of which expired on November 30, 2010. Since that date, the parties continue to operate under the terms of the last agreement, which provides for hourly wage rates ranging from \$25.64 to \$28.46. Various stevedore companies which utilize the Corporation’s facilities engage workers from time to time who are members of the International Longshoremen Association (“ILA”). None of the Corporation employees belong to ILA, but all stevedore activities at the Corporation are performed by ILA members.

Pension Fund

The employees of the Corporation are members of the State Public Employees’ Retirement System (“PERS”). For a brief description of PERS, see Appendix I – “FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY – FUNDING PENSIONS PLANS”.

Competing Facilities

While the Corporation is in general competition with all major ports on the North Atlantic seaboard, the principal geographic competition to the Corporation are the ports of the Delaware River and Delaware Bay, including the ports of Philadelphia and Wilmington.

Expansion of Powers of Delaware River Port Authority

An amendment to the act containing a Compact between the Commonwealth of Pennsylvania and the State creating the Delaware River Port Authority (“DRPA”) was enacted into law by the State Legislature by the Laws of 1991, Chapter 515, approved January 19, 1992. The amended Compact enables the DRPA to become actively involved in Delaware River port development projects, including ventures by and including the Corporation.

Port Unification

In order to facilitate the possible unification of the ports of the Delaware River, Chapter 150 of the Laws of 1997 was enacted by the State Legislature on June 30, 1997 (the “Port Unification Act”). The Port Unification Act provided the basis for the transfer of the Corporation’s assets, liabilities and obligations to the New Jersey Economic Development Authority to facilitate the operation and maintenance of all or a portion of the Corporation’s facilities by the subsidiary of DRPA, with the employees of the Corporation to be employed by the subsidiary of DRPA. The Port Unification Act provides for such transfer to take place upon three conditions. First, a subsidiary corporation must be established by the DRPA. Second, the DRPA subsidiary and the New Jersey Economic Development Authority must enter into an agreement, approved by the State Treasurer, regarding the management of port facilities. Third, the New Jersey Economic Development Authority must issue bonds to refund all of the outstanding bonds of the Corporation. Currently, the subsidiary of DRPA called for in the Port Unification Act does not exist, and no contract exists with the New Jersey Economic Development Authority.

TAX MATTERS

Federal Tax Exemption

In connection with the issuance of the Series 2012 Q Bonds, Capehart and Scatchard, PC, Bond Counsel, will deliver its opinion (the proposed form of which is attached hereto as Appendix D) to the effect that under existing law, the interest on the Series 2012 Q Bonds is excluded from gross income for federal income tax purposes. Furthermore, interest on the Series 2012 Q Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing alternative minimum tax imposed on certain corporations. The Internal Revenue Code (“Code”) and the regulations promulgated thereunder contain requirements that must be satisfied subsequent to the issuance of the Series 2012 Q Bonds in order for interest on the Series 2012 Q Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include: the requirement that the Corporation rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2012 Q Bonds to the United States Treasury; and restrictions on investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the Series 2012 Q Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Corporation and the Corporation subsequent to issuance of the Series 2012 Q Bonds to maintain the exclusion of interest on the Series 2012 Q Bonds from gross income for federal income taxation purposes. Failure to comply with any of such requirements could cause the interest on the Series 2012 Q Bonds to be included in gross income retroactive to the date of issuance of the Series 2012 Q Bonds. The opinion of Bond Counsel delivered on the date of issuance of the Series 2012 Q Bonds is conditioned upon compliance by the Corporation and the Corporation with such requirements, and Bond Counsel has not been retained to monitor compliance with requirements such as described above subsequent to the issuance of the Series 2012 Q Bonds.

[Original Issue Premium]

[Series 2012 Q Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowed for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excludable from gross income for federal income tax purposes. However, a purchaser’s basis in a Premium Bond, and under Treasury Regulations the amount of tax exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser.

Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of original issue premium in their particular circumstances.]

[Original Issue Discount]

[The issue price of all or a portion of the Series 2012 Q Bonds may be less than the stated redemption price payable at maturity of such Series 2012 Q Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Series 2012 Q Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Series 2012 Q Bonds under the captions "TAX MATTERS - Federal Tax Exemption" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Series 2012 Q Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Corporation nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the proper treatment of original issue discount in their particular circumstances.

New Jersey Tax Exemption

In connection with the issuance of the Series 2012 Q Bonds, Bond Counsel will deliver its opinion (the proposed form of which is attached hereto as Appendix D) that, under existing law, interest on the Series 2012 Q Bonds and the income derived from the sale thereof is excludable from gross income of the owner of the Series 2012 Q Bonds under the New Jersey Gross Income Tax Act.

Other Tax Matters

Except as expressly stated above, Bond Counsel will provide no opinion regarding any other state or federal income tax consequences of acquiring, carrying, owning or disposing of the Series 2012 Q Bonds. Owners of the Series 2012 Q Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2012 Q Bonds, which may include original issue discount, original issue premium, purchase at a market discount or premium, taxation upon sale, redemption or other disposition and various withholding requirements and which may apply to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2012 Q Bonds.

Basis for Bond Counsel's Opinion

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of a particular result, and is not binding on the IRS or the courts; rather, such opinion represents Bond Counsel's professional judgment based on its review of existing law and in reliance on the representations and covenants that it deems relevant to such opinion.

LEGALITY FOR INVESTMENT

The Act provides that, notwithstanding any restriction contained in any other law, the State and all political subdivisions of the State, their officers, boards, commissions, departments or other agencies, all banks, bankers, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies and other persons carrying on a banking or investment business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all executors, administrators, guardians, trustees, and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest any sinking funds, moneys or other funds, including capital, belonging to them or within their control, in any bonds or notes issued by the Corporation, and said bonds and notes are securities which may properly and legally be deposited with and received by any State or municipal officers or agency of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized by law.

NEGOTIABILITY

Under the Act, the Series 2012 Q Bonds have all the qualities of negotiable instruments under the laws of the State relating to negotiable instruments.

LEGAL MATTERS

The legality of the issuance of the Series 2012 Q Bonds by the Corporation is subject to the approving legal opinion of Capehart & Scatchard, Trenton, New Jersey, Bond Counsel to the Corporation. The forms of the approving legal opinions of Bond Counsel are set forth in Appendix IV. Certain legal matters will be passed upon for the Corporation by Raymond Zane, Esq., Woodbury, New Jersey, General Counsel to the Corporation.

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Q Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

RATINGS

The Series 2012 Q Bonds are expected to be assigned a rating of "A1" by Moody's Investors Service, Inc. ("Moody's"), and "A-" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), respectively. Any desired explanation of the significance of such ratings should be obtained directly from Moody's or S&P, respectively.

These ratings reflect only the views of Moody's and S&P, respectively, at the date of delivery of the Series 2012 Q Bonds, and the Corporation makes no representation as to the appropriateness of the ratings. A rating is not a recommendation to buy, sell, or hold securities. There is no assurance that these ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's or S&P, respectively, if, in their judgment circumstances so warrant. Any such downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series 2012 Q Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of: (i) the arithmetic computations supporting the conclusion that the principal amounts of, and interest earned on, the securities to be acquired with a portion of the proceeds of the Series 2012 Q Bonds, are sufficient to pay the redemption price of and interest on the Refunded Bonds on the redemption date and the principal of and redemption premium, if any, on the Refunded Bonds due on the redemption date; and (ii) the mathematical computations supporting the conclusion that the Series 2012 Q Bonds will not be “arbitrage bonds” under the Code, will be independently verified by Holman & Frenia, P.C.

LITIGATION

There is no litigation of any nature pending or threatened against the Corporation to restrain or enjoin the issuance, sale, execution or delivery of the Series 2012 Q Bonds; in any way contesting or affecting the validity of the Series 2012 Q Bonds or the security therefore, or any proceedings of the Corporation taken with respect to the issuance or sale thereof.

The Corporation is currently in litigation with a tenant regarding amounts that SJPC believes is due to it under the lease. The tenant has filed a counterclaim contending various damages. The outside Counsel representing the SJPC does not believe the amount of the counterclaim bears any relation to damages suffered, even if the allegations of their complaint (which are strongly contested) were substantiated. The parties are currently engaged in a voluntary mediation process which, if unsuccessful, will result in arbitration through the American Arbitration Association.

The Corporation is also the plaintiff in litigation involving damage to piers caused by ships that used the Corporation’s facilities.

In the opinion of general counsel to the Corporation, there is no other litigation pending or threatened by or against the Corporation, or in which an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Bond Resolution or any other documents executed by the Corporation in connection with the issuance of the Series 2012 Q Bonds, the performance by the Corporation of any of its obligations thereunder, or the consummation of any of the transactions contemplated thereby.

CONTINUING DISCLOSURE

The Corporation and the State Treasurer will enter into a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) with the Trustee, acting as dissemination agent, for the benefit of the holders of the Series 2012 Q Bonds in order to allow the Underwriters to comply with their obligations under Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities and Exchange Act of 1934, as amended. The proposed form of the Continuing Disclosure Agreement is attached as Appendix V.

For the Fiscal year ended June 30, 2007, the Treasurer of the State failed to provide the State's annual report 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, 2008. The annual report was filed on March 25, 2008.

For the fiscal year ended June 30, 2008, the Treasurer of the State failed to provide the State’s annual report 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.

The Annual Report for the fiscal year ended June 30, 2009, due March 15, 2010, was filed on March 15, 2010. The Annual Report for the fiscal year ended June 30, 2010, was filed on February 1, 2011. The Annual Report for the fiscal year ended June 30, 2011, was filed on February 10, 2012.

UNDERWRITING

The Series 2012 Q Bonds have been purchased from the Corporation by _____ (the “Underwriter”) at public sale, at a price of \$_____, which price reflects an Underwriters’ discount of \$_____ plus a net original issue premium/less an original issue discount of \$_____.

The Underwriters intend to offer the Series 2012 Q Bonds to the public initially at the offering prices or yields set forth on the inside front cover page of this Official Statement which may subsequently change without any requirement of prior notice. The Series 2012 Q Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2012 Q Bonds into investment trusts) at prices lower than the initial offering prices or yields higher than the initial offering yields set forth on the inside cover page hereof, and such public offering prices or yields may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

The Corporation has retained Goldman Beale Associates, Titusville, New Jersey (“GBA”), as Financial Advisor in connection with the issuance of the Series 2012 Q Bonds. GBA has assisted in the preparation of this Official Statement and other matters relating to the planning, structuring and issuance of the Series 2012 Q Bonds. Goldman Beale Associates is a financial advisory organization and is not engaged in the underwriting, marketing or trading of municipal securities or other negotiable instruments.

INDEPENDENT AUDITORS

The Corporation’s financial statements as of December 31, 2011 and 2010 and for the years then ended, included in Appendix II to this Official Statement, have been audited by Holman & Frenia, P.C., Medford, New Jersey. Such financial statements have been included in this Official Statement in reliance on the reports of Holman & Frenia, P.C. and the authority of that firm as independent experts in accounting and auditing.

AUTHORIZATION OF OFFICIAL STATEMENT

This Official Statement, and its distribution and use, has been duly authorized and approved by the Corporation.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Kevin Castagnola, Executive Director of the Corporation, at (856) 757-4969.

MISCELLANEOUS

Appendices I through V (attached) are integral parts of this Official Statement and should be read in their entirety, together with all of the foregoing statements.

The agreement of the Corporation with the holders of the Series 2012 Q Bonds is fully set forth in the Bond Resolution, and this Official Statement is not to be construed as constituting an agreement with the purchasers of the Series 2012 Q Bonds.

The information contained herein should not be construed as representing all conditions affecting the Corporation or the Series 2012 Q Bonds. The foregoing statements relating to the Bond Resolution and other documents are summaries of certain provisions of such documents in their complete forms. Such summaries are in all respects subject to and qualified by express reference to the provisions of the complete documents in their final form, copies of which are on file and available for examination at the corporate trust office of the Trustee located at 21 South Street, 3rd Floor, Morristown, New Jersey 07960.

All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed. To the extent that any statement herein includes matters of opinion,

whether or not expressly so stated, they are intended merely as such and not as representations of fact.

SOUTH JERSEY PORT CORPORATION

By: _____

Richard A. Alaimo, Chairman

APPENDIX I
FINANCIAL AND OTHER INFORMATION RELATING
TO THE STATE OF NEW JERSEY

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**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 August 15, 2011 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect adjustments to the Fiscal Year 2012 Appropriations Act, the introduction of the Governor's Fiscal Year 2013 Budget Message and certain financial and other activity which occurred during Fiscal Year 2012. 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 and next succeeding fiscal years.

From time to time, State officials or representatives of State governmental authorities may issue statements or reports, post information on websites, or otherwise make public information 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. Such statements, reports and information are not part of this Appendix I or the Official Statement to which this Appendix I is appended and should not be relied upon by investors and other market participants. To the extent the State determines it is necessary or appropriate to revise, update or supplement the information contained in this Appendix I, the State will prepare and make public supplements to this Appendix I. Investors and other market participants should 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") for official revisions, updates or supplements to the information contained in this Appendix I. In determining the appropriate information concerning the State to be relied upon in making an investment decision, investors and other market participants should refer only to this Appendix I and official supplements thereto provided by the State.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011 (the "2011 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 2011 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. Both the Governor and the Lieutenant Governor are elected to terms of four years each.

There are 15 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 7,730,188 in 1990, 8,414,350 in 2000, 8,791,894 in 2010, and estimated to be 8,821,155 in 2011. With an average of 1,196 persons per square mile, per the 2010 Census, 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 1978, 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 growth of 0.27% in the 1970s. Between 1980 and 1990, the annual rate of growth rose to 0.49% and between 1990 and 2000, accelerated to 0.85%, but was only 0.44% between 2000 and 2010. While this rate of growth is less than that for the United States, it compares favorably with other Middle Atlantic states. New York's population grew at an annual rate of 0.31% from 2000 to 2010 and Pennsylvania's population grew at a rate of 0.28% per year during the same period.

The increase in the State's total population during recent decades masks the redistribution of population within the State. There has been a significant shift from the northeastern industrial areas toward the coastal counties of 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

According to the United States Commerce Department, Bureau of Economic Analysis, in a release dated June 7, 2011, New Jersey's real gross domestic product ("GDP") increased 2.5% in 2010, compared to the national increase in GDP of 2.6% (the national increase in GDP growth for 2010 has since been revised to 2.9%). The State's increase in GDP ranked twenty-third among the fifty states.

According to information released by the New Jersey Department of Labor and Workforce Development on March 8, 2012, payroll employment in 2011 averaged 0.1% higher than in 2010, following declines in each of the prior four years. The State's level of payroll employment as of December 2010 was 3.875 million. The preliminary estimate of payroll employment for February 2012 was 3.892 million, which is 0.5% (+17,500 jobs) higher than the level of payroll employment as of December 2011. During the twelve month period ending in February 2012, jobs were created in the education and health sector (+24,700 jobs), the trade, transportation and utilities sector (+12,100), professional and business services (+5,600), leisure and hospitality services (+4,900) and financial activities (3,400), while jobs were lost in information services (-7,500 jobs), the public sector (-1,600) and manufacturing (-1,500).

The State's unemployment rate declined over the past year from 9.3% in February 2011 to 9.0% in February 2012.

According to the United States Commerce Department, Bureau of Economic Analysis, in a release dated March 29, 2012, New Jersey's personal income rose 4.7% over the twelve month period ending in the fourth quarter of 2011. This increase in personal income was larger than the 4.6% increase reported for the nation as a whole over the same period. In the fourth quarter of 2011, New Jersey's gain in personal income matched the national rate of increase and ranked 18th among the fifty states. According to the February 2012 New Jersey economic forecasts from Global Insight and Moody's Economy.com, growth in personal income for New Jersey residents is expected to continue through 2012 and 2013 at rates comparable to those seen in 2010 and 2011.

The housing sector remains at very depressed levels, as only 13,000 permits were granted in 2011. The housing sector is anticipated to gradually improve, as reduced prices, low mortgage rates, and higher rental costs have increased the attractiveness of homeownership. However, continuing reluctance of borrowers to lend, as well as the significant number of foreclosed properties in the market, will temper the recovery in the housing sector. New motor vehicle sales increased markedly in 2011, and are projected to increase further in 2012.

Economic conditions in New Jersey and the nation have been improving, reflecting gains in household and business confidence, manifested in the expansion of consumer and capital spending. Employment has risen, and unemployment has declined. In the current domestic U.S. economic environment, there is the potential for spending growth to further improve, leading to a continued decline in unemployment and further gains in employment, income, and wealth. However, ongoing problems in European sovereign debt markets have led to a sharp slowdown in European economic growth and continue to create risks to U.S. financial markets and institutions. Moreover nationally, state and local governments continue to pare employment and reduce spending, and tensions with Iran have the potential to boost energy prices and dampen household spending power.

The January 2012 projections of the Federal Reserve System's Federal Open Market Committee members and participants anticipate national economic growth over the course of 2012 at approximately the same rate as in the second half of 2011. New Jersey's economy is expected to expand in 2012 at a rate approximately in line with national trends, with employment levels projected to continue to rise and the unemployment rate to continue to move down moderately. Inflation has recently been low, abstracting from movements in the price of gasoline and other commodities. It is anticipated that Federal Reserve policies will not provoke a substantial rise in the underlying rate of inflation, though, as has been the case a number of times in recent years, increases in energy, food, and other commodity prices may lead to short periods in which aggregate price indexes rise noticeably. The January 25, 2012 statement of the Federal Open Market Committee noting that most members and participants anticipate no increase in short term interest rates before 2014, illustrates the continuing potential for deterioration in the national economy, but also the Federal Reserve's commitment to supporting national economic growth.

The economic outlook hinges on the success of supportive national fiscal and monetary policies. Availability of credit, stability in the financial markets, and continued improvement in consumer and business confidence are critical factors necessary for the continuation of the economic turnaround nationally and in New

Jersey. The State and the nation may experience some near-term deterioration in growth and the expected pace of economic expansion may decline if consumers, investors, and businesses are negatively affected by concerns regarding long term federal budget sustainability, the impact of federal health care reform on business costs, lack of credit availability, U.S. and international financial market stresses, any slowdown in the pace of global economic recovery, and geopolitical tensions, particularly those which lead to any substantial restrictions on energy supplies from the Middle East. To a large extent, the future direction of the economy nationally and in the State hinges on the assumptions regarding the strength of the current economic recovery, 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 2012 and 2013, 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.

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, 2011,” and the notes referred to therein (the “2011 CAFR”) which has been separately filed with the Municipal Securities Rulemaking Board (“MSRB”) and is incorporated by specific reference herein and is considered to be part of this Appendix I.) The 2011 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 2011 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 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. There are no amounts currently on deposit in the LTOCEF or currently anticipated to be deposited therein. 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, para. 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 2012" refers to the State's fiscal year beginning July 1, 2011 and ending June 30, 2012.

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 Fiscal Year 2013 Budget Message was delivered on February 21, 2012 (the "Governor's Fiscal Year 2013 Budget Message"). 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). The financial program included in the Governor's Budget Message is then subject to a process of legislative committee review. As part of such review, testimony is given by a number of parties. The Office of Legislative Services, which is an agency of the State Legislature, generally provides its own estimates of anticipated revenues which may be higher or lower than those included in the Governor's Budget Message and the State Treasurer generally provides an updated statement of anticipated revenues which may increase or decrease the amounts included in the Governor's Budget Message. In addition, various parties may release their own estimates of anticipated revenues and recommended expenditures to the media. After completion of the legislative committee review process, 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. The

appropriations bill approved by the State Legislature includes the State Legislature's estimate of revenues; this estimate, as well as the appropriations approved by the State Legislature, may differ from the estimate of revenues and recommended appropriations presented in the Governor's Budget Message, and may result in a different ending fund balance. Upon submission of the appropriations bill enacted by the State Legislature, 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-30.

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.

If a general appropriation law is not enacted prior to the July 1 deadline, under Article VIII, Section 2, para. 2 of the State Constitution, no monies 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 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 2011 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, 2009 through 2013, 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.

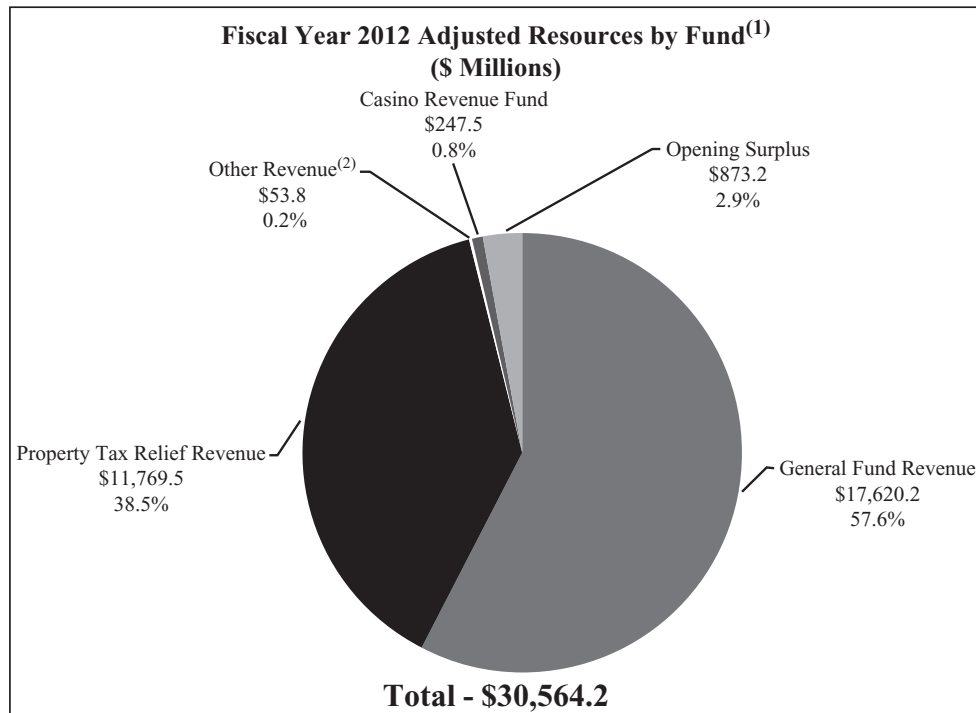
Amounts shown for Fiscal Years 2009 through 2011 are actual and final. Amounts shown for Fiscal Year 2012 in the following tables and charts are based on estimates contained in the Governor's Fiscal Year 2013 Budget Message, plus supplemental appropriations enacted to date and expected to be enacted by the end of Fiscal Year 2012. Amounts shown for Fiscal Year 2013 are estimates as contained in the Governor's Fiscal Year 2013 Budget Message.

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 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.

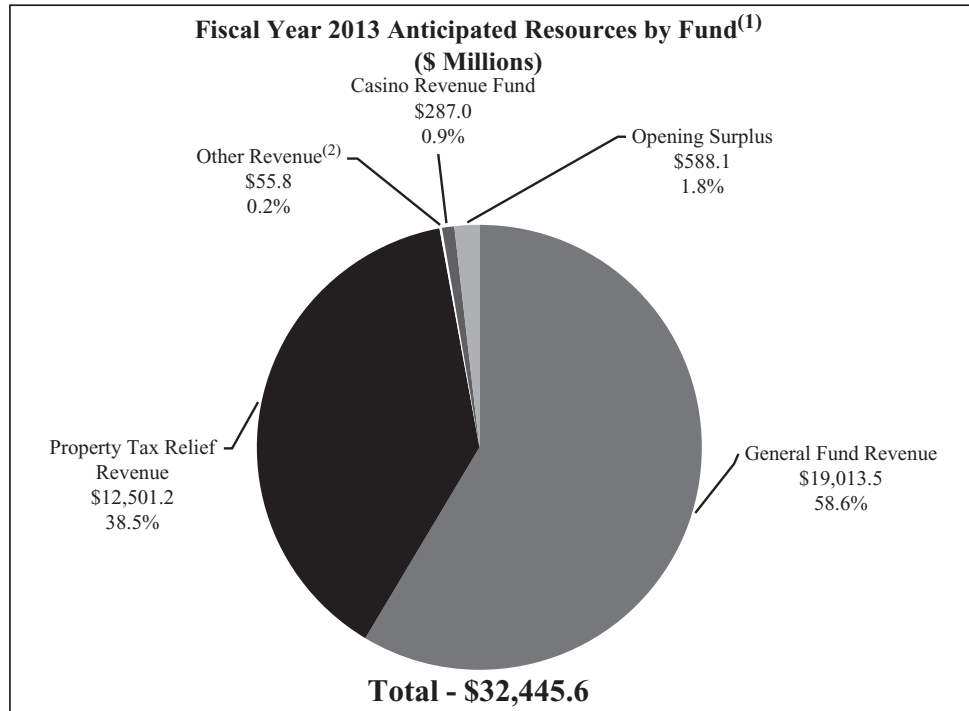
**SUMMARY OF REVENUES, APPROPRIATIONS AND
UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS
(\$ Millions)**

	2013 Estimated	2012 Estimated	2011 Actual	2010 Actual	2009 Actual
July 1st Beginning Balances					
General Fund	\$ 586.7	\$ 864.1	\$ 794.2	\$ 614.2	\$ 469.8
Surplus Revenue Fund	—	—	—	—	734.7
Property Tax Relief Fund	—	5.8	10.0	—	99.0
Gubernatorial Elections Fund	1.2	0.5	—	—	1.1
Casino Control Fund	0.2	2.8	—	(0.4)	3.0
Casino Revenue Fund	—	—	—	—	—
Total Beginning Balances	588.1	873.2	804.2	613.8	1,307.6
Anticipated Revenue					
General Fund	19,013.5	17,620.2	17,098.4	16,601.5	17,381.2
Property Tax Relief Fund(1)	12,501.2	11,769.5	11,233.7	10,917.8	11,088.0
Gubernatorial Elections Fund	0.7	0.7	0.5	0.4	0.5
Casino Control Fund	55.1	53.1	60.8	64.1	64.5
Casino Revenue Fund	287.0	247.5	266.2	296.1	351.0
Total Revenues	31,857.5	29,691.0	28,659.6	27,879.9	28,885.2
Total Resources	32,445.6	30,564.2	29,463.8	28,493.7	30,192.8
Other Adjustments					
General Fund					
Balances lapsed(2)	—	466.3	708.3	1,040.4	1,836.7
From (To) Surplus Revenue Fund	—	—	—	—	362.2
From (To) Property Tax Relief Fund	—	(13.2)	(336.5)	(285.3)	(273.9)
Budget vs GAAP Adjustment	—	—	(9.6)	53.2	62.8
From (To) Casino Revenue Fund	—	—	(3.4)	(38.3)	(54.1)
From (To) Gubernatorial Elections Fund	(4.3)	—	—	(9.0)	(3.9)
Corporation Business Tax - 4% Dedication	—	—	4.8	(3.2)	—
Surplus Revenue Fund					
From (To) General Fund	—	—	—	—	(362.2)
From (To) Property Tax Relief Fund	—	—	—	—	(372.5)
Property Tax Relief Fund					
Balances lapsed(2)	—	78.5	143.9	63.5	1,175.9
From (To) General Fund	—	13.2	336.5	285.3	273.9
From (To) Long Term Obligation and Capital Expenditure Fund(3)	—	—	—	—	378.7
Budget vs GAAP Adjustment	—	—	0.2	(8.2)	8.2
From (To) Surplus Revenue Fund	—	—	—	—	372.5
Gubernatorial Elections Fund					
From (To) General Fund	4.3	—	—	9.0	4.0
Budget vs GAAP Adjustment	—	—	—	(0.6)	0.6
Casino Control Fund					
Balances lapsed (2)	—	0.2	6.8	8.8	7.5
Budget vs GAAP Adjustment	—	—	1.9	(1.9)	—
Casino Revenue Fund					
From (To) General Fund	—	—	3.4	38.3	54.1
Balances lapsed (2)	—	—	0.2	1.0	9.6
Budget vs GAAP Adjustment	—	—	0.1	—	0.1
Total Other Adjustments	—	545.0	856.6	1,153.0	3,480.2
Total Available	32,445.6	31,109.2	30,320.4	29,646.7	33,673.0
Appropriations					
General Fund	19,295.9	18,350.7	17,392.1	17,179.3	19,166.6
Property Tax Relief Fund	12,501.2	11,867.0	11,718.5	11,248.4	13,396.2
Gubernatorial Elections Fund	6.2	—	—	8.8	6.2
Casino Control Fund	55.3	55.9	66.7	70.6	75.4
Casino Revenue Fund	287.0	247.5	269.9	335.4	414.8
Total Appropriations	32,145.6	30,521.1	29,447.2	28,842.5	33,059.2
June 30th Ending Balances					
General Fund	300.0	586.7	864.1	794.2	614.2
Surplus Revenue Fund	—	—	—	—	—
Property Tax Relief Fund	—	—	5.8	10.0	—
Gubernatorial Elections Fund	—	1.2	0.5	—	—
Casino Control Fund	—	0.2	2.8	—	(0.4)
Casino Revenue Fund	—	—	—	—	—
Total Ending Balances	\$ 300.0	\$ 588.1	\$ 873.2	\$ 804.2	\$ 613.8

- (1) 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 balance, unless otherwise provided for in the annual appropriations act.
- (3) Pursuant to 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. There are no amounts currently on deposit in the LTOCEF or currently anticipated to be deposited therein.



- (1) Fiscal Year 2012 Adjusted Resources represent the total amount of estimated revenues for Fiscal Year 2012, as set forth in the Governor's Fiscal Year 2013 Budget Message, plus the total amount of undesignated budgeted fund balances as of July 1, 2011.
- (2) Other Revenue includes Casino Control Fund and Gubernatorial Elections Fund revenues.



(1) Fiscal Year 2013 Anticipated Resources represent the total amount of estimated revenues for Fiscal Year 2013 as set forth in the Governor's Fiscal Year 2013 Budget Message, plus the total amount of estimated undesignated budgeted fund balances as of July 1, 2012.

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

Revenues

The following tables set forth actual revenues for Fiscal Years ended June 30, 2009 through 2011, and estimated revenues for Fiscal Years 2012 and 2013 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. The Fiscal Years 2012 and 2013 estimates are as presented in the Governor's Fiscal Year 2013 Budget Message.

REVENUES
(\$ Millions)

	2013	2012	2011	2010	2009
	Estimated	Estimated	Actual	Actual	Actual
General Fund:					
Sales and Use Tax	\$ 8,449.3	\$ 8,071.0	\$ 7,765.1	\$ 7,879.9	\$ 8,264.2
Less: Property Tax Dedication	(647.0)	(620.0)	(598.4)	(576.6)	(611.8)
Net Sales and Use Tax	7,802.3	7,451.0	7,166.7	7,303.3	7,652.4
Motor Fuels Tax	565.0	545.0	524.2	535.3	538.2
Corporation Taxes	2,566.0	2,314.0	2,226.9	2,144.6	2,665.2
Motor Vehicle Fees	466.4	479.0	407.8	378.6	361.7
Cigarette Tax	274.3	286.0	227.2	204.9	216.3
Other Major Taxes	2,483.4	2,283.8	2,221.4	1,712.9	1,768.3
Medicaid Uncompensated Care	409.4	434.2	499.6	514.8	493.9
Other Miscellaneous Taxes, Fees and Revenues	2,459.4	2,184.6	2,133.5	2,033.4	2,204.4
Lottery Funds	1,095.0	967.0	930.0	924.0	887.2
Tobacco Litigation Settlement(1)	53.3	53.8	53.9	56.9	69.3
Other Transfers	839.0	621.8	707.2	792.8	524.3
Total General Fund(2)	19,013.5	17,620.2	17,098.4	16,601.5	17,381.2
Property Tax Relief Fund:					
Gross Income Tax	11,836.7	11,132.0	10,617.0	10,322.9	10,476.2
Plus: Property Tax Dedication	664.5	637.5	616.7	594.9	611.8
Gross Property Tax Relief Fund	12,501.2	11,769.5	11,233.7	10,917.8	11,088.0
Gubernatorial Elections Fund	0.7	0.7	0.5	0.4	0.5
Casino Control Fund	55.1	53.1	60.8	64.1	64.5
Casino Revenue Fund	287.0	247.5	266.2	296.1	351.0
Total	<u>\$31,857.5</u>	<u>\$29,691.0</u>	<u>\$28,659.6</u>	<u>\$27,879.9</u>	<u>\$28,885.2</u>

- (1) The State has transferred to the Tobacco Settlement Financing Corporation (the "Corporation"), a special purpose entity established pursuant to L. 2002, c. 32 (the "Act"), the State's right to receive all tobacco settlement receipts (the "TSRs") expected to be received by the State after December 1, 2003 from the settlement of the litigation with the participating tobacco companies. The Corporation has pledged 76.26% of 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 2007-1, the proceeds of which were used to refund in full, the prior Series 2002 and Series 2003 Tobacco Settlement Asset-Backed Bonds. The remaining 23.74% of the TSRs (the "Unpledged TSRs") are not pledged to the bonds and are payable to the State. Fiscal Year 2009, 2010, and 2011 actual payments and Fiscal Year 2012 and 2013 estimated payments received or to be received by the State reflect Unpledged TSRs.

In each of the years 2006 through and including 2011 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, approximately \$21 million of a scheduled approximate \$287 million annual payment in 2009, approximately \$27 million of a scheduled approximate \$266 million annual payment in 2010, and approximately \$35 million of a scheduled approximate \$261 million annual payment in 2011) primarily based on claims that the settling states, of which the State is one, did not diligently enforce a statute (the "Model Statute"), which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. For each year, the withholding related to enforcement efforts for the year three years prior to the date of payment (e.g. the 2006 withholding was related to enforcement efforts in calendar year 2003). 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 began in July 2010 when a three-member panel was appointed and is on-going. On November 3, 2011, the participating manufacturers released the State from the 2003 diligent enforcement action arbitration. As a result, when the multi-state arbitration is finally concluded, the Corporation will receive the \$30 million withheld in 2006 relating to 2003. On April 15, 2011, notice was given by the tobacco companies to the State that they are seeking arbitration of diligent enforcement disputes for the years 2004 through 2008. While 2009 and 2010 are not subject to the court's order or the notice given by the tobacco companies, 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.

- (2) 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 Ending Balance.

Revenues
(% of Total)

	2013 Estimated	2012 Estimated	2011 Actual	2010 Actual	2009 Actual
General Fund:					
Sales and Use Tax	26.5%	27.2%	27.1%	28.3%	28.6%
Less: Property Tax Dedication	(2.0)	(2.1)	(2.1)	(2.1)	(2.1)
Net Sales and Use Tax	24.5	25.1	25.0	26.2	26.5
Motor Fuels Tax	1.8	1.8	1.8	2.0	1.9
Corporation Taxes	8.1	7.8	7.9	7.7	9.2
Motor Vehicle Fees	1.5	1.6	1.4	1.4	1.3
Cigarette Tax	0.9	1.0	0.8	0.7	0.7
Other Major Taxes	7.8	7.7	7.8	6.2	6.1
Medicaid Uncompensated Care	1.3	1.5	1.7	1.8	1.7
Other Miscellaneous Taxes, Fees and Revenues	7.7	7.4	7.4	7.3	7.7
Lottery Funds	3.4	3.3	3.2	3.3	3.1
Tobacco Litigation Settlement	0.2	0.2	0.2	0.2	0.2
Other Transfers	2.6	2.1	2.5	2.8	1.8
Total General Fund	59.8	59.5	59.7	59.6	60.2
Property Tax Relief Fund:					
Gross Income Tax	37.2	37.5	37.0	37.0	36.3
Plus: Property Tax Dedication	2.1	2.1	2.2	2.1	2.1
Gross Property Tax Relief Fund	39.3	39.6	39.2	39.1	38.4
Gubernatorial Elections Fund	—	—	—	—	—
Casino Control Fund	0.2	0.2	0.2	0.2	0.2
Casino Revenue Fund	0.7	0.7	0.9	1.1	1.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fiscal Year 2012 and Fiscal Year 2013 Estimated Revenues

Sales and Use Tax — The Sales and Use Tax collections for Fiscal Year 2012 are estimated to increase 3.9% from Fiscal Year 2011, and increase an estimated 4.7% in Fiscal Year 2013. This growth in Sales and Use Tax collections primarily reflects continuing expected improvement in consumer spending as employment and incomes gradually recover and confidence is restored, with a growing share of consumer spending in the State on taxable big-ticket items such as motor vehicles.

Gross Income Tax — The Gross Income Tax collections for Fiscal Year 2012 are estimated to increase 4.9% from Fiscal Year 2011, and increase an estimated 6.3% in Fiscal Year 2013. The anticipated increase in Gross Income Tax revenue reflects the continuing expected improvement in the growth of household income coupled with the progressive structure of New Jersey's income tax, in which the approximately 1% of households earning more than \$500,000 a year typically pay approximately 40% of the total amount of Gross Income Tax collected from State residents. The Fiscal Year 2013 estimate assumes that Gross Income Tax collections will be reduced by more than 1%, as a result of the first stage of the Governor's proposed 10% reduction in Gross Income Tax rates.

Corporation Business Tax — The Corporation Business Tax collections for Fiscal Year 2012 are estimated to increase 3.9% from Fiscal Year 2011, while collections for Fiscal Year 2013 are estimated to increase 10.9% from Fiscal Year 2012. Corporation Business Tax collections are projected to be increased by recovering corporate profitability as well as higher audit revenues due to a step-up in enforcement measures by the State Division of Taxation.

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 fees on casino hotel rooms, and a tax on multi-casino progressive slot machine revenue. Collections for Fiscal Year 2012 are estimated to decrease 7.0% from Fiscal Year 2011. Collections for Fiscal Year 2013 are estimated to increase 16.0% from Fiscal Year 2012. The Fiscal Year 2013 estimate reflects a slowly recovering economy and additional revenues from the opening of the Revel casino resort in May 2012.

Other Revenues — Continuing the same action taken in Fiscal Year 2012, the Governor's Fiscal Year 2013 Budget Message diverts all revenue for Enterprise Zone Assistance Fund ("UEZ") revitalization projects and local program administration to the General Fund. The Governor's Fiscal Year 2013 Budget Message includes up to an additional \$100.0 million in State Lottery revenues due to projected management reforms. The utilization of non-recurring resources represents approximately 5% of overall recommended appropriations, a considerable reduction from the 13% that supported Fiscal Year 2010 appropriations. These resources include using \$288 million from the Fiscal Year 2012 ending fund balance and \$642 million transferring into the General Fund as State revenue, which includes \$200 million from the Affordable Housing Trust Fund, and \$200 million from the Clean Energy Fund. Also included in the 5% amount is the out year impact of the Governor's tax relief program. The Governor has proposed a 10% reduction to Gross Income Tax rates to be phased in over three years. The impact of the income tax rate reduction, if enacted, combined with the continuing phase-in of already enacted business tax cuts will reduce Fiscal Year 2014 estimated revenues by \$585.6 million.

Fiscal Year 2012 Developments

State revenues in the first months of Fiscal Year 2012 were held down as a series of destructive storms disrupted activity and resulted in delayed tax payments. In recent months revenues have largely recovered from these events, with February 2012 collections of major revenues (including the Gross Income Tax) being 20% higher than in February 2011; for the first eight months of Fiscal Year 2012 collections of such major taxes were 4.3% higher than during the same period of Fiscal Year 2011. In the Governor's Fiscal Year 2013 Budget Message, revenue estimates for Fiscal Year 2012 were revised, with revenues estimated to be \$29,691.0 million, \$50.3 million higher than estimated in the Fiscal Year 2012 Appropriations Act, 1.4% greater than the amount of revenues received in Fiscal Year 2011. For Fiscal Year 2013 revenues are estimated to be \$31,857.5 million, 7.3% greater than the revised revenue estimate for Fiscal Year 2012. Revenue growth reflects the expected improvement in the State's economy, most notably higher levels of income and spending. In particular, the State's progressive income tax structure results in such revenues growing noticeably more rapidly than income during economic expansions. The Fiscal Year 2013 revenue estimate assumes that revenues will be reduced more than 1% by tax cuts including the phasing in of previously enacted tax reductions, as well as the first stage of the Administration's proposed 10% reduction in Gross Income Tax rates.

Federal Aid

Actual federal aid receipts in the General Fund and Special Transportation Fund (a Capital Project Fund) for Fiscal Years 2009 through 2011, which are non-budgeted revenues, amounted to \$10,530.6 million, \$12,364.8 million, and \$11,195.3 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Years 2012 and 2013 as contained in the Governor's Fiscal Year 2013 Budget Message are estimated to be \$11,703.1 million and \$11,653.4 million, respectively. Such federal aid receipts for Fiscal Year 2013 are composed of \$4,604.2 million for medical payments, \$48.0 million for social services block grants, \$800.7 million for welfare, \$1,875.3 million for other human services, \$827.9 million for Title I and other education, \$493.4 million for labor, \$996.3 million for transportation, and the remainder for all other federal aid programs.

The American Recovery and Reinvestment Act of 2009 ("ARRA") provided federal fiscal stimulus funding to the State for Fiscal Years 2010 and 2011. Funding across both fiscal years totaled approximately \$3,322.1 million. Fiscal Year 2010 funding of \$2,289.0 million reflected \$1,034.5 million for enhanced Medicaid funding,

with the remainder primarily for fiscal stabilization which the State used as a resource for the General Fund. The Fiscal Year 2011 Appropriations Act assumed that the State would receive \$1,033.1 million of federal ARRA stimulus funding; that amount subsequently was reduced by approximately \$200 million during Fiscal Year 2011. There is no federal stimulus funding expected in Fiscal Years 2012 and 2013, as all ARRA funding expired on June 30, 2011. See “FINANCIAL RESULTS AND ESTIMATES – Appropriations – *Appropriations of Federal Aid*” herein.

Appropriations

Appropriations—Fiscal Year 2009 through Fiscal Year 2013

The following table sets forth the composition of annual appropriations, including supplemental appropriations and de-appropriations (except for Fiscal Year 2013), from the General Fund, the Property Tax Relief Fund, the Gubernatorial Elections Fund, the Casino Control Fund, and the Casino Revenue Fund. 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 2009 through 2011 are actual and final. The amounts for Fiscal Year 2012 and Fiscal Year 2013 reflect the estimated amounts shown in the Governor’s Fiscal Year 2013 Budget Message.

The State has made appropriations for principal and interest payments for general obligation bonds for Fiscal Years 2009 through 2012 in the amounts of \$270.9 million, \$261.1 million, \$204.7 million, and \$276.9 million, respectively. The Governor’s Fiscal Year 2013 Budget Message includes a recommended appropriation in the amount of \$436.9 million for Fiscal Year 2013, representing principal and interest payments for general obligation bonds. This recommendation reflects the anticipated savings from utilizing available, uncommitted amounts and residual project balances held in general obligation bond funds, and bond premium remaining from the sale of general obligation bonds in December 2009, to offset debt service on general obligation bonds. The increase in Fiscal Year 2013 is primarily due to prior-year reductions resulting from the issuance of refunding bonds.

The Governor’s Fiscal Year 2013 Budget Message also recommends \$2,659.6 million for debt service on obligations supported by State revenue subject to annual appropriation. The total Fiscal Year 2013 general obligation bonds and obligations supported by State revenue subject to annual appropriation debt service recommended appropriations is \$3,096.5 million or approximately 9.6% of total State recommended appropriations for Fiscal Year 2013. Such recommended appropriations offset prior-year reductions resulting from the issuance of refunding bonds, and take into account projected increases in debt service due to planned future issuances of bonds and notes, and are net of projected debt service savings due to planned debt restructurings of obligations supported by State revenue subject to annual appropriation, the use of available uncommitted amounts and residual project balances held in general obligation bond funds, and bond premium remaining from the sale of general obligation bonds in December 2009 to offset debt service on general obligation bonds.

The Governor’s Fiscal Year 2013 Budget Message assumes a total of \$824 million in supplemental appropriations during Fiscal Year 2012. Among these supplemental appropriations are \$260 million to offset health benefit reform savings not realized in Fiscal Year 2012, \$206.7 million to offset anticipated Medicaid waiver savings that were not approved by the federal government, and \$161.6 million in additional transitional aid to municipalities. These supplemental appropriations are partially offset by \$545 million in expected lapses of Fiscal Year 2012 appropriations, largely due to underspending in Medicaid programs. Together, these supplemental appropriations and lapses will result in a Fiscal Year 2013 opening fund balance of \$588 million, down from a Fiscal Year 2012 opening fund balance of \$873 million as contained in the Fiscal Year 2012 Appropriations Act.

In Fiscal Year 2013, \$1,071.1 million is recommended to make pension contributions to the defined benefit pension plans for State (\$361.1 million), P-12 education (\$631.3 million), local government (\$49.8 million), and higher education (\$28.8 million) employees, whose benefits are funded by the State.

The Governor's Fiscal Year 2013 Budget Message assumes savings of \$62.2 million from changing the retiree prescription drug plan to an Employer Group Waiver Plan (EGWP) effective January 2012. The new design will allow the plan to receive pharmaceutical manufacturer discounts and other federal subsidies that were not previously available. This change was approved by a joint employer and employee plan design committee that was established pursuant to pension and health benefits reform legislation (L.2011, c.78) ("Chapter 78") to create, modify, or terminate health plans at their discretion. In addition, the Governor's Fiscal Year 2013 Budget Message assumes savings of \$54.3 million from increased employee health contributions. The Chapter 78 benefit reforms changed employee contributions from a percentage of salary to a percentage of medical and prescription drug premium costs. The increased contributions are being phased-in over a four year period. In Fiscal Year 2013, the second year of the phase-in, contributions for most employees will range from 1.5% to 17.5% of premium costs with the percentage based on salary. A minimum contribution of at least 1.5% of salary is required for all employees.

The Governor's Fiscal Year 2013 Budget Message recommends aid, under a five-year phase-in to full funding for P-12 education, using a revised methodology. Funding under the proposed formula is based on population and actual students served using revised weights and coefficients, and reduces the hold-harmless category of aid outside the formula for high-spending districts. These proposed changes will provide an increase in P-12 formula aid of \$149.7 million from Fiscal Year 2012.

Appropriations of Federal Aid

The Governor's Fiscal Year 2013 Budget Message includes savings from a comprehensive waiver that will redesign the Medicaid program in a manner that creates efficiencies and better manages care. Negotiations with the federal government surrounding the comprehensive Medicaid waiver are well underway, and approval is expected in the near future. The increase contained in the Governor's Fiscal Year 2013 Budget Message also includes \$75 million in federal Medicaid matching funds for fee-for-service hospital payments that may be deemed unallowable by the federal government based on the Medicaid Upper Payment Limit ("UPL") calculation. As dictated by federal law, Medicaid hospital payments, including subsidy payments, may not exceed what Medicare would pay those same hospitals. While payments to hospitals have not been increased, New Jersey's expanded use of Medicaid managed care adversely impacts the UPL calculation and lowers the maximum amount of federal funding provided for hospital payments. The State has presented a plan to continue these matched hospital payments, based upon approved plans from other states, but federal approval remains outstanding.

Separate from the federal UPL calculation, Medicaid disallowances may be issued in federal Fiscal Year 2013 (which ends September 30, 2013) based on a series of federal Office of the Inspector General program audits of claim documentation and cost allocation methodologies. The Department of Human Services disputes these findings and is taking steps to minimize the final impact of these audits. A total of nine audits totaling approximately \$322.6 million are currently in draft or final form, but due to possible revisions or appeals, the final amounts and timing of any repayments are uncertain. The State currently has reserved \$54.5 million in federal revenues to offset these potential disallowances. See also "LITIGATION – *Tort, Contract, Workers' Compensation, Medicaid and Other Claims*".

If the actions described in the preceding paragraph do not occur, other budgetary actions will be necessary.

Besides the comprehensive waiver, the Governor's Fiscal Year 2013 Budget Message incorporates fraud prevention savings in the Medicaid and General Assistance programs.

State Unemployment Insurance Trust Fund

In Fiscal Year 2011, the Unemployment Insurance Trust Fund (the "Trust Fund"), which provides funding for unemployment benefits in the State, received approximately \$2.3 billion in contributions from employers and workers while paying out approximately \$2.8 billion in regular, annual State unemployment benefits (excluding benefits paid entirely by the federal government). In Fiscal Year 2012, contributions from employers and

workers are expected to approximate \$2.7 billion, while regular State unemployment benefits will approximate \$2.5 billion. In Fiscal Year 2013, contributions from employers and workers are expected to approximate \$3.0 billion, while regular State unemployment benefits will approximate \$2.3 billion. As of February 29, 2012, the State has borrowed approximately \$1.6 billion from the U.S. Department of Labor for cash advances to provide funding for unemployment insurance benefits. The State expects to fully repay these federal loans during Fiscal Year 2013. Repayments of these advances are solely the obligation of the Fund and are not obligations of the State's General Fund.

Under current law, the unemployment tax rate imposed on employers during a fiscal year is determined by statutory formula based on the status of the Trust Fund in relation to total taxable wages as of March 31st of the preceding fiscal year. Because the Trust Fund is currently in deficit, such statutory formula provides for an increase in the employer tax rate. In Fiscal Year 2010, the employer tax rate was increased in accordance with the statutory formula. Subsequent legislation limited increases in employer taxes in Fiscal Year 2011, Fiscal Year 2012, and Fiscal Year 2013 to less than that called for by such statutory formula. No change in the employee rate has occurred.

APPROPRIATIONS FOR BUDGETED STATE FUNDS⁽¹⁾
(\$ MILLIONS)

For the Fiscal Year Ended June 30,					
	2013 Recommended(2)	2012 Estimated	2011 Actual	2010 Actual	2009 Actual
General Fund:					
Legislative Branch	\$ 76.1	\$ 78.1	\$ 75.6	\$ 74.8	\$ 73.7
Chief Executive's Office	6.0	6.0	4.5	4.7	5.3
Department of:					
Agriculture	19.8	19.8	19.4	22.5	22.9
Banking and Insurance	63.4	63.5	59.7	67.5	70.3
Children and Families	1,055.4	1,035.8	1,045.9	1,066.4	1,075.7
Community Affairs	195.9	234.6	64.1	261.2	304.9
Corrections	1,077.0	1,107.6	1,080.7	1,147.1	1,141.9
Education	652.7	202.9	555.6	664.5	1,075.8
Environmental Protection	366.0	334.7	348.8	379.8	428.6
Health and Senior Services	373.2	1,229.0	1,213.3	1,067.9	1,323.6
Human Services	6,058.9	5,338.3	4,514.0	4,404.4	4,789.3
Labor and Workforce Development(3)	157.6	155.2	156.7	144.8	273.7
Law and Public Safety	514.3	519.8	503.1	530.4	547.7
Military and Veterans Affairs	94.3	95.5	90.8	90.9	93.7
Public Advocate(4)	—	—	—	16.5	17.0
State	1,176.5	1,149.2	1,159.6	1,261.7	1,243.1
Transportation	1,503.4	1,409.8	1,252.8	1,277.2	1,335.1
Treasury	1,431.0	1,248.4	1,145.4	1,180.0	1,386.7
Miscellaneous Executive Commissions	1.0	1.0	1.3	1.5	1.5
Inter-Departmental Accounts — Employee Benefits and Miscellaneous	3,800.4	3,451.0	3,444.5	2,874.1	3,320.6
Judicial Branch	673.0	670.5	656.3	641.4	635.5
Total General Fund	<u>\$19,295.9</u>	<u>\$18,350.7</u>	<u>\$17,392.1</u>	<u>\$17,179.3</u>	<u>\$19,166.6</u>
Property Tax Relief Fund:					
Department of:					
Community Affairs	\$ 560.1	\$ 511.9	\$ 669.6	\$ 819.7	\$ 847.5
Education	11,161.0	10,485.9	10,298.3	8,954.9	10,496.8
Environmental Protection	—	—	—	10.0	10.0
Human Services	—	29.9	165.5	—	—
Treasury	780.1	839.3	585.1	1,463.8	2,041.9
Total Property Tax Relief Fund	<u>\$12,501.2</u>	<u>\$11,867.0</u>	<u>\$11,718.5</u>	<u>\$11,248.4</u>	<u>\$13,396.2</u>
Gubernatorial Elections Fund					
Department of:					
Law and Public Safety	\$ 6.2	\$ —	\$ —	\$ 8.8	\$ 6.2
Total Gubernatorial Elections Fund	<u>\$ 6.2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8.8</u>	<u>\$ 6.2</u>
Casino Control Fund					
Department of:					
Law and Public Safety	\$ 46.7	\$ 46.7	\$ 42.3	\$ 44.0	\$ 46.0
Treasury	8.6	9.2	24.4	26.6	29.4
Total Casino Control Fund	<u>\$ 55.3</u>	<u>\$ 55.9</u>	<u>\$ 66.7</u>	<u>\$ 70.6</u>	<u>\$ 75.4</u>
Casino Revenue Fund					
Department of:					
Health and Senior Services	\$ 0.5	\$ 89.6	\$ 108.0	\$ 172.4	\$ 248.8
Human Services	261.6	130.5	130.5	130.5	130.5
Labor and Workforce Development	2.2	2.2	2.2	2.2	2.4
Law and Public Safety	0.1	0.1	0.1	0.1	0.1
Transportation	22.6	25.1	29.1	30.2	33.0
Total Casino Revenue Fund	<u>\$ 287.0</u>	<u>\$ 247.5</u>	<u>\$ 269.9</u>	<u>\$ 335.4</u>	<u>\$ 414.8</u>
Total Appropriations	<u><u>\$32,145.6</u></u>	<u><u>\$30,521.1</u></u>	<u><u>\$29,447.2</u></u>	<u><u>\$28,842.5</u></u>	<u><u>\$33,059.2</u></u>

- (1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund and the Gubernatorial Elections Fund. These amounts do not reflect amounts included under the caption "Other Adjustments" in the table entitled "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" above.
- (2) Reflects the proposed reorganization of some functions among the Departments of Children and Families, Community Affairs, Education, Health and Senior Services, Human Services, Law and Public Safety, State, and Treasury.
- (3) During Fiscal Year 2008 and Fiscal Year 2009, \$260.0 million and \$150.0 million, respectively, was transferred from the General Fund to the Department of Labor and Workforce Development for deposit into the Trust Fund. This funding measure enabled the Trust Fund to meet federal solvency requirements.

- (4) Pursuant to L. 2010, c. 34, the Department of the Public Advocate was abolished as a department of the Executive Branch of State government, effective June 30, 2010.

The following tables set forth appropriations by department and by major category for Fiscal Year 2013 and 2012.

RECOMMENDED APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDING JUNE 30, 2013
(\$ MILLIONS)

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants-In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Executive						
Chief Executive	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture	7.4	6.8	5.6	—	—	19.8
Banking and Insurance	63.4	—	—	—	—	63.4
Children and Families	269.6	785.8	—	—	—	1,055.4
Community Affairs	38.6	38.1	679.3	—	—	756.0
Corrections	951.6	104.8	20.6	—	—	1,077.0
Education	69.4	1.7	11,742.6	—	—	11,813.7
Environmental Protection	216.7	21.7	8.8	99.5	19.3	366.0
Health and Senior Services	40.1	333.6	—	—	—	373.7
Human Services	640.6	5,142.1	537.8	—	—	6,320.5
Labor and Workforce Development ...	92.8	67.0	—	—	—	159.8
Law and Public Safety	543.9	23.4	—	—	—	567.3
Military and Veterans Affairs	91.6	2.7	—	—	—	94.3
State	28.2	1,133.3	15.0	—	—	1,176.5
Transportation	45.2	333.8	22.6	1,124.4	—	1,526.0
Treasury	447.7	942.7	411.7	—	417.6	2,219.7
Miscellaneous Commissions	1.0	—	—	—	—	1.0
Interdepartmental	2,558.9	1,039.5	—	202.0	—	3,800.4
Subtotal	<u>6,112.7</u>	<u>9,977.0</u>	<u>13,444.0</u>	<u>1,425.9</u>	<u>436.9</u>	<u>31,396.5</u>
Legislature	76.1	—	—	—	—	76.1
Judiciary	673.0	—	—	—	—	673.0
Grand Total	<u>\$6,861.8</u>	<u>\$9,977.0</u>	<u>\$13,444.0</u>	<u>\$1,425.9</u>	<u>\$436.9</u>	<u>\$32,145.6</u>

- (1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The recommended appropriations are as contained in the Governor's Fiscal Year 2013 Budget Message.

ADJUSTED APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)
FOR THE FISCAL YEAR ENDING JUNE 30, 2012
(\$ MILLIONS)

<u>Government Branch</u>	<u>Direct State Services</u>	<u>Grants In-Aid</u>	<u>State Aid</u>	<u>Capital Construction</u>	<u>Debt Service</u>	<u>Total</u>
Executive						
Chief Executive	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture	7.4	6.8	5.6	—	—	19.8
Banking and Insurance	63.5	—	—	—	—	63.5
Children and Families	296.9	738.9	—	—	—	1,035.8
Community Affairs	39.7	19.2	687.6	—	—	746.5
Corrections	980.7	106.3	20.6	—	—	1,107.6
Education	66.1	1.7	10,621.0	—	—	10,688.8
Environmental Protection	210.1	17.3	8.8	91.7	6.8	334.7
Health and Senior Services	52.8	1,258.6	7.2	—	—	1,318.6
Human Services	693.1	4,279.6	526.0	—	—	5,498.7
Labor and Workforce Development	90.4	67.0	—	—	—	157.4
Law and Public Safety	549.4	17.2	—	—	—	566.6
Military and Veterans Affairs	92.4	3.1	—	—	—	95.5
State	29.4	1,104.8	15.0	—	—	1,149.2
Transportation	65.1	309.4	25.1	1,035.3	—	1,434.9
Treasury	455.3	982.0	389.5	—	270.1	2,096.9
Miscellaneous Commissions	1.0	—	—	—	—	1.0
Interdepartmental	2,387.0	887.7	—	176.3	—	3,451.0
Subtotal	<u>6,086.3</u>	<u>9,799.6</u>	<u>12,306.4</u>	<u>1,303.3</u>	<u>276.9</u>	<u>29,772.5</u>
Legislature	78.1	—	—	—	—	78.1
Judiciary	670.5	—	—	—	—	670.5
Grand Total	<u>\$6,834.9</u>	<u>\$9,799.6</u>	<u>\$12,306.4</u>	<u>\$1,303.3</u>	<u>\$276.9</u>	<u>\$30,521.1</u>

- (1) Budgeted State Funds include the General Fund, the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. Adjusted appropriations include supplemental appropriations and de-appropriations made by the Legislature and approved by the Governor to the appropriations contained in the Fiscal Year 2012 Appropriations Act. Lapses in appropriations are not included. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" herein.

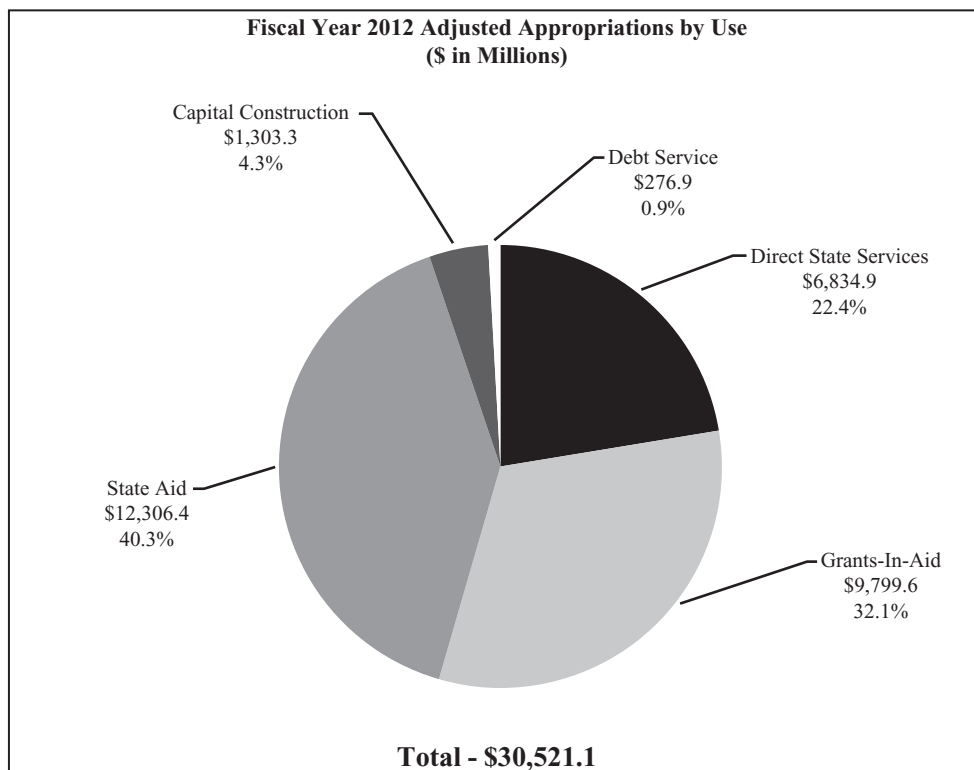
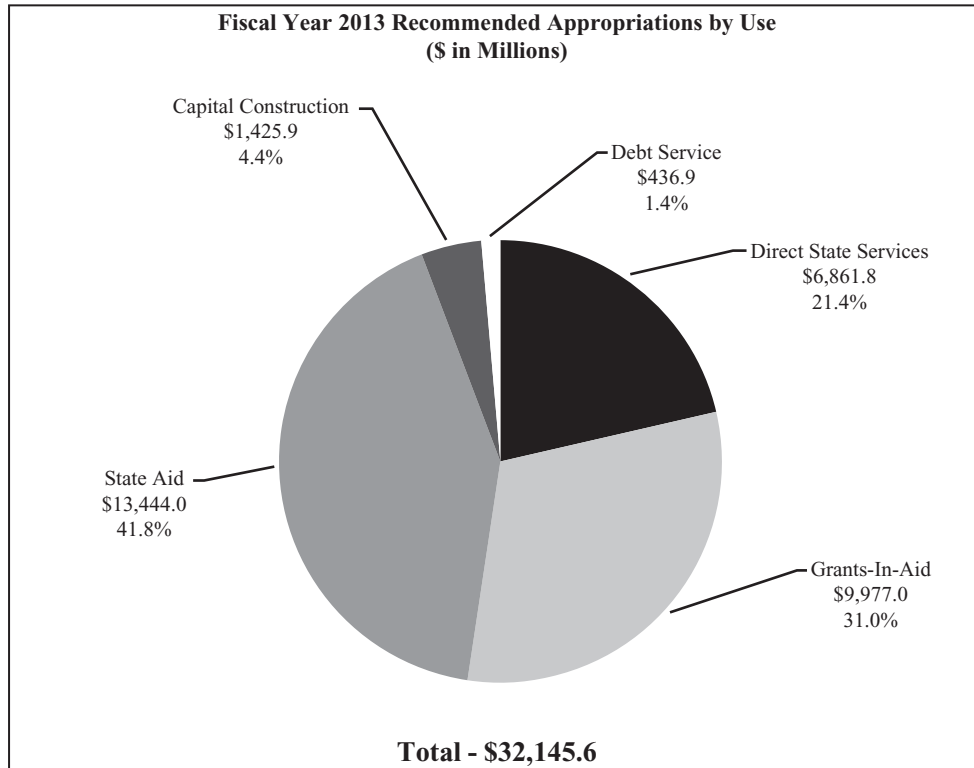
The following table sets forth, by major category, the original, supplemental and de-appropriations for Fiscal Year 2012 and the recommended appropriations for Fiscal Year 2013 as contained in the Governor's Fiscal Year 2013 Budget Message.

SUMMARY OF APPROPRIATIONS
(\$ Millions)

	Fiscal Year 2013	Fiscal Year 2012 Adjusted(1)	Dollar Change	Percentage Change
State Aid	\$13,444.0	\$12,306.4	\$1,137.6	9.2%
Grants-in-Aid	9,977.0	9,799.6	177.4	1.8
Direct State Services	6,861.8	6,834.9	26.9	0.4
Capital Construction	1,425.9	1,303.3	122.6	9.4
Debt Service	436.9	276.9	160.0	57.8
	<u>\$32,145.6</u>	<u>\$30,521.1</u>	<u>\$1,624.5</u>	<u>5.3%</u>

(1) Adjusted appropriations reflect the addition of any supplemental appropriations and de-appropriations made by the Legislature and approved by the Governor to the appropriations contained in the Fiscal Year 2012 Appropriations Act. Lapses in appropriations are not reflected in the table above. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" herein.

The 9.2% increase in State Aid is predominantly attributable to increases in school aid. The 1.8% increase in Grants-in-Aid reflects increases in Medicaid, higher education fringe benefits and student assistance, Children and Families, and Health programs, partially offset by reductions in the Homestead Benefit and Senior Freeze programs. The 9.4% increase in Capital Construction reflects increases in Transportation Trust Fund Authority and New Jersey Building Authority debt service, partially offset by a reduction in debt service on open space and farmland preservation bonds. The 57.8% increase in Debt Service in Fiscal Year 2013 is primarily due to the Fiscal Year 2012 reduction resulting from the issuance of refunding bonds.



Programs Funded Under Recommended Appropriations in Fiscal Year 2013

Of the \$32,145.6 million recommended for Fiscal Year 2013 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$13,444.0 million (41.8%) is recommended for State Aid, \$9,977.0 million (31.0%) is recommended for Grants-in-Aid, \$6,861.8 million (21.4%) is recommended for Direct State Services, \$1,425.9 million (4.4%) is recommended for Capital Construction and \$436.9 million (1.4%) is recommended for Debt Service on State General Obligation Bonds. See “FINANCIAL RESULTS AND ESTIMATES – Appropriations” above.

State Aid

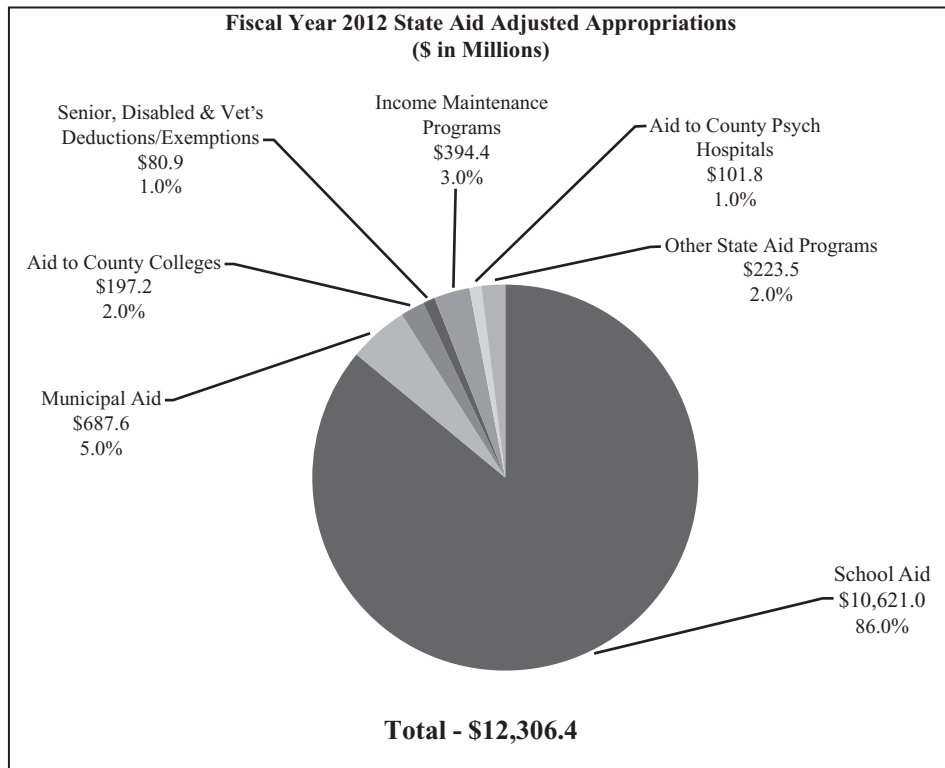
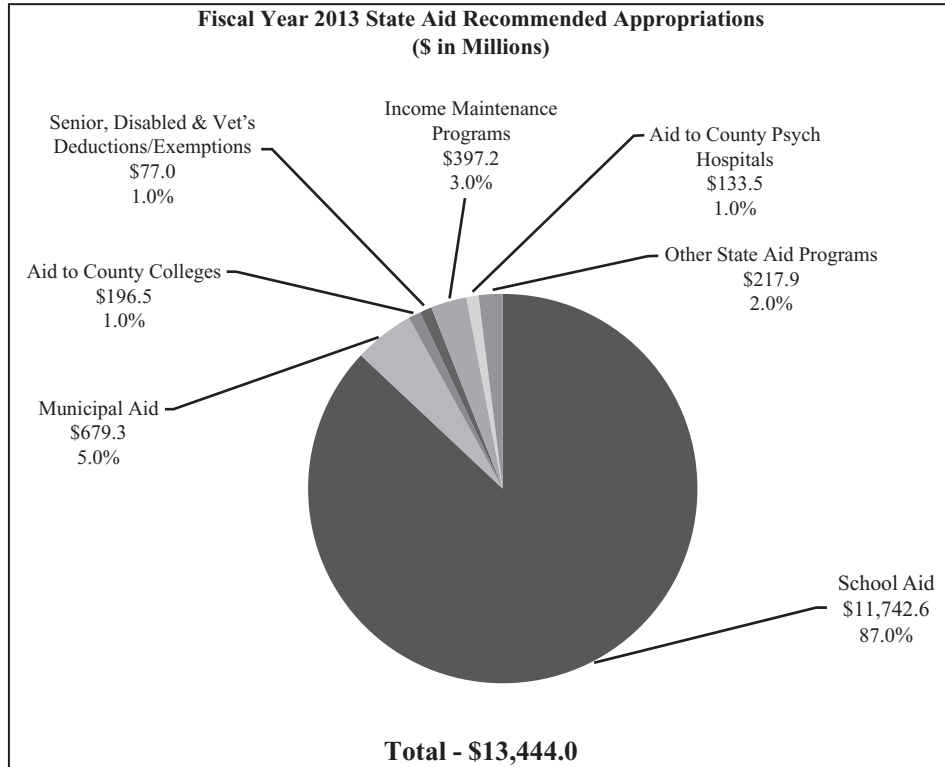
State Aid is the largest portion of Fiscal Year 2013 recommended appropriations. These consist of payments to, or on behalf of, local government entities including counties, municipalities and school districts, to assist them in carrying out their local responsibilities.

The largest State Aid recommended appropriation, in the amount of \$11,742.6 million, is recommended for local preschool, elementary and secondary education programs. Of this amount, \$8,462.5 million in formula aid for P-12 education, including School Choice Aid, will be distributed. In Fiscal Year 2012, each non-Abbott district realized a 40% restoration of a Fiscal Year 2011 reduction, while Abbott districts received aid in accordance with an order of the New Jersey Supreme Court, *Abbott v. Burke*, 106 N.J. 332 (2011). See “LITIGATION – *Abbott v. Burke (Challenge to Proposed Fiscal Year 2011 School Aid Funding Levels)*” herein. In Fiscal Year 2013, aid is recommended under a five-year phase-in using a revised methodology for average daily attendance, revising weights and coefficients used in the formula, and reducing adjustment aid. In addition to formula aid for P-12 education, \$489.9 million is recommended for School Construction and Renovation Fund debt service, \$73.7 million is recommended in School Building Aid, and \$58.0 million is recommended for School Construction Debt Service Aid. Also, \$2,382.1 million is recommended on behalf of school districts as the employers’ share of the social security and teachers’ pensions and benefits programs, including debt service on pension obligation bonds.

Recommended appropriations to the Department of Community Affairs total \$679.3 million in State Aid for Fiscal Year 2013. Consolidated Municipal Property Tax Relief Aid is recommended in the amount of \$553.6 million. These recommended appropriations also include \$113.7 million for the Transitional Aid to Localities program. Under this program, aid is awarded through a competitive process and requires recipient municipalities to submit to additional State oversight, with the goal of reducing reliance on this aid in the future.

Recommended appropriations for the Department of Human Services total \$537.8 million in State Aid for Fiscal Year 2013. The principal programs funded by these recommended appropriations are \$397.2 million for various income maintenance programs for the economically disadvantaged and \$133.5 million for patients in county psychiatric hospitals.

Recommended appropriations for the Department of the Treasury total \$411.7 million in State Aid for Fiscal Year 2013. The principal programs funded by these recommended appropriations are aid to county colleges (\$196.5 million) and the cost of senior citizens, disabled and veterans property tax deductions and exemptions (\$77.0 million).



Grants-in-Aid

The second largest portion of the recommended appropriations in Fiscal Year 2013 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 recommended in Fiscal Year 2013 for Grants-in-Aid is \$9,977.0 million.

\$5,142.1 million is recommended for programs administered by the Department of Human Services. Of that amount, \$3,621.4 million is for medical services provided under the Medicaid program (excluding FamilyCare), \$576.7 million is for community programs for the developmentally disabled, \$355.8 million is for community programs for the mentally ill, \$238.9 million is for health insurance for adults and children through the FamilyCare program, \$165.2 million is for assistance programs for the economically disadvantaged and homeless, \$85.1 million is for Pharmaceutical Assistance to the Aged and Disabled, \$45.1 is for other programs for the aged, and \$38.5 million is for addiction services.

\$942.7 million is recommended for the Department of the Treasury. Included in this amount is \$398.5 million for the Fiscal Year 2013 Homestead Benefit Program, which will provide credits directly on local property tax bills for eligible homeowners. Seniors earning up to \$150,000 and non-seniors earning up to \$75,000 will receive benefits at equal to the Fiscal Year 2012 level. Also included in the recommended appropriation is \$213.5 million for the Senior and Disabled Citizens' Property Tax Freeze, \$175.0 million for Business Employment Incentive Program grants, and \$63.8 million for energy assistance programs in the Board of Public Utilities.

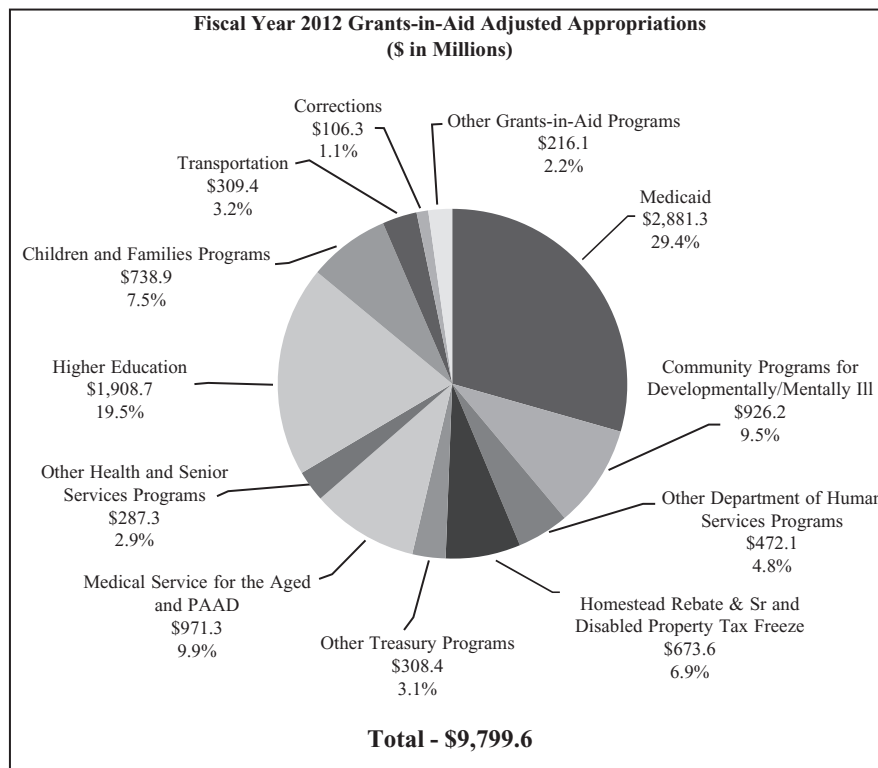
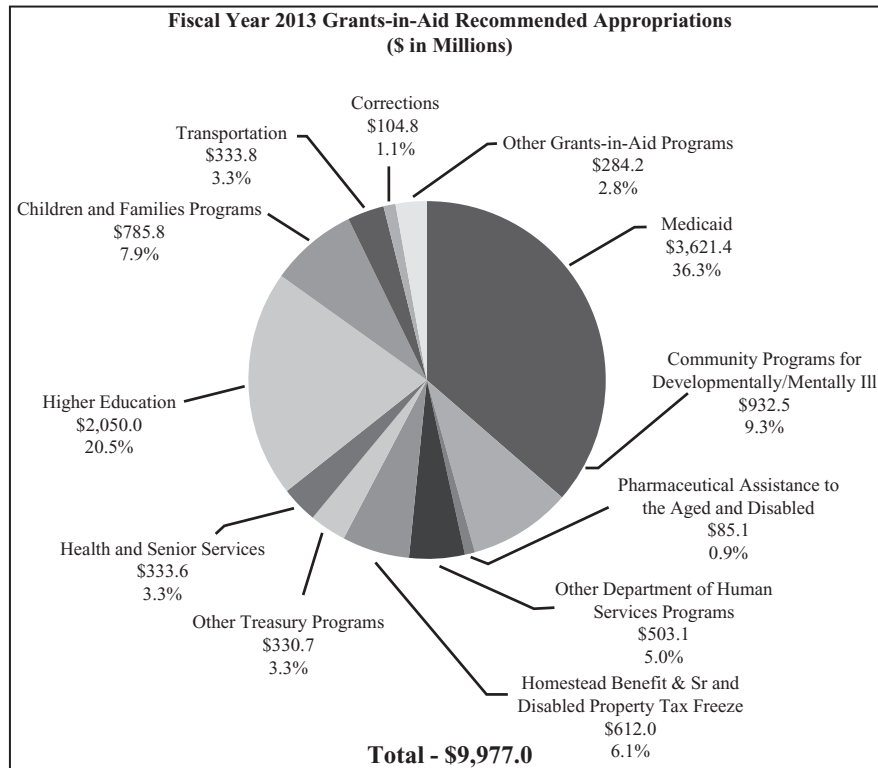
\$785.8 million is recommended for programs administered by the Department of Children and Families. Of that amount, \$428.6 million is for child protective and permanency services, \$296.2 million is for child integrated system of care services, and \$61.1 million is for community programs intended to prevent child abuse and neglect.

\$716.5 million is recommended for State colleges and universities. Other higher education recommended appropriations are \$446.7 million for various grant programs including \$393.2 million for student financial assistance, \$43.9 million for debt service on the Higher Education Capital Improvement Program, and \$6.7 million for debt service for the Dormitory Safety Trust Fund. In addition, \$886.8 million is recommended for fringe benefit costs of State college and university employees.

\$333.8 million is recommended for the Department of Transportation for bus and railroad subsidies.

\$333.6 million is recommended for programs administered by the Department of Health and Senior Services. Of that amount, \$132.3 million is for Health Care Systems Analysis, \$88.4 million is for the Early Childhood Intervention Program, \$54.1 million is for Public Health Protection Services, and \$28.2 million is for AIDS services.

\$104.8 million is recommended for the Department of Corrections (including the State Parole Board), consisting of \$64.6 million for the purchase of community services, \$36.1 million for alternative parole programs and \$4.1 million for payments to county penal facilities to house State inmates.



Direct State Services

The third largest portion of the recommended appropriations in Fiscal Year 2013 is 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 2013, recommended appropriations for Direct State Services aggregate to \$6,861.8 million. Some of the major recommended appropriations for Direct State Services during Fiscal Year 2013 are described below.

\$2,199.8 million is recommended in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including health benefits (\$1,284.9 million), pensions and non-contributory insurance (\$406.1 million), employer taxes (\$393.2 million), and a portion of the debt service on State Pension Funding bonds (\$115.7 million) issued by the New Jersey Economic Development Authority. In addition, \$40.0 million is recommended for Fiscal Year 2013 regularly scheduled employee increments for eligible employees. Contracts for most State employees expired on June 30, 2011, and the Governor's Fiscal Year 2013 Budget Message assumes no across-the-board increases for these employees in Fiscal Year 2013. For more information, see "STATE EMPLOYEES – Contract Status" herein.

\$951.6 million is recommended for the Department of Corrections (including the State Parole Board) and \$543.9 million is recommended for the Department of Law and Public Safety (including the Juvenile Justice Commission). Among programs funded by these recommended appropriations are the administration of the State's correctional facilities and parole activities, and the investigative and enforcement activities of the State Police.

\$640.6 million is recommended for programs administered by the Department of Human Services. Of that amount, \$505.4 million is recommended for mental health and developmentally disabled programs, including the operation of five psychiatric institutions (\$330.5 million), one of which is proposed to be closed by the end of Fiscal Year 2012, and seven developmental centers (\$119.3 million); \$41.6 million is recommended for administration of the various income maintenance programs, including Work First New Jersey; and \$37.9 million is recommended for administration of the Medicaid program.

\$269.6 million is recommended for programs administered by the Department of Children and Families for various children's services programs.

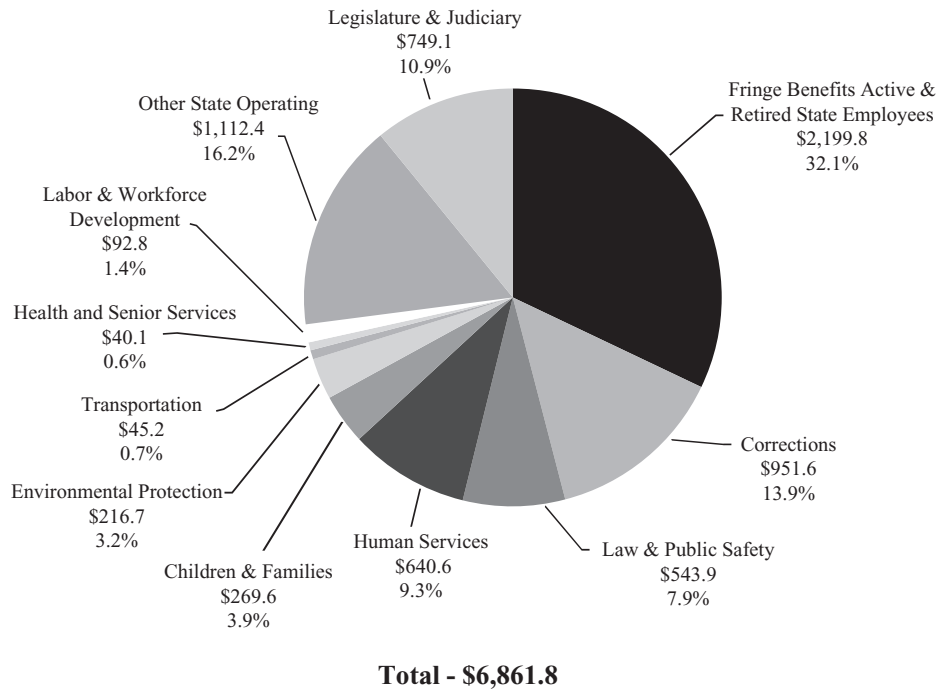
\$216.7 million is recommended for the Department of Environmental Protection for the protection of air, land, water, forest, wildlife and shellfish resources and for the provision of outdoor recreational facilities.

\$92.8 million is recommended 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.

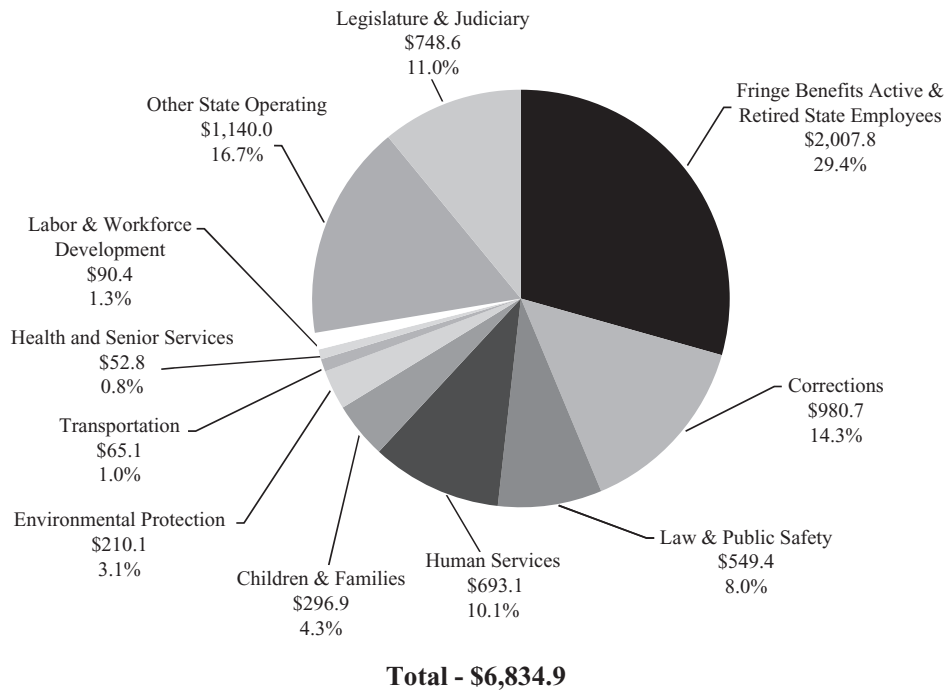
\$45.2 million is recommended for the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State highway system and winter operations.

\$40.1 million is recommended for the Department of Health and Senior Services for the prevention and treatment of diseases, regulation of health care facilities and the uncompensated care program.

**Fiscal Year 2013 Direct State Services Recommended Appropriations
(\$ in Millions)**



**Fiscal Year 2012 Direct State Services Adjusted Appropriations
(\$ in Millions)**



Capital Construction

Capital Construction is funded by a combination of appropriations and bond proceeds. The Governor's Fiscal Year 2013 Budget Message includes a recommended appropriation of \$1,425.9 million for this purpose. This amount includes \$1,124.4 million for transportation debt service, which is being credited to the Transportation Trust Fund Account of the General Fund. Of the remainder, \$114.0 million is for debt service on New Jersey Building Authority bonds, \$78.0 million is for 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, \$50.7 million is for hazardous substance remediation and brownfields, \$31.5 million is for shore protection and flood control projects, \$17.3 million is for capital improvements for parks, forestry and wildlife management areas, and \$10.0 million is for energy efficiency projects.

All recommended 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"). The Commission is charged with the preparation of the State's seven-year Capital Improvement Plan. The Capital Improvement Plan is a detailed account of 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 Capital Improvement Plan is also required to include a report on the State's overall debt. This debt report 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. L.2009, c.304, enacted in January 2010, requires that the debt report also include data on other State liabilities as reported in the CAFR, as well as the unfunded actuarial accrued liability for pension plans and the actuarial accrued liability for other post-employment medical benefits.

For Fiscal Year 2013, requests for Capital Construction funding were substantially greater than the amount recommended by the Commission. The recommended appropriations for Capital Construction contained in the Governor's Fiscal Year 2013 Budget Message 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, or that such capital funding requests will not be substantially greater in future years.

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, 2011, see "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE" herein. The recommended appropriation for debt service on the State's general obligation bonds is \$436.9 million for Fiscal Year 2013. This assumes the application of available, uncommitted amounts and residual project balances held in general obligation bond funds and available bond premium from the sale of general obligation bonds in December 2009 to pay a portion of the debt service costs on general obligation bonds. 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 2009 through 2011.

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		
	2011	2010	2009
General Fund:			
Legislative Branch	\$ 77.9	\$ 77.7	\$ 78.4
Chief Executive's Office	6.8	6.1	5.6
Department of:			
Agriculture	382.6	349.6	345.9
Banking and Insurance	60.3	62.7	66.4
Children and Families	1,529.8	1,482.5	1,509.3
Community Affairs	678.1	818.6	952.7
Corrections	1,180.5	1,270.1	1,174.6
Education	1,845.6	2,827.7	1,872.4
Environmental Protection	467.0	524.2	541.0
Health and Senior Services	3,322.3	3,302.6	3,345.9
Human Services	10,851.0	10,773.4	10,124.3
Labor and Workforce Development	818.2	775.6	911.3
Law and Public Safety	1,078.8	1,013.2	1,033.2
Military and Veterans' Affairs	134.8	143.4	131.9
Public Advocate	—	16.6	18.3
State	1,192.6	1,378.2	1,337.1
Transportation	1,588.7	1,643.9	1,758.6
Treasury	2,568.3	2,683.6	2,596.1
Miscellaneous Executive Commissions	1.3	1.5	1.5
Interdepartmental Accounts	3,271.8	2,997.6	2,970.3
Judicial Branch	799.4	765.8	762.6
Total General Fund	\$31,855.8	\$32,914.6	\$31,537.4
Property Tax Relief Fund:			
Department of:			
Community Affairs	\$ 428.8	\$ 572.1	\$ 663.2
Education	9,638.5	8,873.6	9,380.0
Environmental Protection	—	9.8	9.7
Human Services	165.5	—	—
Treasury	581.1	1,452.2	1,999.3
Total Property Tax Relief Fund	\$10,813.9	\$10,907.7	\$12,052.2
Gubernatorial Elections Fund	\$ —	\$ 9.5	\$ 5.6
Casino Control Fund:			
Department of:			
Law and Public Safety	\$ 39.5	\$ 37.6	\$ 40.6
Treasury	21.2	23.9	27.2
Total Casino Control Fund	\$ 60.7	\$ 61.5	\$ 67.8
Casino Revenue Fund:			
Department of:			
Health and Senior Services	\$ 150.5	\$ 212.0	\$ 274.2
Human Services	130.5	130.5	130.5
Labor and Workforce Development	2.2	2.2	2.4
Law and Public Safety	0.1	0.1	0.1
Transportation	29.1	30.2	33.0
Total Casino Revenue Fund	\$ 312.4	\$ 375.0	\$ 440.2
Total Expenditures	\$43,042.8	\$44,268.3	\$44,103.2

Balance Sheets

The comparative balance sheets for the General Fund as of June 30, 2010 and 2011 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, 2011 are set forth below:

GENERAL FUND COMPARATIVE BALANCE SHEETS (Audited)

	As of June 30,	
	2011	2010
ASSETS		
Cash and Cash Equivalents	\$ 30,287,641	\$ 64,028,433
Investments	1,657,854,518	1,035,837,385
Receivables, Net of Allowances for Uncollectibles		
Federal Government	671,217,496	757,902,693
Departmental Accounts	1,617,295,791	1,937,552,115
Loans	23,977,021	22,170,371
Other	188,798,503	188,796,332
Due from Other Funds	1,041,032,669	984,490,015
Other	4,993,856	18,285,712
Total Assets	\$5,235,457,495	\$5,009,063,056
LIABILITIES		
Accounts Payable and Accruals	\$1,445,643,136	\$1,680,584,610
Deferred Revenue	401,246,235	242,516,470
Due to Other Funds	500,130,315	224,767,267
Other	156,427,715	180,958,529
Total Liabilities	\$2,503,447,401	\$2,328,826,876
Fund Balances*		
Restricted	\$ 84,030,275	\$ —
Committed	1,783,854,952	—
Unassigned	864,124,867	—
Reserved for:		
Encumbrances	—	798,977,939
Other	—	47,327,263
Unreserved:		
Designated-Continuing Appropriations	—	1,039,665,375
Undesignated	—	794,265,603
Total Fund Balances	\$2,732,010,094	\$2,680,236,180
Total Liabilities and Fund Balances	\$5,235,457,495	\$5,009,063,056

* In Fiscal Year 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established new fund balance classifications and clarified existing governmental fund type definitions.

See the 2011 CAFR incorporated herein by reference, for the notes which are an integral part of these financials statements and for further information concerning the other funds of the State.

**BALANCE SHEETS
AS OF JUNE 30, 2011
(Audited)**

	Casino Control Fund (1)	Casino Revenue Fund (2)	Gubernatorial Elections Fund (3)	Property Tax Relief Fund (4)
ASSETS				
Cash and Cash Equivalents	\$ 51,001	\$ —	\$ —	\$ —
Receivables, Net of Allowances for Uncollectibles				
Department Accounts	9,063,622	33,550,094	—	462,636,073
Due from Other Funds	6,370,598	9,594,476	481,311	219,933,451
Total Assets	<u>\$15,485,221</u>	<u>\$43,144,570</u>	<u>\$481,311</u>	<u>\$682,569,524</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable and Accruals	\$ 4,039,150	\$13,629,640	—	\$ 40,290,513
Deferred Revenue	6,983,500	27,000	—	—
Due to Other Funds	—	—	—	94,860,255
Other	—	—	—	116,450,180
Total Liabilities	<u>\$11,022,650</u>	<u>\$13,656,640</u>	<u>\$ —</u>	<u>\$251,600,948</u>
Fund Balances(5)				
Committed	4,462,571	29,487,930	481,311	430,968,576
Total Fund Balances	<u>\$ 4,462,571</u>	<u>\$29,487,930</u>	<u>\$481,311</u>	<u>\$430,968,576</u>
Total Liabilities and Fund Balances	<u>\$15,485,221</u>	<u>\$43,144,570</u>	<u>\$481,311</u>	<u>\$682,569,524</u>

- (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 (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.
- (5) In Fiscal Year 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established new fund balance classifications and clarified existing governmental fund type definitions.

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, 2011. See also “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION” and “MORAL OBLIGATION FINANCING” herein.

Name	Year Authorized	Final Maturity	Amount Authorized	Amount Unissued	Amount Retired(1)	Amount Outstanding
Clean Waters Bonds	1976	2023	\$ 120,000,000	\$ 3,400,000	\$ 115,850,000	\$ 750,000
State Land Acquisition and Development Bonds	1978	2022	200,000,000	—	199,075,000	925,000
Natural Resources Bonds	1980	2023	145,000,000	9,600,000	130,800,000	4,600,000
Energy Conservation Bonds	1980	2023	50,000,000	1,600,000	48,340,000	60,000
Water Supply Bonds	1981	2023	350,000,000	73,150,000	268,275,000	8,575,000
Hazardous Discharge Bonds	1981	—	100,000,000	43,000,000	57,000,000	—
New Jersey Green Acres Bonds	1983	—	135,000,000	14,500,000	120,500,000	—
Pinelands Infrastructure Trust Bonds	1985	2023	30,000,000	6,750,000	22,715,000	535,000
Hazardous Discharge Bonds	1986	—	200,000,000	48,000,000	152,000,000	—
Green Acres, Cultural Centers and Historic Preservation Bonds	1987	2022	100,000,000	1,000,000	95,045,000	3,955,000
Jobs, Education & Competitiveness Bonds	1988	2015	350,000,000	—	349,220,000	780,000
New Jersey Open Space Preservation Bonds	1989	2023	300,000,000	22,600,000	275,475,000	1,925,000
Public Purpose Buildings and Community-Based Facilities Construction Bonds	1989	2015	125,000,000	5,000,000	119,110,000	890,000
Stormwater Management and Combined Sewer Overflow Abatement Bonds	1989	2023	50,000,000	13,000,000	32,465,000	4,535,000
New Jersey Green Acres, Clean Water, Farmland & Historic Preservation Bonds	1992	2023	345,000,000	12,880,000	320,785,000	11,335,000
Developmental Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds	1994	2023	160,000,000	—	153,995,000	6,005,000
Green Acres, Farmland and Historic Preservation, and Blue Acres Bonds ...	1995	2023	340,000,000	21,000,000	307,685,000	11,315,000
Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development Bonds ...	1996	2023	300,000,000	116,500,000	136,480,000	47,020,000
Statewide Transportation and Local Bridge Bonds	1999	2023	500,000,000	—	464,540,000	35,460,000
Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project Bonds	2003	2023	200,000,000	42,250,000	84,495,000	73,255,000
Green Acres, Farmland, Blue Acres, and Historic Preservation Bonds	2007	2023	200,000,000	59,000,000	81,320,000	59,680,000
Green Acres, Water Supply and Floodplain Protection, and Farmland and Historic Preservation Bonds	2009	—	400,000,000	400,000,000	—	—
Refunding Bonds(2)	1985	2023	6,134,329,598	—	3,839,034,598	2,295,295,000
Totals			<u>\$10,834,329,598</u>	<u>\$893,230,000</u>	<u>\$7,374,204,598</u>	<u>\$2,566,895,000</u>

- (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, 2011.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 182,230,000	\$133,826,000	\$ 316,056,000
2013	333,755,000	115,303,047	449,058,047
2014	232,710,000	96,404,852	329,114,852
2015	298,270,000	84,173,838	382,443,838
2016	350,950,000	68,731,781	419,681,781
2017	222,440,000	53,768,663	276,208,663
2018	204,730,000	42,857,041	247,587,041
2019	202,580,000	32,478,397	235,058,397
2020	232,930,000	21,318,963	254,248,963
2021	170,290,000	11,175,563	181,465,563
2022	95,900,000	5,004,494	100,904,494
2023	40,110,000	1,426,856	41,536,856
Totals	<u>\$2,566,895,000</u>	<u>\$666,469,494</u>	<u>\$3,233,364,494</u>

TAX AND REVENUE ANTICIPATION NOTES

The State issues tax and revenue anticipation notes (“TRANs”) 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 TRANs do not constitute a general obligation of the State or a debt or liability within the meaning of the State Constitution. Such TRANs 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, 2011 the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2012. Additionally, on July 1, 2011, the State Treasurer entered into a Note Purchase Contract with J.P. Morgan Securities LLC (“J.P. Morgan”) under which TRANs were issued to and purchased by J.P. Morgan, in the aggregate amount of \$1,700,000,000 (the “Series A&B Notes”). The Series A&B Notes were refunded and retired with part of the proceeds of the State’s publicly offered \$2,150,000,000 Tax and Revenue Anticipation Notes, Series Fiscal 2012C (the “Series Fiscal 2012C Notes”) on December 15, 2011. The Series Fiscal 2012C Notes mature on June 21, 2012. The State does not expect to issue additional TRANs in Fiscal Year 2012.

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 Agreements 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 2012 and Fiscal Year 2013. 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 bond obligations that are supported by State revenues subject to appropriation by the State Legislature. The first table summarizes by issuer and by program the principal amount outstanding on June 30, 2011 and the estimated Fiscal Year 2012 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2011 on all such obligations subject to annual appropriation as described herein. The data contained in the tables has not been adjusted 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 2011 CAFR. In addition, there are certain obligations which are included in such Note 10, which are not included in the following tables or elsewhere in this Appendix I.

SUMMARY OF OBLIGATIONS SUBJECT TO ANNUAL APPROPRIATION AS OF JUNE 30, 2011

Issuer	Type of Agreement	Principal Amount Outstanding(1)	Fiscal Year 2012 Debt Service(2)
Garden State Preservation Trust	Contract	\$ 1,067,534,410	\$ 97,994,778
New Jersey Building Authority	Lease	618,075,000	88,563,700
New Jersey Economic Development Authority			
Trenton Office Complex	Lease	9,695,000	10,203,988
Economic Recovery Fund	Contract	154,019,901	23,602,636
Liberty State Park — Park Projects	Lease	12,065,343	1,368,293
Liberty State Park — Science Center Projects	Lease	85,850,000	7,425,906
Market Transition Facility	Contract	43,335,000	44,418,375
New Jersey Performing Arts Center	Lease	26,920,000	7,426,400
State Pension Funding	Contract	2,483,560,608	270,471,677
Department of Human Services Programs	Service Contract	19,925,000	2,993,599
New Jersey Transit Light Rail System	Lease	328,925,000	53,430,980
State Office Buildings Projects	Lease	37,285,000	5,265,013
School Facilities Construction	Contract	8,344,824,000	381,761,762
Municipal Rehabilitation	Contract	155,120,000	14,111,423
Motor Vehicle Commission(3)	Contract	159,998,107	—
Business Employment Incentive Program	Contract	120,970,000	33,358,477
Designated Industries Economic Growth and Development	Contract	11,460,000	5,505,602
Motor Vehicle Surcharges Revenue	Contract	807,502,356	64,906,169
Motor Vehicle Surcharges Revenue- Special Needs Housing	Contract	206,508,197	5,546,175
Cigarette Tax Revenue	Contract	1,055,760,000	111,018,519
Lafayette Yard Hotel Project	Lease	15,420,000	1,828,510
New Jersey Educational Facilities Authority			
Capital Improvement Fund	Contract	409,105,000	43,885,594
Dormitory Safety Trust Fund	Contract	28,880,000	6,991,794
Equipment Leasing Fund	Contract	450,000	457,200
Public Library Project Grant Program	Contract	33,605,000	3,758,200
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project	Contract	185,585,000	15,622,751
Hospital Asset Transformation Program	Contract	439,180,000	28,450,700
New Jersey Sports and Exposition Authority(4)	Contract	548,950,000	71,994,070
New Jersey Transportation Trust Fund Authority	Contract	12,380,145,716	854,689,325
State of New Jersey Certificates of Participation			
James J. Howard Marine Science Laboratory	Lease	2,995,000	1,143,375
New Jersey Transit, Transportation Equipment	Lease	865,055,000	105,228,469
State-Supported County College Bonds	Statutory	203,243,922	31,930,308
State Equipment Line of Credit	Lease	82,417,914	20,336,627
TOTALS		\$30,944,365,474	\$2,415,690,391

(1) Amounts for outstanding capital appreciation bonds do not include accretion from date of issuance.

(2) For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2011. (See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Obligations” herein).

(3) These bonds consist of capital appreciation bonds with no maturities or payments due in Fiscal Year 2012.

(4) Amounts do not include contingent State contract bond obligations in connection with certain Standby Deficiency Agreements. See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — New Jersey Sports and Exposition Authority” herein for a description of such contingent obligations.

**ESTIMATED FUTURE DEBT SERVICE SUBJECT TO APPROPRIATION
AS OF JUNE 30, 2011**

Fiscal Year	Principal(1)	Estimated Interest(1)(2)	Total
2012	\$ 889,057,216	\$ 1,526,633,174	\$ 2,415,690,391
2013(3)	1,699,964,674	1,519,225,911	3,219,190,585
2014	1,220,783,858	1,478,202,989	2,698,986,847
2015	1,253,167,180	1,440,874,919	2,694,042,099
2016(4)	1,561,675,437	1,371,916,866	2,933,592,303
2017	1,462,430,054	1,348,732,432	2,811,162,487
2018(5)	1,865,808,184	1,309,367,610	3,175,175,794
2019	1,578,857,856	1,283,830,724	2,862,688,581
2020	1,425,448,181	1,248,415,234	2,673,863,415
2021	1,439,735,033	1,166,184,951	2,605,919,984
2022	1,399,741,564	1,129,419,418	2,529,160,982
2023	1,431,753,695	1,066,344,138	2,498,097,833
2024	1,362,245,597	1,010,101,586	2,372,347,183
2025	1,238,550,701	1,087,584,085	2,326,134,786
2026	1,408,040,764	872,395,978	2,280,436,742
2027	1,510,294,055	750,741,980	2,261,036,035
2028	1,449,246,994	673,995,141	2,123,242,135
2029	1,365,830,214	636,762,636	2,002,592,850
2030	652,989,162	511,653,115	1,164,642,278
2031	482,269,239	496,995,119	979,264,358
2032	486,934,382	487,527,515	974,461,897
2033	540,299,086	452,499,311	992,798,396
2034	575,646,831	432,439,782	1,008,086,613
2035	524,609,809	410,832,856	935,442,665
2036	366,159,570	510,445,133	876,604,703
2037	331,869,324	476,888,801	808,758,125
2038	272,451,526	491,868,549	764,320,075
2039	204,743,420	569,818,342	774,561,763
2040	380,985,782	456,235,330	837,221,113
2041	562,776,082	151,745,343	714,521,425
	<u>\$30,944,365,474</u>	<u>\$26,369,678,968</u>	<u>\$57,314,044,442</u>

- (1) For capital appreciation bonds, the original issue amount is reflected as principal and the accretion in value from the date of issuance is reflected as interest in the year of bond maturity.
- (2) For variable rate bonds, interest amounts were calculated using the rates in effect on June 30, 2011. (See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds" herein).
- (3) The principal amount includes \$750,000,000 School Facilities Construction Notes, 2010 Series B that mature June 15, 2013. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (4) The principal amount includes \$242,495,000 School Facilities Construction Notes, 2011 Series E that mature February 1, 2016. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (5) The principal amount includes \$65,620,000 School Facilities Construction Notes, 2011 Series C; \$150,000,000 School Facilities Construction Notes, 2011 Series D; \$25,000,000 School Facilities Construction Notes, 2011 Series E and \$45,000,000 School Facilities Construction Notes, 2011 Series F that will mature February 1, 2018. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.

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 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. The GSPT has exhausted its \$1.15 billion statutory bonding authorization. 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, 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 at that time. 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 in July 2008 to increase the amount of bonds, notes or other obligations authorized to be issued by the NJEDA in additional aggregate principal amounts not to exceed: \$2,900,000,000 for the State share of costs for school facilities projects in the “SDA Districts” (formerly “Abbott Districts”), \$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 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 subject to appropriation by the State Legislature.

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 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 2010 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.

The Standby Deficiency Bonds are supported by a letter of credit from The Bank of New York Mellon, which expires in December 2012. 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 2010 in the maximum amount of \$69,854,023.66.

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. 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. The issuance of refunding bonds to refund prior obligations of the TTFA is not subject to the debt issuance restrictions described below, but is subject to the approval of the Joint Budget Oversight Committee of the State Legislature (“JBOC”).

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 could 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 could not exceed \$1,600,000,000 in any fiscal year, as such amount was required to 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 exceeded \$895,000,000; provided, however, that if a portion of that permitted amount of debt, less any reduction as provided above, was 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 restrictions of the TTFA Act and the approval of JBOC.

Pursuant to the TTFA Act, during any Fiscal Year in which the TTFA has outstanding bonds, the State Treasurer shall, to the extent appropriated by the State Legislature, credit to the Transportation Trust Fund Account various revenues. The Act further provides that, subject to appropriations being made from time to time by the State Legislature for the purposes of the Act, the State Treasurer shall pay to the TTFA such monies. These payment arrangements are set forth in a contract (the “State Contract”) entered into among the TTFA, the State Treasurer and the Commissioner of Transportation.

\$1,035 million was appropriated to the TTFA for Fiscal Year 2012. That amount includes \$535.0 million from the Motor Fuels Tax, \$222.5 million from the Petroleum Gross Receipts Tax, \$265.8 million from the Sales Tax, and a contribution of \$12 million from the State’s toll road authorities pursuant to agreements between such authorities and the TTFA. Although the State Legislature has always provided appropriations to the TTFA in each Fiscal Year which exceeded the annual debt service on all of the TTFA’s outstanding indebtedness in such Fiscal Year, in several Fiscal Years those appropriations have been less than the minimum amounts specified in the State Contract for such Fiscal Year.

As of February 29, 2012, the amount of unused statutory bond cap totaled \$326 million. Any issuance of TTFA bonds under the unused statutory bond cap requires the prior approval of JBOC. Once the existing statutory bond cap has been used, the TTFA will have no ability to issue additional bonds (other than refunding bonds) unless and until there is legislative authority or a new bond cap.

TTFA’s Fiscal Year 2013 Financial Plan (the “2013 TTFA Financial Plan”) contemplates the issuance of TTFA new money bonds in Fiscal Year 2013 to fund a portion of the State’s share of the cost of improvements to the State’s transportation system. The TTFA expects to issue \$1,075 million of new money bonds during Fiscal Year 2013. The 2013 TTFA Financial Plan assumes that legislation will be enacted to increase the statutory bond cap to a level which will permit the issuance of such bonds.

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 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.

Variable Rate Obligations

As of February 29, 2012, the independent State authorities shown below had in aggregate \$465,575,000 of variable rate demand bonds outstanding, with interest rates that reset daily or weekly. Such variable rate demand bonds are secured by respective agreements with the State Treasurer, and are further supported by bank-issued letters of credit.

Additionally, as of February 29, 2012, the NJEDA had outstanding \$1,278,115,000 of floating rate notes, which bear interest at a rate that resets quarterly, monthly, or weekly based on either the London InterBank Offering Rate ("LIBOR") plus a fixed spread or the Securities Industry and Financial Markets Association ("SIFMA") rate plus a fixed spread. There are no letters of credit in support of these notes.

The following table provides a summary of the State-supported variable rate bonds outstanding as of February 29, 2012.

SUMMARY OF VARIABLE RATE OBLIGATIONS AS OF FEBRUARY 29, 2012

Issuer	Series	Type-Reset Period	Amount Outstanding	Index Rate (if applicable)	Interest Rate	Letter of Credit Bank
NJBA	2003 Series A-1	VRDB-Weekly	\$ 50,375,000	N/A	0.11%	Barclays
	2003 Series A-2	VRDB-Weekly	50,450,000	N/A	0.11%	Barclays
	2003 Series A-3	VRDB-Weekly	33,625,000	N/A	0.11%	Barclays
	2003 Series A-4	VRDB-Weekly	33,625,000	N/A	0.11%	Barclays
NJEDA (School Facilities Construction Bonds)	2010 Series B	FRN-Quarterly	750,000,000	3-Month LIBOR + 1.00%	1.559%	None
	2011 Series C	FRN-Weekly	65,620,000	SIFMA + 1.80%	1.960%	None
	2011 Series D	FRN-Monthly	150,000,000	70% 1-Month LIBOR + 1.80%	1.987%	None
	2011 Series E	FRN-Weekly	242,495,000	SIFMA + 1.70%	1.860%	None
	2011 Series E	FRN-Weekly	25,000,000	SIFMA + 1.90%	2.060%	None
	2011 Series F	FRN-Monthly	45,000,000	70% 1-Month LIBOR + 1.90%	2.087%	None
TTFA	2009 Series C	VRDB-Weekly	150,000,000	N/A	0.11%	Wells Fargo
	2009 Series D	VRDB-Weekly	147,500,000	N/A	0.12%	Wells Fargo
Total			\$1,743,690,000			

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.

Various independent State authorities have outstanding swap agreements with eleven different counterparties. 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 February 29, 2012.

State of New Jersey Interest Rate Swap Agreement Summary As of February 29, 2012

Bond Issuer	Counterparty	Outstanding Notional Amount	Effective Date	Termination Date	Fixed Rate	Floating Index
NJBA						
	Citibank, N.A., New York	\$ 70,595,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Citibank, N.A., New York	30,250,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	23,525,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	10,090,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	23,525,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	10,090,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
		\$ 168,075,000				
NJEDA (School Facilities Construction Bonds)						
	Variable-to-Fixed Swaps					
	Bank of America, N.A.	\$ 96,828,546	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Bank of America, N.A.	324,060,672	5/1/2010	3/1/2035	4.25100%	62% 1-Month LIBOR+40 bps
	Bank of Montreal*	244,200,000	11/1/2009	11/1/2012	3.15250%	No Floating Payment
			11/1/2012	9/1/2034	4.54850%	62% 1-Month LIBOR+40 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	78,167,500	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	91,660,000	9/1/2006	9/1/2031	4.40740%	71.98% 1-Month LIBOR
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	112,069,166	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	IXIS Financial Products, Inc.	214,948,333	11/1/2008	9/1/2033	4.48900%	62% 1-Month LIBOR+40 bps
	Royal Bank of Canada	144,273,333	5/1/2009	3/1/2034	4.51240%	62% 1-Month LIBOR+40 bps
	UBS AG, Stamford Branch	64,322,500	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	UBS AG, Stamford Branch	74,572,500	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	UBS AG, Stamford Branch	116,097,500	9/1/2007	9/1/2032	4.39900%	71.57% 1-Month LIBOR
	Wells Fargo Bank, N.A.	140,596,116	9/1/2004	9/1/2029	4.06250%	71.13% 1-Month LIBOR
	Wells Fargo Bank, N.A.	80,045,366	3/1/2005	3/1/2030	4.17625%	74.24% 1-Month LIBOR
	Wells Fargo Bank, N.A.	163,445,431	3/1/2006	3/1/2031	4.29590%	70.8% 1-Month LIBOR
	Fixed-to-Variable Swap					
	UBS AG, Stamford Branch	380,515,000	5/1/2008	9/1/2015	3.03590%	75% 1-Month LIBOR
		\$2,325,801,963				
	Totals	\$2,493,876,963				

* This swap pays at a fixed rate with no floating rate receipt through November 1, 2012. Beginning November 1, 2012, the swap has both fixed and floating payments as indicated.

As of February 29, 2012, 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 February 29, 2012, the aggregate negative mark-to-market on the swaps listed in the above table was \$619.373 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, 2011.

	Principal Amount Outstanding	Fiscal Year 2012 Debt Service
New Jersey Housing and Mortgage Finance Agency	\$ 28,245,000	\$ 5,129,681
South Jersey Port Corporation	290,570,000	25,902,380
Higher Education Student Assistance Authority	2,083,320,000	147,985,216
	<u>\$2,402,135,000</u>	<u>\$179,017,277</u>

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.

<u>Fiscal Year</u>	<u>Amounts paid for debt service</u>
2007	\$ 6,878,287
2008	6,881,543
2009	7,459,997
2010	11,534,236
2011	7,013,289

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.

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 67,000 full-time Executive Branch employees are paid through the State payroll system. Of the 67,000 employees, 62,500 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are ten civilian units which presently represent more than 50,000 employees in the Executive Branch. The Health Care and Rehabilitation Services Unit is represented by the American Federation of State, County and Municipal Employees (“AFSCME”) and includes about 9,600 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 7,500 employees, 9,800 employees, 15,400 employees and 3,000 employees, respectively. The Crafts Unit, the Inspection and Security Unit, and the Operations, Maintenance and Services Unit are represented by the International Federation of Professional and Technical Engineers (“IFPTE”) and the New Jersey State Motor Vehicle Employees Union, Service Employees International Union (“SEIU”), and combined include about 5,000 employees. The Deputy Attorneys General (“DAsG”) unit and the State Government Managers (“Managers”) Unit are both represented by the International Brotherhood of Electrical Workers (“IBEW”) and include approximately 400 employees and 1,100 employees, respectively. There are approximately 11,000 employees represented by thirteen law enforcement 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 the Governor’s Budget Message to the State Legislature in late January or early February of each year, so that the Governor’s Budget Message can reflect the results of negotiations. In the event that negotiations are not completed by the Governor’s Budget Message 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

Contracts for most State employees expired on June 30, 2011 and the Fiscal Year 2012 Appropriations Act assumes no across the board increases for these employees in Fiscal Year 2012.

The State is currently in negotiations with the Executive Branch civilian units AFSCME and, CWA for successor contracts to those that expired on June 30, 2011. These groups represent approximately 45,000 State employees.

The State is currently in negotiation with its Law Enforcement units which include: the New Jersey Policemen Benevolent Associations State Law Enforcement Unit ("SLEU"), the New Jersey Policemen Benevolent Associations Local 105 (PBA 105), New Jersey Law Enforcement Supervisors Association ("NJLESA"), the New Jersey Superior Officers Law Enforcement Association ("NJLESOA"), the New Jersey Law Enforcement Commanding Officers Unit ("NJLECOA — Capts"), and the New Jersey Internal Investigation Unit ("NJIA"), for successor contracts to those that expired on June 30, 2011. These groups represent approximately 7,300 employees.

The three State Police units, State Troopers Fraternal Association ("STFA — Troopers"), State Troopers Non-Commissioned Officers Association ("STNCOA — Sergeants") and State Troopers Superior Officer Association ("STSOA — Lieutenants"), collectively representing approximately 2,700 members entered into interest arbitration for successor contracts to the contracts that expired on June 30, 2008. The interest arbitration hearing is completed and the award, which is applicable to the three units, was issued on September 21, 2011. The award provided, among other things, for a four (4) year contract commencing July 1, 2008 through June 30, 2012. These three State Police units received the following increases: 2.75% in Fiscal Year 2009; 2.5% in Fiscal Year 2010; 2.25% in Fiscal Year 2011 and 0% in Fiscal Year 2012. The increases are effective on July 1 of each fiscal year. There will be no retroactive payments for the first eighteen (18) months of the contract period.

The negotiations process for developing a four-year contract for the new Chiefs subunit of NJLECOA is in the interest arbitration process. This subunit includes approximately six employees.

The State has commenced negotiations for a new contract with one of the new civilians groups, DAsG represented by IBEW Local 33, which includes approximately 400 employees and one of the new State Investigators unit represented by FOP Lodge 91, Rank and File unit, which includes approximately 125 employees.

The State will be commencing negotiations with the new State Government Managers Unit represented by IBEW, which includes approximately 1,100 employees, and the remaining two new State Investigators' units represented by the N.J. Division of Criminal Justice Non-Commissioned Officers Association and the N.J. Division of Criminal Justice Superior Officers Association, which include approximately twenty-seven employees and twenty employees, respectively.

The State has entered into a four-year contract for Fiscal Years 2012-2015 with the IFPTE Local 195 and SEIU Local 518. These unions represent approximately 5,000 Executive Branch employees. The contract provides for a total salary increase of 2.75%, comprising increases of 0% in Fiscal Year 2012, 0% in Fiscal Year 13, 1% in Fiscal Year 14 and 1.75% in Fiscal Year 2015. Employees on the payroll as of July 1, 2011 and who are not eligible for an increment in Fiscal Year 2012 and Fiscal Year 2013 will receive a one-time cash bonus of \$450 on or about July 1, 2013, which will not be included in such employees' base salary. Also, any member making over \$55,000 is no longer eligible to receive a clothing allowance (subject to certain exceptions) or shift differential based on criteria set forth in the successor agreement. The annual clothing allowance payment was decreased from \$700 to \$550.

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, 2011, the date of the latest actuarial valuations for all systems covered 291,826 and 151,115 active members, respectively, and 149,218 and 86,332 retired members, respectively. The other systems are Police and Firemen’s Retirement System (“PFRS”) (as of June 30, 2011, 41,999 active members and 38,091 retired members), Consolidated Police and Firemen’s Pension Fund (“CP&FPF”) (as of June 30, 2011, no active members and 310 retired members), State Police Retirement System (“SPRS”) (as of June 30, 2011, 2,844 active members and 2,818 retired members), Judicial Retirement System (“JRS”) (as of June 30, 2010, 406 active members and 522 retired members) and Prison Officers’ Pension Fund (“POPF”) (as of June 30, 2010, no active members and 142 retired members). From June 30, 2006 to June 30, 2011, the total number of active members of all of the State-administered plans decreased by 31,699 or 6.1% and the total number of retired members increased by 47,206 or 20.5%.

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, 2011, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 87,064 active members and 47,925 retired members and, with respect to PFRS, 7,237 active members and 5,036 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 L. 2001, c. 133 (“Chapter 133”) continue to be charged against the Benefit Enhancement Fund that was established for the local governmental employer component of PERS. The PERS actuarial valuation as of June 30, 2011 valued the Benefit Enhancement Fund in the local governmental portion of PERS at approximately \$284.1 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 Benefit Enhancement Fund 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 Benefit Enhancement Fund. 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 Fiscal Year 2013, the Governor’s Fiscal Year 2013 Budget Message includes a recommended contribution to the PFRS of \$116.3 million, of which \$48.9 million represents funding for enhanced benefits for local PFRS participants. For Fiscal Year 2012, the State is expected to make a contribution of \$53.6 million of which \$23.8 million will be applied toward funding for enhanced benefits for local PFRS participants. For Fiscal Year 2011 and Fiscal Year 2010, the State did not make a pension contribution to the Pension Plans so no amount was contributed by the State on behalf of local PFRS participants. See “FUNDING PENSION PLANS — *Current and Historical Contributions and Funding Status*”, herein.

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, serves as consulting actuary for the PERS, PFRS, SPRS, JRS, CP&FPF and POPF, while Milliman, Inc. serves as consulting actuary for the TPAF. The consulting actuaries prepare the actuarial valuations and experience investigations (which are

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

The July 1, 2011 actuarial valuation reports, which cover the period July 1, 2010 through and including June 30, 2011, reflect the adoption of pension reform legislation passed in 2011, L. 2011, c.78 (the "2011 Pension and Health Benefit Reform Legislation"). The 2011 Pension and Health Benefit Reform Legislation contains a number of provisions that impact the benefits received from and contribution made to the Pension Plans including the suspension of the pension adjustment program which provides for the payment of automatic cost-of-living adjustments for all current and future retirees and the change in the amortization method from a level percent of pay to a level dollar method for all the Pension Plans except the CP&FPF and the POPF. Other provisions include increased employee contribution requirements and benefit design changes impacting Pension Plan members hired on or after June 28, 2011.

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. The amount that the State actually contributes to the Pension Plan is subject to annual appropriation by the State Legislature. In adopting the annual Appropriations Act, the State Legislature is not required to follow the recommendations of the actuaries or the Governor in determining the appropriation for the State's contribution to the Pension Plans. However, in accordance with the 2011 Pension and Health Benefit Reform Legislation, members of the Pension Plans now have a contractual right to the annual required contribution being made by the State and local participating employers and failure by the State and local participating employers to make the annual required contributions is deemed an impairment of the contractual right of each member. The annual required contribution includes both the annual normal cost contribution and the annual unfunded accrued liability contribution and is thus equivalent to the actuarially recommended contribution discussed herein. See "FUNDING PENSION PLANS — *Pension and Health Benefit Reform*" herein.

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 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, 2010 are applicable to the Fiscal Year ended June 30, 2012. For PFRS, the lag period between the valuation year and the applicable Fiscal Year changed from a three-year lag period to a two-year lag period effective with the actuarial valuation as of June 30, 2010. Under the prior three-year lag period, the actuarially recommended rate of contribution for PFRS for the Fiscal Year ending June 30, 2012 would have been determined on the basis of the June 30, 2009 actuarial valuation. The June 30, 2010 actuarial valuation for PFRS was revised to reflect this change in the lag period which raised the contribution requirement of the State for the Fiscal Year ending June 30, 2012 from \$53.4 million to \$53.6 million. See "FUNDING PENSION PLANS — *Current and Historical Contributions and Funding Status*", herein.

To calculate the actuarial value of assets and actuarial accrued liability of each of the Pension Plans, the actuarial valuations use several actuarial assumptions. The expected rate of return on assets used by the actuaries is established by the State Treasurer and the other assumptions, including assumed inflation rates and future pay increases, are approved by the applicable Pension Plan boards. The current assumption regarding the assumed rate of return is 8.25% and was last modified in 2005. The actual investment returns (excluding returns on PFRS mortgages to PFRS members) for Fiscal Years 2009, 2010 and 2011 were negative 15.48%, positive 13.36% and positive 18.03%. Annualized returns for the three-, five- and ten-year periods ending June 30, 2011 were positive 4.18%, positive 5.23% and positive 5.20%, respectively. Based on this recent economic experience of the Pension Plans themselves, consultations with the actuaries for the Pension Plans and the experience of several other states, it appears that such assumed rate of return is on the high end. While revisions in such rate of return along with the other actuarial assumptions, including the rate of inflation and the size of projected salary increases, and the effects of the experience investigations referred to below will be considered by the State Treasurer, the boards of the Pension Plans and the actuaries in the course of the preparation of the next actuarial report for each of the Pension Plans, the State cannot assess the probability of whether any of the current assumptions will be modified or the nature and magnitude of such modifications. Absent offsetting changes in any other assumptions, any reduction in the assumed rate of return would be expected to negatively impact the UAAL and result in short- and long-term increases in the State's actuarially recommended contributions to the Pension Plans, and such increases could be material. In addition, regardless of whether or not any of the assumptions are changed, the actual experience of the Pension Plans, including the actual rates of return, will determine whether the UAAL of the Pension Plans increases or decreases. If such actual experience results in a material increase in the UAAL of the Pension Plans, the future actuarially recommended rates of contribution and the amount of the State's recommended contributions to the Pension Plans would likely materially increase as well which would increase the State's financial burden in the long-term. 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 expectancies 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, contribute to substantial increases or decreases in the applicable UAAL. For example, for Fiscal Year 2010 and 2011, the investment rate of return was 13.36% and 18.03% (excluding returns on PFRS mortgages to PFRS members), respectively, which had a positive impact on the overall UAAL of the Pension Plans. For Fiscal Year 2012, the estimated fiscal year-to-date performance of the Pension Plans as of February 29, 2012 is 2.59% (excluding returns on PFRS mortgages to PFRS members), which is well below the assumed rate of return of 8.25%. If the rate of return on pension fund assets for Fiscal Year 2012 falls below the rate assumed by the Pension Plans' actuaries in the actuarial valuations, this will cause the UAAL of the Pension Plans to increase.

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, 2011, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$69.6 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, 2011, the aggregate actuarial value of all assets of the Pension Plans was \$86.9 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$17.3 billion.

Effective with the revised July 1, 2010 actuarial valuations, in accordance with the 2011 Pension and Health Benefit Reform Legislation, the Pension Plans, except the CP&FPF and the POPF, changed the amortization method that calculates the amount of the UAAL that is included in the actuarially recommended rates of contribution from a level percent of pay method to a level dollar method. Under the new amortization method, the UAAL will initially be amortized over an open-ended 30 year period. Beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period. This change in the amortization method will ensure that a portion of the UAAL is retired each year once the State resumes making the full actuarially recommended contribution. Previously, under the percent of pay amortization method, none of the UAAL of the Pension Plans was being retired which contributed to the deteriorating financial condition of the Pension Plans over the last several years.

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.

In accordance with the 2011 Pension and Health Benefit Reform Legislation, new pension committees are to be established as follows: two new pension committees in PERS and PFRS, one for the State part of the Pension Plan and one for the local part of the Pension Plan, and one new pension committee in TPAF and SPRS. In JRS, the State House Commission will have the same authority as the committees under the other active Pension Plans. These six new committees, and the State House Commission, will have the discretionary authority when targeted funded ratios are achieved to modify the member contribution rate, make changes to the benefit provisions and reactivate the cost of living adjustment on pensions. Prior to the enactment of the 2011 Pension and Health Benefit Reform Legislation, State law provided that any changes in the retirement benefits of the Pension Plans had to be approved by the State Legislature, and that each bill submitted to the State Legislature had to be accompanied by a fiscal note stating the cost of the proposal. (See "FUNDING PENSION PLANS — *Pension and Health Benefit Reform*" herein for a discussion of these new committees.)

Any changes in the funding methods of the Pension Plans must be approved by the State Legislature. 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. 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. However, as described in more detail below, the 2011 Pension and Health Benefit Reform Legislation contains a provision stating that members of the Pension Plans now have a contractual right to the annual required contribution being made by the State and local participating employer.

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 enrolled before May 22, 2010 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. For members of PERS and TPAF enrolling on or after May 22, 2010, the annual retirement benefits will be based on 1/60 of final average compensation for each year of service credit. For members enrolled before May 22, 2010, 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. For members enrolling on or after May 22, 2010, the final average compensation equals the average compensation calculated using a five-year period instead of a three-year period. Also available to such participants are an early retirement benefit after 25 years of service or if enrolled on or after June 28, 2011, 30 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.

In accordance with the 2011 Pension and Health Benefit Reform Legislation, the pension adjustment program, which provides for an adjustment in retirement benefits after a participant in one of the Pension Plans has been retired for two years, has been suspended for all current and future retiree effective July 1, 2011. The pension adjustment program may be reactivated at a future date as specified in the statute (see "FUNDING PENSION PLANS — *Pension and Health Benefit Reform*" herein). The pension adjustment program is non-contributory and covers all eligible retirees and survivors of the Pension Plans. Prior to the suspension of pension adjustment benefits, eligible retirees received a cost-of-living adjustment based on 60.0% of the change in the Consumer Price Index from the year of retirement to the year immediately preceding the year of adjustment with no cap on the amount of such increase. In all Pension Plans, except CP&FPF and POPF, the Pension Plans directly funded the cost-of-living increases and these cost-of-living increases were included in the actuarial accrued liability of the Pension Plans. The State funded cost-of-living increases in the CP&FPF and POPF on a "pay-as-you-go" basis.

From Fiscal Year 2006 to Fiscal Year 2011 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 \$479 million from \$77.4 billion to \$77.9 billion, while total expenditures incurred by the Pension Plans over the same period increased by \$2.6 billion from \$5.5 billion to \$8.1 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 7.11% for Fiscal Year 2006 to 10.46% for Fiscal Year 2011. 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.

The June 30, 2011 actuarial reports, which set forth the actuarial valuations as of June 30, 2011, include certain information described in the actuarial valuations as "risk measures" in either tabular or textual format for each of the individual Pension Plans. This information was designated to provide an indicator, described in several of the individual actuarial valuations as a "simplistic measure" of the number of years that the assets of the Pension Plans can cover benefit payments. The benefit payments used in the data are those actually paid out to retirees in Fiscal Year 2011 and exclude increases in the number of retirees, future increases in those payments, State and member contributions and investment income. Differences in the Pension Plans make the aggregation of such individual data in a single combined presentation inappropriate. For PERS-State, as of June 30, 2011, the ratio of market assets to the prior year's benefit payment is 8.1. This ratio improved and increased by 1.3% from the previous year's ratio of 8.0. For TPAF, as of June 30, 2011, the ratio of market assets to the prior year's benefit payment is 8.4. This ratio worsened and decreased by 3.4% from the previous year's ratio of 8.7.

Prior 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 was estimated to be \$184.7 million. As a result of the enactment of the 2011 Pension and Health Benefit Reform Legislation, the pension committees that will be established pursuant to the new statute will also have the authority to increase retirement benefits in the future once targeted funded levels are reached. See “FUNDING PENSION PLANS — *Pension and Health Benefit Reform*” herein. In addition, 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 2011 Pension and Health Benefit Reform Legislation suspends the automatic cost-of-living adjustments payable to retirees and beneficiaries of the Pension Plans, raises the years of service needed for early retirement benefits from 25 to 30 years and raises the early retirement age from 55 to 65 for new members of PERS and TPAF enrolled on or after June 28, 2011, and changes the special retirement benefit under PFRS from 65% with 25 years of service to 65% with 30 years and 60% with 25 years for new members enrolled on or after June 28, 2011. In the future, the pension committees that will be established pursuant to the 2011 Pension and Health Benefit Reform Legislation will have the authority to adopt certain changes that would increase retirement benefits payable by the Pension Plans when targeted funded ratios are achieved in the Pension Plans. See “FUNDING PENSION PLANS — *Pension and Health Benefit Reform*” herein.

The State Legislature also adopted laws in Fiscal Year 2010 affecting PERS and TPAF members enrolling on or after May 22, 2010 which limits membership in the Pension Plan to only full-time employees and changes the retirement benefit formula back to 1/60 of final average compensation for each year of service credit. The State Legislature also adopted laws in Fiscal Year 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 Fiscal Year 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.

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. For the Fiscal Years 2004, 2005, 2006, 2007 and 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.

However, for PERS and TPAF, State's Appropriation Acts for Fiscal Years 2004, 2005 and 2006 authorized the use of the Benefit Enhancement Fund (the "State BEF") to offset the State's contribution to PERS and TPAF for those years. The State BEF is a special reserve fund within PERS and TPAF, and which assets are included in the actuarial value of assets, to which the required normal contributions to provide retirement benefit increases under P.L. 2001, Chapter 353 and P.L. 2001, Chapter 133 were charged. The fund was established in Fiscal Year 2002 and credited with excess assets equivalent to member contributions for Fiscal Years 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 2004 through 2006, from an actuarial perspective, the State did not contribute any funds to PERS or TPAF in Fiscal Years 2004 and 2005 and the State contributed minimal amounts in Fiscal Year 2006. Amounts in the State BEF available to be used to make the State contributions became fully depleted in Fiscal Year 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 Fiscal Year 2007 and approximately 50% of the actuarially recommended contributions for Fiscal Year 2008 .

For Fiscal Year 2009, although \$1.047 billion was included in the Fiscal Year 2009 Appropriations Act as the State's pension contribution to the Pension Plans, the actual contribution made by the State was \$106.3 million representing only 4.8% of the total actuarially recommended contribution to the Pension Plans of \$2.231 billion. This contribution, which was due on June 30, 2009, was paid by the State on September 14, 2009. For Fiscal Year 2010, although \$100 million was included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans, the State did not make a contribution due to ongoing budgetary constraints. The \$100 million contribution originally expected to be made for Fiscal Year 2010 represented only 4% of the total actuarially recommended contribution for the State to the Pension Plans of \$2.519 billion. Based on the Fiscal Year 2011 Appropriations Act, the State made no contribution to the Pension Plans in Fiscal Year 2011. The recommended contribution as determined by the actuaries for the Pension Plans for Fiscal Year 2011 was \$3.060 billion. For Fiscal Year 2012, pursuant to L. 2010, c.1 and as reflected in the Fiscal Year 2012 Appropriations Act, the State is expected to make a pension contribution of \$484.5 million to the Pension Plans, representing 1/7th of the full actuarially recommended contribution of \$3.391 billion determined on the basis of the revised June 30, 2010 valuations . For Fiscal Year 2013, based on the Governor's Fiscal Year 2013 Budget Message, the State is expected to make a pension contribution of \$1.071 billion which represents 2/7th of the full actuarially recommended contribution for PERS, TPAF, PFRS, SPRS and JRS and the full actuarially recommended contribution for CP&FPF. The full actuarially recommended contribution of all Pension Plans is \$3.747 billion determined on the basis of the June 30, 2011 actuarial valuations. In all Pension Plans except the CP&FPF, the State is expected to make the 2/7th minimum required contribution pursuant to L. 2010, c.1.

In accordance with L. 2010, c.1, the State is to resume making the actuarially recommended contributions to the Pension Plans on a gradual basis over a period of seven years beginning in Fiscal Year 2012. The \$484.5 million contribution for Fiscal Year 2012 represents 1/7th of the actuarially recommended contribution to the Pension Plans, and the \$1.071 billion expected contribution for Fiscal Year 2013 assumes funding of 2/7th of the actuarially recommended contribution to all Pension Plans except the CP&FPF. In each subsequent fiscal year, the State's contribution must increase by at least an additional 1/7th of the actuarially recommended contribution so that full actuarially recommended contributions are made beginning in Fiscal Year 2018 and each year thereafter. Although no assurance can be given that the State Legislature will make such appropriations in accordance with this law, the 2011 Pension and Health Benefit Reform Legislation contains a provision stating that members of the Pension Plans now have a contractual right to the annual required contribution made by the State and local participating employers and failure by the State and local employers to make annual required contributions is deemed an impairment of the contractual right of each member. This contractual right could limit the State's ability to reduce or limit pension contributions in response to future budgetary constraints. Contributing only 4% of the full recommended contribution in Fiscal Year 2009, and making no contributions for Fiscal Year 2010 and Fiscal Year 2011, caused the UAAL of the Pension Plans to increase significantly, which lowered the overall funded ratio of the Pension Plans and increased the need for future State pension contributions to ensure the

fiscal integrity of the Pension Plans. While resuming contributions in Fiscal Year 2012 on a “phase-in” basis under L. 2010, c.1 should help to reduce the rate of growth in the UAAL of the Pension Plans going forward, the UAAL is projected to continue to increase until such time that the State resumes making full actuarially recommended contributions. See “FUNDING PENSION PLANS — *Pension and Health Benefit Reform*” herein for a description of the major pension changes required under the 2011 Pension and Health Benefit Reform Legislation and the expected impact of such changes on the financial condition of the Pension Plans going forward. No assurances can be given as to the level of the State’s pension contributions in future fiscal years.

Pension and Health Benefit Reform. On June 28, 2011, the 2011 Pension and Health Benefit Reform Legislation was enacted that over the long-term is expected to improve the overall financial condition of the Pension Plans, raise the funded ratios of the Pension Plans to more financially sound levels, lower future actuarially recommended contributions from levels which likely would have been required without the 2011 Pension and Health Benefit Reform Legislation and reduce the unfunded actuarial accrued liability of the Pension Plans. See “FUNDING PENSION PLANS — *Impact of Pension Reforms on Overall Financial Condition of the Pension Plans*” herein. The major reform measures include raising the member contribution rates in the PERS, TPAF, PFRS, SPRS and JRS, suspending pension adjustment benefits in all Pension Plans, limiting future retirement benefits payable to new members in the PERS and TPAF by raising the service retirement age from 60 to 65 and increasing the number years needed to qualify for early retirement benefits from 25 to 30 years with a one quarter of 1% reduction for each month under age 65, and reducing the special retirement benefit for new PFRS members from 65% of final compensation after 25 years of service and 70% of final compensation after 30 years of service to 60% of final compensation after 25 years and 65% after 30 years. The pension reforms also include the establishment of new pension committees for the Pension Plans as follows: two new committees each in PERS and PFRS, one for the State part of the Pension Plan and one for the local part of the Pension Plan and one new committee each in TPAF and SPRS. These six new committees will have the discretionary authority when targeted funded ratios are achieved to modify the member contribution rate, formula for calculation of final compensation or final salary, fraction used to calculate a retirement allowance, and age at which a member may be eligible for service, early retirement and disability retirement benefits. The committees will also have the authority to reactivate the cost of living adjustment on pensions and to modify the basis for the calculation of the cost of living adjustment and set the duration and extent of the activation when targeted funded ratios are reached. The target funded ratio is initially set at 75% in Fiscal Year 2012 and increases annually in equal increments to 80% over the next seven years. Based on the June 30, 2011 actuarial valuations, the SPRS is the only State-funded Pension Plan to attain the target funded ratio. On the local side, the PERS-Local and the PFRS Local have both attained the target funded ratio. The pension committees for these Pension Plans are in the process of being formed. The pension reforms also includes a change in the amortization method that calculates the amount of the UAAL that is included in the annual pension contribution. Under the new amortization method, the UAAL will be amortized over an open-ended 30 year period and paid in level dollars. In addition, beginning with the July 1, 2019 actuarial valuation, the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period. This change in the amortization method will ensure that a portion of the UAAL is retired each year. Previously, the UAAL was amortized over a 30-year period as a level percent of pay. When a UAAL is amortized on a level percentage of pay, the amortized portion of the UAAL is smaller in the earlier years of the assumed amortization schedule because payroll costs are assumed to increase over time. By changing the amortization of the UAAL to a level dollar amount, this will mean the assumed amortization schedule will be stable over the whole period, but it will also likely increase the amount of the State’s actuarially recommended contributions in the earlier years.

Impact of Pension Reforms on Overall Financial Condition of the Pension Plans. As a result of the 2011 Pension and Health Benefit Reform Legislation, the calculation of the overall funded ratio of the State Pension Plans improved from 56.4% to 65.2% and the total UAAL included in the revised actuarial valuation of the State Pension Plans decreased by \$11.5 billion from \$37.1 billion to \$25.6 billion as of the revised June 30, 2010 actuarial valuations. The increase in the overall funded ratio and reduction in the UAAL as of June 30, 2010 is primarily due to the suspension of cost-of-living adjustments on pension benefits as of July 1, 2011. Going forward, the reform measures are expected to provide savings to the State by lowering the actuarially recommended contributions from levels projected without the 2011 Pension and Health Benefit Reform

Legislation. However, the State expects funding levels to decrease and the UAAL to increase over the next several years as a result of the State contributing less than the full actuarially recommended contributions.

Pursuant to P.L. 2010, c.1, the State is to resume making contributions to the Pension Plans on a phased-in basis over a seven-year period beginning in Fiscal Year 2012. If the State makes the specified phased-in contributions over the next seven years and resumes making full contributions in Fiscal Year 2018, then the State expects that after Fiscal Year 2018 the funded status of the Pension Plans should begin to improve and the UAAL should begin to decrease as a result of the reform measures. These expectations assume the Pension Plans will have investment returns on Pension Plan assets of 8.25% per year. If returns are less than 8.25% or if the Pension Plans have one or more years of investment losses, this would cause the UAAL of the Pension Plans to be higher than forecasted by the actuaries, which would lower the overall funded ratio of the Pension Plans. No assurance can be given as to the level of the State's investment returns or the State's pension contributions in future fiscal years.

REVISED FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of June 30, 2010
(In Millions)

Pension Plan	Actuarial Value of Assets(2)	Actuarial Accrued Liability(3)	Unfunded Actuarial Accrued Liability(4)	Funded Ratio(5)	Market Value of Assets(6)
State					
PERS	\$10,252.6	\$ 17,429.2	\$ 7,176.6	58.8%	\$ 8,293.1
TPAF	33,265.3	49,543.3	16,278.0	67.1%	25,763.6
PFRS	2,190.6	3,672.4	1,481.8	59.7%	1,771.6
CP&FPF	10.6	11.8	1.2	89.9%	8.8
SPRS	2,019.4	2,497.1	477.7	80.9%	1,656.2
JRS	329.0	554.5	225.5	59.3%	261.5
POPF	11.0	5.6	(5.4)	195.5%	11.0
Subtotal	48,078.5	73,713.9	25,635.4	65.2%	37,765.8
Local					
PERS	18,481.9	23,918.7	5,436.8	77.3%	14,745.2
PFRS(7)	20,367.9	25,602.0	5,234.1	79.6%	17,108.0
Subtotal	38,849.8	49,520.7	10,670.9	78.5%	31,853.2
Total	\$86,928.3	\$123,234.6	\$36,306.3	70.5%	\$69,619.0

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the revised actuarial valuation reports as of June 30, 2010 for PERS, TPAF, PFRS, SPRS and JRS which take into account certain of the pension reforms included in the 2011 Pension and Health Benefit Reform Legislation, and the actuarial valuation report as of June 30, 2010 for CP&FPF and POPF.

- (1) Due to the effect of certain of the pension reforms signed included in the 2011 Pension and Health Benefit Reform Legislation, the June 30, 2010 valuation reports for PERS, TPAF, PFRS, SPRS and JRS were revised. As a result of such reform measures, the overall funded ratio of the State increased from 56.4% to 65.2% and unfunded actuarial accrued liability decreased by \$11.5 billion from \$37.1 billion to \$25.6 billion. On the local employer side, the overall funded ratio of the local employers increased from 70.4% to 78.5% and the unfunded actuarial accrued liability decreased by \$6.0 billion from \$16.7 billion to \$10.7 billion. In total, the overall funded ratio of the Pension Plans increased from 62.0% to 70.5% and the total unfunded actuarial accrued liability of the Pension Plans decreased by \$17.6 billion from \$53.9 billion to \$36.3 billion. The increase in the overall funded ratio of the Pension Plans and the reduction in the overall unfunded actuarial accrued liability is primarily due to the suspension of the cost-of-living adjustments as of July 1, 2011. The State provides additional information concerning the Actuarial Value of Assets, Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of the Pension Plans under the caption "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS PENSION TRUST FUNDS AND HEALTH BENEFITS PROGRAM FUND" in the Required Supplemental Information portion of the 2011 CAFR.
- (2) 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. The actuarial value of assets includes contribution receivables from the State and local participating employers, including additional contributions payable by the State and local employers to cover the cost of enhanced benefits offered under various early retirement incentive programs.
- (3) 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. The actuarial accrued liability represents the present value of all pension benefits accrued to date, including the present value of enhanced benefits from various early retirement incentive programs offered by the State and local employers.
- (4) 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.

- (5) 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.
- (6) The market value of assets as shown in the actuarial valuation reports for the Pension Plan and included in the table differs from the value of the investment portfolio of the Pension Plans as reported by the Division of Investment. The market value of assets of each of the Pension Plans is as set forth in the actuarial valuation reports for the Pension Plans and represents the full market value of the assets held by the Pension Plan, including expected receivable contributions from the State, local employers and participants, and excludes assets held in the Contributory Group Insurance Premium Fund and the Noncontributory Group Insurance Premium Fund.
- (7) Revised to reflect the change in the lag period between the valuation year and the contribution year from 3 years to 2 years, which reduced the actuarial value of assets for PFRS local participating employers by \$929.2 million from \$21,297.1 million to \$20,367.9 million and lowered the PFRS local funded ratio from 83.2% to 79.6%.

FUNDING STATUS
PENSION FUND ACTUARIAL LIABILITIES AND ASSETS (1)
Actuarial Valuations as of June 30, 2011
(In Millions)

<u>Pension Plan</u>	<u>Actuarial Value of Assets (2)</u>	<u>Actuarial Accrued Liability (3)</u>	<u>Unfunded Actuarial Accrued Liability (4)</u>	<u>Funded Ratio (5)</u>	<u>Market Value of Assets (6)</u>
State					
PERS	\$ 9,938.1	\$ 18,445.9	\$ 8,507.8	53.9%	\$ 9,089.8
TPAF	32,289.9	51,115.3	18,825.4	63.2%	27,654.0
PFRS	2,143.5	3,949.5	1,806.0	54.3%	1,944.2
CP&FPF	8.1	9.2	1.1	88.5%	6.7
SPRS	2,002.8	2,577.8	575.0	77.7%	1,820.4
JRS	305.2	593.5	288.3	51.4%	270.2
POPF	10.0	5.1	(4.9)	196.2%	10.0
Subtotal	<u>46,697.6</u>	<u>76,696.3</u>	<u>29,998.7</u>	<u>60.9%</u>	<u>40,795.3</u>
Local					
PERS	18,996.3	24,882.4	5,886.1	76.3%	16,636.4
PFRS	21,027.8	26,992.7	5,964.9	77.9%	19,405.8
Subtotal	<u>40,024.1</u>	<u>51,875.1</u>	<u>11,851.0</u>	<u>77.2%</u>	<u>36,042.2</u>
Total	<u>\$86,721.7</u>	<u>\$128,571.4</u>	<u>\$41,849.7</u>	<u>67.5%</u>	<u>\$76,837.5</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2011 for each of the indicated Pension Plans which take into account the pension reforms included in the 2011 Pension and Health Benefit Reform Legislation.

- (1) The State provides additional information concerning the Actuarial Value of Assets, Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of the Pension Plans under the caption "REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS PENSION TRUST FUNDS AND HEALTH BENEFITS PROGRAM FUND" in the Required Supplemental Information portion of the 2011 CAFR.
- (2) 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. The actuarial value of assets includes contribution receivables from the State and local participating employers, including additional contributions payable by the State and local employers to cover the cost of enhanced benefits offered under various early retirement incentive programs.
- (3) 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. The actuarial accrued liability represents the present value of all pension benefits accrued to date, including the present value of enhanced benefits from various early retirement incentive programs offered by the State and local employers.
- (4) 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.
- (5) 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.

- (6) The market value of assets as shown in the actuarial valuation reports for the Pension Plan and included in the table differs from the value of the investment portfolio of the Pension Plans as reported by the Division of Investment. The market value of assets of each of the Pension Plans is as set forth in the actuarial valuation reports for the Pension Plans and represents the full market value of the assets held by the Pension Plan, including expected receivable contributions from the State, local employers and participants, and excludes assets held in the Contributory Group Insurance Premium Fund and the Noncontributory Group Insurance Premium Fund.

HISTORICAL FUNDING STATUS
AGGREGATE PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)
Actuarial Valuations as of June 30, 2004 through June 30, 2011
(in Millions)

<u>Valuation Year Ending June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Market Value of Assets</u>
State					
2004	\$49,574.1	\$58,017.6	\$ 8,443.5	85.4%	\$41,414.1
2005	49,755.1	62,796.5	13,041.4	79.2%	42,918.2
2006	50,659.2	67,266.3	16,607.1	75.3%	45,780.2
2007	52,433.4	71,655.8	19,222.4	73.2%	50,720.1
2008	52,718.2	75,763.2	23,045.0	69.6%	46,999.9
2009	50,229.5	80,956.2	30,726.7	62.0%	36,540.1
2010	48,078.5	73,713.9	25,635.4	65.2%	37,765.8
2011	46,697.6	76,696.3	29,998.7	60.9%	40,795.3
Local					
2004	\$33,176.5	\$36,846.9	\$ 3,670.4	90.0%	\$28,284.3
2005	33,854.1	39,730.9	5,876.8	85.2%	29,786.4
2006	34,981.1	43,181.5	8,200.4	81.0%	31,988.1
2007	37,190.7	46,326.3	9,135.6	80.3%	36,282.1
2008	38,655.2	50,044.3	11,389.1	77.2%	35,022.9
2009	38,890.1	53,972.1	15,082.0	72.1%	29,678.8
2010(2)	38,849.8	49,520.7	10,670.9	78.5%	31,853.2
2011	40,024.1	51,875.1	11,851.0	77.2%	36,042.2

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of June 30, 2005 through June 30, 2011 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.)
- (2) Revised to reflect the change in the lag period between the valuation year and the contribution year in the PFRS from 3 years to 2 years, which reduced the overall actuarial value of assets of local participating employers by \$929.2 million from \$39,779.0 million to \$38,849.8 million and lowered the overall local funded ratio from 80.3% to 78.5%.

SCHEDULE OF STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2012
(In Millions)

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions (1)</u>	<u>Expected Contributions (2)(5)</u>	<u>Amount Unfunded (3)(5)</u>
State			
PERS	\$ 874.3	\$ 124.9	\$ 749.4
TPAF	2,012.6	287.5	1,725.1
PFRS (4)(6)	375.2	53.6	321.6
CP&FPF	1.2	0.2	1.0
SPRS	89.7	12.8	76.9
JRS	38.4	5.5	32.9
POPF	0.0	0.0	0.0
Subtotal	<u>3,391.4</u>	<u>484.5</u>	<u>2,906.9</u>
Local			
PERS	786.2	786.2	—
PFRS (6)	736.1	736.1	—
Subtotal	<u>1,522.3</u>	<u>1,522.3</u>	<u>—</u>
Total	<u>\$4,913.7</u>	<u>\$2,006.8</u>	<u>\$2,906.9</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the revised June 30, 2010 actuarial valuation reports for all of the Pension Plans. For PERS, TPAF, PFRS, SPRS, and JRS, the June 30, 2010 actuarial valuations were revised to reflect certain of the pension reforms included in the 2011 Pension and Health Benefit Reform Legislation. Information regarding the expected contributions for the State is based on P.L. 2010, c.1 which requires the State to make a contribution of at least 1/7th of the full actuarially recommended contribution in Fiscal Year 2012. However, the actual provision of the contribution each fiscal year is subject to appropriation by the State Legislature and, therefore, there can be no assurance that the State Legislature will make such appropriations in accordance with this law. Information with respect to the expected contributions of local governments was derived from the revised June 30, 2010 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2012 are based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2010, which have been revised in PERS, TPAF, PFRS, SPRS and JRS to reflect certain of the pension reforms in the 2011 Pension and Health Benefit Reform Legislation. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2012 by local government employers who have adopted ERI programs for their employees. As a result of the pension reforms, the actuarially recommended contribution of the State for Fiscal Year 2012 decreased by \$184.6 million from \$3,576.0 million to \$3,391.4 million and the actuarially recommended contribution of the local participating employers decreased by \$300.7 million from \$1,823.0 million to \$1,522.3 million.
- (2) Pursuant to P.L. 2010, c.1, the State's minimum contribution to the Pension Plans in Fiscal Year 2012 is 1/7th of the full actuarially recommended contribution amount. Such contributions to the Pension Plans by the State are subject to appropriation by the State Legislature. 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 expected contribution by the State to the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total expected contribution of \$53.6 million for Fiscal Year 2012, \$23.8 million represents contributions on behalf of local participants.
- (5) Estimated.
- (6) Revised to reflect the change in the lag period between the valuation year and the contribution year in the PFRS from 3 years to 2 years, which increased the actuarially recommended contribution of the State by \$1.7 million from \$373.5 million to \$375.2 million and reduced the actuarially recommended contribution of the local participating employers by \$214.6 million from \$950.7 million to \$736.1 million.

SCHEDULE OF STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Year Ending June 30, 2013
(In Millions)

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions (1)</u>	<u>Expected Contributions (2)(5)</u>	<u>Amount Unfunded (3)(5)</u>
State			
PERS	\$ 983.9	\$ 281.1	\$ 702.8
TPAF	2,217.3	633.5	1,583.8
PFRS (4)	406.9	116.3	290.6
CP&FPF	0.9	0.9	—
SPRS	94.3	26.9	67.4
JRS	43.4	12.4	31.0
POPF	0.0	0.0	0.0
Subtotal	<u>3,746.7</u>	<u>1,071.1</u>	<u>2,675.6</u>
Local			
PERS	814.8	814.8	—
PFRS	792.8	792.8	—
Subtotal	<u>1,607.6</u>	<u>1,607.6</u>	<u>—</u>
Total	<u>\$5,354.3</u>	<u>\$2,678.7</u>	<u>\$2,675.6</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the June 30, 2011 actuarial valuation reports for all of the Pension Plans. Information regarding the expected contributions for the State is based on P.L. 2010, c.1 which requires the State to make a contribution of at least 2/7th of the full actuarially recommended contribution in Fiscal Year 2013. However, the actual provision of the contribution each fiscal year is subject to appropriation by the State Legislature and, therefore, there can be no assurance that the State Legislature will make such appropriations in accordance with this law. Information with respect to the expected contributions of local governments was derived from the June 30, 2011 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2013 are based on the information contained in the actuarial valuations for the Pension Plans as of June 30, 2011. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2013 by local government employers who have adopted ERI programs for their employees.
- (2) Pursuant to P.L. 2010, c.1, the State's minimum contribution to the Pension Plans in Fiscal Year 2013 is 2/7th of the full actuarially recommended contribution amount. Such contributions to the Pension Plans by the State are subject to appropriation by the State Legislature. 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 expected contribution by the State to the PFRS includes contributions on behalf of local active and retired members to cover certain benefit enhancements. Of the total expected contribution of \$116.3 million for Fiscal Year 2013, \$48.9 million represents contributions on behalf of local participants.
- (5) Estimated.

AGGREGATE STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS
For the Fiscal Years Ending June 30, 2007 through June 30, 2013(1)
(In Millions)

<u>Fiscal Year Ending June 30,</u>	<u>Actuarially Recommended Contributions(2)</u>	<u>Actual and Expected Contributions(3)</u>	<u>Amount Unfunded</u>
State			
2007	1,778.6	1,023.2	755.4
2008	2,089.8	1,046.1	1,043.7
2009	2,230.7	106.3	2,124.4
2010	2,518.8	0.0	2,518.8
2011	3,060.5	0.0	3,060.5
2012	3,391.4	484.5	2,906.9
2013	3,746.7	1,071.1	2,675.6
Subtotal	<u>\$18,816.5</u>	<u>\$ 3,731.2</u>	<u>\$15,085.3</u>
Local			
2007	842.5	605.6	236.9
2008	1,089.1	993.4	95.7
2009	1,168.7	1,043.9	124.8
2010	1,281.1	1,281.1	—
2011	1,611.3	1,611.3	—
2012	1,522.3	1,522.3	—
2013	1,607.6	1,607.6	—
Subtotal	<u>9,122.6</u>	<u>8,665.2</u>	<u>457.4</u>
Total	<u>\$27,939.1</u>	<u>\$12,396.4</u>	<u>\$15,542.7</u>

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, 2005 through June 30, 2011. Information regarding the actual contributions of the State for Fiscal Years 2007 through 2011 was provided by the Division of Pensions and Benefits. Information regarding expected contributions of the State for Fiscal Year 2012 is as set forth in the Fiscal Year 2012 Appropriations Act. Information regarding expected contributions of the State for Fiscal Year 2013 is based on P.L. 2010, c.1 and the Governor's Fiscal Year 2013 Budget Message. However, the actual provision of the contribution each fiscal year is subject to appropriation by the State Legislature and, therefore, there can be no assurance that the State Legislature will make such appropriations in accordance with the law. Information regarding the actuarially recommended contributions and the actual and expected contributions of local governments was derived from the actuarial valuation reports of PERS and PFRS as of June 30, 2005 through June 30, 2011.

- (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.
- (2) For all pension plans, 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, 2011 will be made in Fiscal Year 2013.
- (3) Pursuant to P.L. 2010, c.1, the State's minimum contribution to the Pension Plans in Fiscal Year 2013 is 2/7th of the full actuarially recommended contribution amount, as determined based on the June 30, 2011 actuarial valuations. Such contributions to the Pension Plans by the State are subject to appropriation by the State Legislature. For local participating employers, full contributions based on the actuarially recommended amounts are expected.

Impact of State's Pension Plan Funding Actions. The UAAL of the Pension Plans has consistently risen since Fiscal Year 2004, except for the decline that occurred as a result of the 2011 Pension and Health Benefit Reform Legislation as reflected in the revised June 30, 2010 actuarial valuations, in part as a result of the State not contributed the full amount of the actuarially recommended contributions with respect to the Pension Plans since Fiscal Year 2003. From Fiscal Year 1997 through Fiscal Year 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 Fiscal Year 2004, excess valuation assets were nearly fully depleted and full contributions were required in most of the Pension Plans. For the Fiscal Years ended 2004, 2005, 2006, 2007 and 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 Fiscal Year 2009, the State only contributed \$106.3 million representing 4.8% of the actuarially recommended contributions. For Fiscal Year 2010, although \$100 million was included in the Fiscal Year 2010 Appropriations Act as the State's contribution to the Pension Plans, the State did not make a contribution due to ongoing budgetary constraints. The State also made no contribution to the Pension Plans for Fiscal Year 2011. For Fiscal Year 2012, in accordance with P.L. 2010, c.1 and based on the Fiscal Year 2012 Appropriations Act, the State is expected to make a contribution of \$484.5 million representing 1/7th of the full actuarially recommended pension contributions determined on the basis of the revised 2010 actuarial valuations of the Pension Plans. For Fiscal Year 2013, based on the Governor's Fiscal Year 2013 Budget Message, the State is expected to make a contribution of \$1.071 billion which represents 2/7th of the full actuarially recommended contribution for PERS, TPAF, PFRS, SPRS and JRS and the full actuarially recommended contribution for CP&FPF. The full actuarially recommended contribution of all Pension Plans is \$3.747 billion determined on the basis of the June 30, 2011 actuarial valuations. In all Pension Plans except the CP&FPF, the State is expected to make the 2/7th minimum required contribution pursuant to P.L. 2010, c.1. 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 declines in the valuations of fund assets in Fiscal Years 2008 and 2009. The aggregate Funded Ratio of the Pension Plans has declined from approximately 85.4% as of June 30, 2004 to 60.9% as of June 30, 2011, based on the 2011 actuarial valuations of the Pension Plans. Absent an unanticipated increase in the value of fund assets the aggregate Funded Ratio of the Pension Plans will continue to decline as a result of the State not making the full recommended contributions to the Pension Plans. Under P.L. 2010, c.1, the State is to make phased-in pension contributions over seven years. However, the pension reforms in the 2011 Pension and Health Benefit Reform Legislation are expected to lower the actuarially recommended contributions of the State in future fiscal years and improve the overall funded ratio of the Pension Plans once the State resumes making full contributions — currently anticipated to occur in Fiscal Year 2018. Despite the reforms included in the 2011 Pension and Health Benefit Reform Legislation, as a result of the phased-in contributions of the State to the Pension Plans, a change in the amortization method of the UAAL and other factors, the State expects that the amount of its contributions to the Pension Plans will substantially increase through Fiscal Year 2018 and that its contribution for Fiscal Year 2018 will be substantially higher than the actuarially recommended contributions for Fiscal Year 2012 of approximately \$3.391 billion and for Fiscal Year 2013 of approximately \$3.747 billion.

The UAAL of the Pension Plans as of June 30, 2009 experienced a substantial increase from the prior year. One of the contributing factors to this increase was the loss realized on their investment portfolio. For the period from July 1, 2008 through June 30, 2009, the investment portfolio of the Pension Plans was a negative 15.48%. For Fiscal Year 2010 and 2011, the rate of return on the investment portfolio of the Pension Plans was a positive 13.36% and 18.03%, respectively. Despite the positive return on investments, due to other factors described herein, the UAAL of the Pension Plans increased substantially.

Consequences of Deterioration of Financial Condition of the Pension Plans. 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 well as the overall amount of invested assets, resulting in the generation of less investment income. As discussed above, as the financial condition of the Pension Plans has deteriorated, the Pension Plans' Annual Expenditures to Net Assets Ratio has generally increased since Fiscal Year 2005. Although the accumulation of assets in the Pension Plans does not jeopardize the payment of pension benefits in the short term, a deteriorated financial condition of the Pension Plans could over the long term impact 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. See the discussion of "risk measures" in the actuarial valuation reports in "*Benefits*" above.

SEC Order. In April 2007, the Securities and Exchange Commission ("SEC") initiated a confidential informal inquiry into New Jersey's pension system. On August 18, 2010, the SEC instituted administrative proceedings and imposed a cease-and-desist order (the "Order") resolving this inquiry into disclosures in bond documents relating to the State's pension funds. According to the Order, the SEC found that, between August 2001 and April 2007, the State acted negligently in failing to adequately disclose information concerning the TPAF and PERS in its bond documents. In agreeing to the Order, the State did not admit or deny the SEC's findings in the Order. Under the terms of the Order, the State was not required to pay any civil fines or penalties, and the SEC noted that it considered the State's cooperation during the inquiry as well as the remedial measures described in the Order instituted by the State to ensure compliance with its disclosure obligations under the federal securities law.

Litigation Affecting Pension Plans. 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. v. State of New Jersey et al.*," "*— CWA v. State*," "*— DePascale v. State of New Jersey*," "*— Powell v. State*" and "*— Berg v. Christie*" for a description of claims pending against the State relating to the Pension Plans and the pension reforms included in the 2011 Pension and Health Benefit Reform Legislation

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 2011 and 2012, the State appropriated \$178.0 million and \$175.9 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2013, the Governor's Fiscal Year 2013 Budget Message includes \$176.4 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.

Defined Contribution Retirement Program. The State Legislature adopted legislation in the Fiscal Year ending June 30, 2007, P.L. 2007,c.92, amended by P.L. 2007, c.103, P.L. 2008, c.89, and P.L. 2010, c.1, which required the establishment of the Defined Contribution Retirement Program (the “DCRP”). The DCRP includes a defined contribution plan providing pension benefits for elected and appointed officials and for certain PERS, TPAF, PFRS and SPRS employees with pensionable wages in excess of the Social Security wage base limit and certain part-time employees ineligible for membership in the PERS and TPAF. The DCRP also includes noncontributory group life insurance and long-term disability benefits for participants. The employee pension 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 to fund pension benefits. With regard to PERS, TPAF, PFRS and SPRS members enrolled in the DCRP because their pensionable wages exceed the Social Security wage base limit, contributions are based on compensation in excess of the Social Security wage base limit.

Eligibility for membership in the DCRP was expanded in accordance with L. 2010, c.1. Under this legislation, those who are no longer eligible for the PERS and TPAF because they work less than full-time are eligible to participate in the DCRP, provided their annual salary is \$5,000 or higher.

For Fiscal Year 2010 and 2011, the State contributed \$188,185 and \$453,036, respectively, on behalf of enrolled State employees to cover pension benefit costs. The Fiscal Year 2012 Appropriations Act includes \$773,000 as the State’s contribution to the DCRP to cover pension benefit costs. The Governor’s Fiscal Year 2013 Budget Message includes \$902,000 as the State’s contribution to the DCRP to cover pension benefit costs. No State contributions were required to be made for Fiscal Years 2010 and 2011 for noncontributory life insurance and long-term disability benefits costs. The Fiscal Year 2012 Appropriations Act includes \$197,000 as the State’s contribution to cover such benefit costs. The Governor’s Fiscal Year 2013 Budget Message includes \$310,000 as the State’s contribution to cover such benefit costs.

Central Pension Fund. The State also administers the Central Pension Fund (“CPF”), which is a single-employer noncontributory defined benefit plan for special 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 expended \$71.6 million to cover noncontributory insurance benefit costs of the Pension Plans for the Fiscal Year 2011. For Fiscal Year 2012, the Fiscal Year 2012 Appropriations Act includes \$77.7 million for noncontributory insurance benefits for the Pension Plans. The Governor’s Fiscal Year 2013 Budget Message includes \$77.4 million for noncontributory insurance benefit costs.

FINANCING 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 School Employees' Health Benefits Program (SEHBP), 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 2011, the State paid PRM benefits for 120,635 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 2011, the State expended \$1.223 billion to pay for PRM benefits for the eligible retirees in these groups mentioned above. For Fiscal Year 2012 the Fiscal Year 2012 Appropriations Act includes \$1.161 billion to cover anticipated pay-as-you-go PRM costs. In addition, a supplemental appropriation of \$152.3 million is expected to be made prior to the close of Fiscal Year 2012 to cover a projected shortfall in the PRM appropriation. The \$1.161 billion appropriation assumed benefit reform changes based on the Governor's original reform proposal. Since the Governor's original reform proposal called for more drastic benefit reductions than ultimately enacted in the 2011 Pension and Health Benefit Reform Legislation, the savings incorporated into the Fiscal Year 2012 Appropriations Act for reform changes was overstated. In addition, the \$1.161 billion appropriation for Fiscal Year 2012 also reflects savings of \$50 million from switching to a new Medicare Part D Subsidy Program. The total projected savings in Fiscal Year 2012 is estimated to be \$26 million. With the expected enactment of the \$152.3 million supplemental appropriation, a total of \$1.313 billion is expected to be available to cover PRM benefit costs in Fiscal Year 2012. The Governor's Fiscal Year 2013 Budget Message includes \$1.365 billion as the State's contribution to cover PRM benefit costs. See FUNDING POST RETIREMENT MEDICAL BENEFITS — *Pension and Health Benefits Reform*" below.

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. 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 August, 2011, the Fiscal Year 2010 actuarial accrued liability of the State to provide PRM to active and retired members of the Pension Plans, which is based upon GASB 43 results as of July 1, 2010, has been measured to be \$59,282.0 million. An information copy of the valuation report is posted on the Division of Pensions and Benefits' website at <http://www.state.nj.us/treasury/pensions/financial-rpts-home.htm>. 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, 2010		
	State	Education-State	Total
Actuarial Accrued Liability*			
Active	\$12,983.2	\$24,010.4	\$36,993.6
Retired	\$ 8,107.3	\$14,181.1	\$22,288.4
Total	\$21,090.5	\$38,191.5	\$59,282.0

* 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 \$12,089.8 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 8.0% to 9.0% in Fiscal Year 2011 and decrease to a 5.0% long-term trend for all medical benefits after 8 years and (2) AON assumed that prescription drug expenses would increase at a rate of 10.0% in Fiscal Year 2011 and decrease to a 5.0% long-term trend rate after 10 years. An information copy of the valuation report is posted on the Division of Pensions and Benefits' website. 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, 2009 State of New Jersey, Postemployment Benefits Other Than Pension Actuarial Valuation. An informational copy of the valuation report is posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/pdf/financial/gasb-43-aug2011.pdf>. The valuation reports for the years July 1, 2006 through July 1, 2009 are also posted on the web site.

SCHEDULE OF FUNDING PROGRESS FOR POST-RETIREMENT MEDICAL BENEFITS
Actuarial Valuations as of July 1, 2006 through July 1, 2010
(In millions)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (1)</u>	<u>Unfunded Actuarial Accrued Liability (UAA)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA as a Percentage of Covered Payroll</u>
State & Education						
7/1/2006	\$0	\$58,059.0	\$58,059.0	0%	n/a	n/a
7/1/2007	\$0	\$50,649.5	\$50,649.5	0%	n/a	n/a
7/1/2008	\$0	\$55,913.5	\$55,913.5	0%	\$20,180.2	277.1%
7/1/2009	\$0	\$56,782.5	\$56,782.5	0%	\$20,794.4	273.1%
7/1/2010	\$0	\$59,282.0	\$59,282.0	0%	\$20,870.0	284.1%
Local						
7/1/2006	\$0	\$10,774.6	\$10,774.6	0%	n/a	n/a
7/1/2007	\$0	\$ 9,096.6	\$ 9,096.6	0%	n/a	n/a
7/1/2008	\$0	\$ 8,840.5	\$ 8,840.5	0%	\$ 2,411.7	366.6%
7/1/2009	\$0	\$10,010.4	\$10,010.4	0%	\$ 2,607.2	384.0%
7/1/2010	\$0	\$12,089.8	\$12,089.8	0%	\$ 2,844.1	425.1%

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, 2010.

- (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.

Pension and Health Benefits Reform. On June 28, 2011, the Governor signed into law health benefits reform as part of the 2011 Pension and Health Benefits Reform Legislation which requires all public employees participating in the SHBP and SEHBP to contribute more toward their health insurance coverage. The legislation also requires certain future retirees eligible for State-paid health insurance coverage at retirement to contribute toward the cost of their post-retirement medical coverage. Specifically, the 2011 Pension and Health Benefits

Reform Legislation requires active employees to pay a percentage of the premium for the level of coverage selected by the employee. The percentage will vary based on the employee's base salary and the coverage level and will range from 3% for the lowest paid employees to 35% for the highest paid employees. For those employees employed as of June 28, 2011, the contribution rates will be phased-in over a four year period in increments of 25% per year. New employees hired on or after June 28, 2011 will be required to contribute at the full rate. The 2011 Pension and Health Benefits Reform Legislation establishes a minimum employee contribution based on 1.5% of the employee's base salary. Most employees will be required to pay the minimum 1.5% of salary contribution in the first year due to the 4-year phase-in provision; however, beginning in the second year of the 4-year phase-in period, most employees will be required to pay a higher contribution based on the new percentage of premium tables. Pursuant to the 2011 Pension and Health Benefits Reform Legislation, future retirees eligible for PRM coverage who on June 28, 2011 had less than 20 years of creditable service will also be required to pay a percentage of the cost of their health care coverage at retirement under the new law. However, the percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit.

In accordance with the 2011 Pension and Health Benefits Reform Legislation, two new Plan Design Committees have been formed, one for the SHBP and one for the SEHBP. These new committees have established new plan design options for participating employees and retirees in the SHBP and SEHBP with lower premiums in exchange for higher copayments, deductibles and other participant costs. The new plan design options include several high deductible health plans with a health savings plan component. The State Health Benefits Commission and the School Employees' Health Benefits Commission approved the new plan design options on October 12, 2011. The new plan options were available to participants beginning January 1, 2012.

The impact of the health benefits reform on the future actuarial accrued liability of the SHBP and SEHBP will be reflected in July 1, 2011 actuarial valuation report, which is expected to be released in July 2012.

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.

Abbott v. Burke (Challenge to Proposed Fiscal Year 2011 School Aid Funding Levels). On June 8, 2010, the Education Law Center (“ELC”) filed with the New Jersey Supreme Court a motion in aid of litigants’ rights challenging the proposed levels of Fiscal Year 2011 school aid funding in the Governor’s Fiscal Year 2011 Budget Message. The ELC argues that the State’s failure to propose full funding of the School Funding Reform Act (“SFRA”) is a violation of the Court’s express mandates in *Abbott XX*. The ELC is seeking to enjoin the State from funding school districts in Fiscal Year 2011 at a level below that anticipated by the SFRA and from conducting the three-year review of the SFRA formula until such time as the SFRA is fully implemented. The State filed its opposition to ELC’s motion in aid of litigants’ rights on July 9, 2010. On January 13, 2011, the Court issued an order determining that it had an insufficient basis on which to make a decision whether school aid funding, at current levels, distributed through SFRA can provide for a thorough and efficient education as measured by the Core Curriculum Content Standards. The Court remanded the matter to a Special Master for a hearing on that question. On March 22, 2011, the Special Master issued his report, concluding that the State did not meet its burden in demonstrating that the present level of school funding distributed through SFRA can provide for a thorough and efficient education as measured by the Core Curriculum Content Standards. On May 24, 2011, the Court issued its decision in the matter. The Court granted the ELC’s motion which had challenged the proposed levels of Fiscal Year 2011 school aid funding in the Governor’s Fiscal Year 2011 Budget Message. The Court held that the amount of aid provided to Abbott school districts in Fiscal Year 2011 violated the Court’s decision in *Abbott XX* and the constitutional rights enforced therein. The Court ordered prospective relief for the 31 Abbott districts for Fiscal Year 2012. In making the calculation for Fiscal Year 2012, the Court stated that the funding formula must be adjusted to correct the State’s failure to provide the SFRA’s statutory level of formula funding to these Abbott districts during Fiscal Year 2011. The Court cited an estimate made by the Office of Legislative Services indicating that the cost of the remedy would be approximately \$500 million.

Bacon v. New Jersey Department of Education. On September 1, 2011, the Bacon districts (sixteen rural, poor school districts) filed a Motion in Aid of Litigants’ Rights in the New Jersey Superior Court, Appellate Division. This group of districts previously had a multi-year administrative litigation (which ended in 2006) against the New Jersey Department of Education (“DOE”) to determine whether the prior funding formula under the Comprehensive Educational Improvement and Financing Act (“CEIFA”) was unconstitutional as applied to the Bacon districts. While factual findings were made that the Bacon districts were not providing a thorough and efficient education to their students, in March 2008, the Appellate Division ordered the DOE Commissioner to conduct a needs assessment of the Bacon districts to determine whether the SFRA provided sufficient funds to the Bacon districts in order to provide a thorough and efficient education to their students. The reports concluded that sufficient funds were available but also directed regionalization studies, training and technical assistance. The Bacon districts allege, among other things, that regionalization and training did not materialize and the Bacon districts are now seeking full-funding under the SFRA for the 2011-12 school year and beyond. On January 20, 2012, the Appellate Division denied appellants’ motion in aid of litigant’s rights. On January 25, 2012, appellants filed a notice of petition for certification with the New Jersey Supreme Court. The State is vigorously defending this matter.

Appeal of Denial of Reimbursement by the Centers for Medicare and Medicaid Services. On June 3, 2010, the Regional Administrator of the federal Centers for Medicare and Medicaid Services (“CMS”) informed the New Jersey Department of Human Services (“DHS”) of a disallowance of federal reimbursement in the amount of \$50,500,277 previously paid to the DHS under the Medicaid program. The disallowance relates to expenditures for school-based health services in the State for the period July 1, 1998 through June 30, 2001. CMS alleges that DHS made improper claims for provision of services; that the claims contained insufficient documentation; and that the individuals who provided the services lacked proper qualifications. CMS’ findings are based on review of one hundred and fifty claims with the results extrapolated to all claims during that period.

in question. DHS appealed this disallowance to the Departmental Appeals Board of the United States Department of Health and Human Services. The Departmental Appeals Board issued a decision upholding the majority of the disallowance, remanding in part and overturning a portion of the disallowance. 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. On March 25, 2010, both parties moved for summary judgment. On September 24, 2010, both parties’ motions were denied by the court. On February 3, 2011, the Plaintiff filed a motion to amend the complaint, seeking to add three new plaintiffs. On April 7, 2011, the court permitted the Plaintiff to amend the complaint and add two new plaintiffs. On April 21, 2011, plaintiffs filed a second amended complaint. On May 26, 2011, the Department filed an answer to the second amended complaint. Discovery is continuing in this matter. 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. Discovery in this matter is currently in process. The State is vigorously defending this matter.

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 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. By order dated September 18, 2009, the Appellate Division temporarily remanded the matter for 30 days to the court, for the trial judge to rule on the post-judgment motions previously filed with the court. On October 23, 2009, the court issued a decision from the bench denying FiberMark's motions. On October 28, 2009, the trial judge issued a written Supplemental Memorandum of Decision on Motion. This matter was returned to the Appellate Division. Oral argument was held on May 3, 2011. On August 5, 2011, the Appellate Division issued a decision affirming the trial court's decision in part, reversing in part and remanding for further proceedings.

The Appellate Division affirmed the trial court's dismissal of FiberMark's continuing trespass, continuing dangerous condition, and inverse condemnation claims. In addition, the panel affirmed the trial court's denial of FiberMark's motion to amend its pleadings. The Appellate Division agreed with the trial court's conclusion that FiberMark should not be permitted to seek damages based on allegations that FiberMark sold Warren Glen for a reduced amount after an option for the sale of the property fell through on account of the leachate.

However, the Appellate Division reversed the trial court's dismissal of the nuisance claim and remanded this claim to the trial court. Specifically, the Appellate Division concluded that the issue of whether DEP's actions to stop the leachate flow were reasonable could not be resolved against FiberMark in the context of a motion to dismiss. The Appellate Division also ruled held that FiberMark should be permitted to seek reimbursement for the costs it incurred in continuing to operate the leachate treatment lagoons after it stopped operating the paper mill.

FiberMark filed a notice of petition for certification with the Supreme Court on August 24, 2011 and, on September 19, 2011, the Supreme Court notified the parties that the FiberMark notice of petition for certification was filed out of time. The trial court has declined to stay the proceedings on remand, and DEP filed a motion for summary judgment on the nuisance claims remanded to the trial court on October 5, 2011. On February 15, 2012, a jury trial commenced in this matter. On February 22, 2012, the jury returned a verdict in favor of DEP, finding that DEP did not commit a nuisance. On March 7, 2012, FiberMark filed a motion seeking a new trial. This motion is currently returnable on April 13, 2012. 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. (“Repsol”), YPF, S.A. (“YPF”), 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 (“NJDA”), New Jersey Transit and the Department of Transportation (“NJDOT”), among others, 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 discharger under the Spill Act. With respect to the NJDA, Maxus and Tierra allege that mosquito spraying conducted by the NJDA in the vicinity of the Passaic River or its tributaries contributed to the contamination in the Passaic River. NJDOT and NJDA joined in separate motions to dismiss portions of the third party complaint filed by Maxus and Tierra. In December 2010, the Special Master assigned to this matter recommended the dismissal of certain of Maxus and Tierra’s counterclaims against Plaintiffs and cross claims against the State, as a third-party defendant. Specifically, the Special Master recommended dismissal of Maxus and Tierra’s claims: (1) against DEP and the State involving their regulatory roles, including those for failure to enforce the law; (2) involving the State’s ownership of submerged lands; (3) alleging that DEP and/or the State improperly issued certain permits; (4) against DEP involving spraying of DDT; (5) against DEP and the State involving the Kearny Oil Lake site; and (6) against DEP and the State alleging violation of the Public Trust Doctrine. Maxus and Tierra appealed the Special Master’s recommendation to the court. On March 8, 2011, the court adopted the Special Master’s recommendations and dismissed certain of Maxus and Tierra’s claims against DEP and all of the claims against the State, as third party defendant. The dismissal of these claims against the State, as third party defendant, and against DEP were embodied in an order dated May 11, 2011.

On January 26, 2011, the Special Master recommended the denial of the motions of NJDOT and NJDA to dismiss portions of the third party complaint filed by Maxus and Tierra. NJDOT and NJDA filed motions to appeal the Special Master’s recommendation during February 2011. In April 2011, the court upheld the recommendations of the Special Master and denied NJDOT, NJDA and other third party defendants’ motions to dismiss. On May 25, 2011, the Appellate Division granted certain third party defendants’ requests for leave to appeal the court’s denials of the motions to dismiss. The third party defendants filed motions to stay the trial proceedings with the court, but the court denied those motions. The third party defendants thereafter filed

motions to stay proceedings at the trial level with the Appellate Division, which denied those motions on September 6, 2011. The appeals of the denials of the motions to dismiss are currently pending before the Appellate Division.

On July 19, 2011, the court ruled that Occidental, as the successor to Diamond Shamrock Chemicals Company (“Diamond Shamrock”), is strictly, jointly and severally liable under the Spill Act for all cleanup and removal costs associated with the hazardous substances discharged by Diamond Shamrock from the Lister Avenue Site into the Passaic River between 1951 and 1969. A similar judgment was rendered under the Spill Act against Tierra on August 24, 2011, on the basis that Tierra knowingly took title to the contaminated Lister Avenue Site. On that same date, Occidental also obtained a judgment against Maxus on a claim for indemnity under a 1986 Stock Purchase Agreement, whereby Occidental purchased all of the stock of Diamond Shamrock from Maxus. The court found that Maxus was liable to Occidental in perpetuity for any cleanup and removal costs paid by Occidental as the successor to Diamond Shamrock. The Spill Act liability of Maxus is currently the subject of Plaintiffs’ motion for partial summary judgment, and will be tried on or about May 1, 2012, unless the motion is successful. On August 24, 2011, the court granted the Plaintiffs’ motion for partial summary judgment on liability against Tierra, the current owner of the former Diamond Shamrock/Diamond Alkali property located at the Lister Avenue Site. The court found Tierra to be strictly, jointly and severally liable under the Spill Act for all cleanup and removal costs associated with the discharge of hazardous substances at and from the Lister Avenue Site. The court granted Occidental’s motion for partial summary judgment against Tierra, finding that Tierra was liable to Occidental in contribution on the same basis. The court also granted Occidental’s motion for partial summary judgment against Maxus, finding that Maxus owes Occidental a duty to indemnify Occidental for any liability imposed upon Occidental as the successor to Diamond Shamrock, the company that Occidental purchased from Maxus pursuant to the 1986 Stock Purchase Agreement. Remaining liability issues will be tried by the court beginning in May 2012. The amount of damages will be determined during the damages phase of the trial, which is currently expected to begin in September 2013.

The Plaintiffs’ and Occidental’s fraudulent conveyance/alter ego claims against Repsol and YPF are currently scheduled to be tried in November 2012. Both the Plaintiffs and Occidental have alleged that Repsol and YPF committed a fraud upon both parties by systematically stripping assets from Maxus and leaving it unable to satisfy any Passaic River cleanup liabilities that may be imposed upon Maxus. 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 sought 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 asked 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 sought 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. Oral argument on this matter in the Appellate Division was held on December 15, 2009. On March 4, 2010, the Appellate Division affirmed the trial court's decision on the grounds that there is no constitutionally-protected contract right to systematic funding of the TPAF. Having so concluded, the Appellate Division stated that it need not determine the prospective effect of the appropriation shortfalls in FY 2004-2007, and whether they constitute a "substantial impairment" in any constitutional sense. On March 22, 2010, the Plaintiffs filed a notice of petition for certification with the Supreme Court challenging the Appellate Division's decision affirming the trial court's dismissal of the Plaintiffs' complaint. On June 22, 2010, the Supreme Court denied the plaintiffs' petition for certification.

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. In light of the Appellate Division's March 4, 2010 decision in *New Jersey Education Association et al. v. State of New Jersey et al.*, the trial court informed the parties that the complaint would be dismissed on summary judgment without the need for oral argument. On April 8, 2010, the trial court dismissed the complaint on summary judgment for the same reasons enunciated in the Appellate Division's March 4, 2010 decision in *New Jersey Education Association et al. v. State of New Jersey et al.* The plaintiffs filed an appeal of the trial court's decision in the Appellate Division. Oral argument in this matter was held on January 4, 2011. On August 23, 2011, the Appellate Division affirmed the trial court's dismissal of the plaintiffs' complaint. The plaintiffs' did not file a petition for certification with the New Jersey Supreme Court.

CWA v. State. On June 22, 2011, CWA Local 1033 and other plaintiffs (collectively, the "CWA") filed a lawsuit in federal court challenging P.L. 2011, c. 78 ("Chapter 78"), which reformed public employee pension and health benefits. The complaint alleges that the State's historical funding of the pension funds violates the Contracts Clauses of the State and federal constitutions. The State prevailed in a similar challenge in *New Jersey Education Association et al. v. State of New Jersey et al.*, 412 N.J. Super. 192 (App. Div. 2010), *certif. denied*, 202 N.J. 347 (2010) (described below). The complaint also alleges that Chapter 78, as well as P.L. 2010, c. 1,

violates the Debt Limitation Clause of the State Constitution and that the provisions providing for no further adjustments to the monthly retirement allowance unless and until reactivated as permitted by law violates the Contracts Clauses of the State and federal constitutions. The CWA also alleges that Chapter 78 violates due process, constitutes a taking, asserts that the State has violated statutory and common law fiduciary obligations and the State's funding of the pension plans has violated State and federal tax law. On August 31, 2011, the New Jersey Education Association ("NJEA") and other labor organizations (collectively, the "NJEA") filed a complaint in the United States District Court for the District of New Jersey on behalf of themselves, their members, retirees, and other named plaintiffs challenging the constitutionality of Chapter 78, captioned *New Jersey Education Association et al. v. State of New Jersey et al.* The complaint also seeks to certify a class of public employees and retirees as plaintiffs. The complaint alleges various claims, including that various provisions of the Chapter 78 violates substantive due process, procedural due process, the Contracts Clauses of the Federal and State constitutions, the Takings Clauses of the Federal and State constitutions. On September 30, 2011, the *CWA v. State* and *New Jersey Education Association et al. v. State of New Jersey et al.* were consolidated.

On September 30, 2011, the State Legislative Branch Defendants filed a motion to dismiss. On October 28, 2011, the CWA filed a notice of dismissal, voluntarily withdrawing their case without prejudice. On November 17, 2011, the NJEA filed an amended complaint adding individual plaintiffs from the withdrawn CWA case, adding an additional count and seeking monetary damages as well as declaratory and injunctive relief. On December 12, 2011, the District Court, citing Eleventh Amendment immunity among other things, granted the State Legislative Defendants' motion to dismiss. On December 13, 2011, the State Executive Branch Defendants filed a motion to dismiss for failure to state a claim upon which relief may be granted. NJEA filed an opposition brief on February 7, 2012, in which it noted that it was dropping all claims sounding in State law and dropping the State as a defendant. The State filed a reply brief on February 14, 2012, seeking the dismissal of the federal claims against the remaining State Executive Branch Defendants. On March 5, 2012, the District Court granted in its entirety the State Executive Defendants' motion to dismiss. With all claims against all parties having thus been withdrawn or dismissed, the District Court entered an order on February 5, 2012 terminating the case. NJEA has thirty days from March 5, 2012 in which to file a notice of appeal. The State is vigorously defending this matter.

DePascale v. State of New Jersey. On July 22, 2011, plaintiff Paul DePascale, J.S.C., filed a complaint and order to show cause in the Superior Court, Mercer County, and also a notice of motion for direct certification with the New Jersey Supreme Court alleging that Chapter 78 (the 2011 Pension and Health Benefit Reform Legislation) violates Article VI, sec. 6, para. 6 of the State Constitution, which provides that "[t]he Justices of the Supreme Court and the Judges of the Superior Court shall receive for their services such salary as may be provided by law, which shall not be diminished during their term of appointment." DePascale seeks declaratory relief that Chapter 78 is unconstitutional as applied to judges and Justices appointed before its enactment and the immediate restoration of all funds which have been or may be deducted from his salary and the salaries of Justices and Judges appointed before the enactment of Chapter 78. On October 17, 2011, the court granted the declaratory relief sought by DePascale, determining that the increase in pension and health benefit contributions set forth in Chapter 78 was a diminution of salary of judges and Justices appointed prior to the enactment of Chapter 78 and violates Article VI, sec. 6, para. 6 of the State Constitution and the court issued an order on October 20, 2011 permanently enjoining implementation of Chapter 78 as it applies to judges and Justices. On October 20, 2011, the State filed a motion to stay implementation of the court's October 20, 2011 order. On October 26, 2011, the court denied the State's motion for a stay of the implementation of the court's October 20, 2011 order. On October 27, 2011, DePascale filed a motion for expedited review with the Supreme Court. By an order dated November 9, 2011, the Supreme Court granted DePascale's motion for expedited review and set a briefing schedule. The State filed its brief on December 28, 2011, and DePascale filed his opposition brief on January 17, 2012. The State was not afforded an opportunity to submit a reply brief. On January 17, 2012, the New Jersey State Bar Association (the "NJSBA") filed an amicus brief in support of DePascale. The Supreme Court has not yet issued an order granting the NJSBA permission to participate as amicus. The Supreme Court heard oral argument on this matter on March 26, 2012. The State is vigorously defending this matter.

Powell v. State. On September 12, 2011, seven State and local employees filed suit in Superior Court, Law Division, Burlington County against the State, various Executive Branch officials, and the State Legislature challenging various provisions of Chapter 78 that concern health benefits on various State constitutional law grounds, including Article I, Section 19 (Right to Organize Clause), Article IV, Section 7, Para. 9 (Special Legislation Clause), Article IV, Section 6, Para. 1 (Taxation Clause), Article VIII, Section 1, Para. 7 (Bill Origination Clause) and Article VI, Section 6, Para. 6 (Diminution Clause of Judicial Compensation Clause). On October 20, 2011 and November 16, 2011, respectively, the State Legislative Branch Defendants and the State Executive Branch Defendants filed motions to dismiss for failure to state a claim upon which relief may be granted. The plaintiffs filed an opposition brief on December 9, 2011 and a supplemental opposition brief on December 20, 2011. Reply briefs were filed by January 9, 2012. The court bifurcated the State Legislative Branch Defendants' motion to dismiss from the State Executive Branch Defendants' motion to dismiss. Oral argument on the State Legislative Branch Defendants' motion to dismiss is scheduled for May 18, 2012. Oral argument on the State Executive Branch Defendants' motion to dismiss will occur at an unspecified date after the New Jersey Supreme Court renders its decision in *DePascale v. State of New Jersey*. The State is vigorously defending this matter.

Berg v. Christie. On December 2, 2011, a number of retired Deputy Attorneys General and retired Assistant Attorneys General filed a lawsuit in Superior Court, Law Division, Mercer County against various State officials challenging the constitutionality of Section 25 of Chapter 78, which temporarily suspends the payment of pension adjustments to retired public employees. The plaintiffs' alleges violation of multiple provisions of both the State and federal constitutions and seek monetary damages, injunctive relief, and a declaratory judgment. On February 2, 2012, the State filed a motion to dismiss for failure to state a claim upon which relief may be granted. Plaintiffs' opposition brief and cross-motion for summary judgment was filed on March 16, 2012. The State's reply brief is due by April 23, 2012. 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. Mediation occurred in October 2009, but did not result in a settlement. On December 4, 2009, the court entered an order providing that the TFC and Frontier-Kemper may not seek damages due to negligent

performance of architectural services. On February 18, 2010, NJ Transit filed a motion to dismiss TFC's and Frontier-Kemper's claims pursuant to the statute of limitations under the New Jersey Contractual Liability Act. In March 2010, the court denied NJ Transit's motion to dismiss. Frontier-Kemper filed a motion to disqualify the Design Consultant's attorneys based on an alleged conflict of interest. On May 21, 2010, the court issued an order denying Frontier-Kemper's motion to disqualify the Design Consultant's attorneys. Frontier-Kemper filed a motion for leave to appeal from court's May 21, 2010 order. On October 21, 2010, the Supreme Court granted Frontier-Kemper's motion to appeal and remanded the matter back to the Appellate Division for consideration on the merits. TFC, Frontier-Kemper and NJ Transit agreed to settle this matter for \$18.5 million, and agreed to approximately \$3 million in change orders to be paid by NJ Transit. NJ Transit paid the agreed upon settlement amount to TFC and Frontier-Kemper. A stipulation of dismissal with prejudice was filed with the court with respect to the claims by and between TFC and NJ Transit. On March 12, 2012, NJ Transit filed a motion for summary judgment to dismiss the Design Consultant's cross-claims against NJ Transit. The motion is scheduled for oral argument on April 13, 2012. 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, 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. 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 again 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 was 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. Argument was heard by the Tax Court on April 27, 2009. On December 15, 2009, the Tax Court upheld the State's assessment of the insurance premiums tax and the constitutionality of the insurance premiums tax "cap" statute as amended. On January 13, 2010, Horizon filed a notice of appeal with the Appellate Division. The parties filed their briefs with the Appellate Division. On March 7, 2012, the Appellate Division again rejected Horizon's constitutional challenges to the constitutionality of the insurance premium tax "cap" statute as amended and also denied Horizon's appeal of discovery and procedural issues in this matter. On March 26, 2012, Horizon filed a notice of petition for certification with the New Jersey Supreme Court. 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 that Oracle does not have nexus to the State and 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. Discovery is ongoing. 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. All parties briefed the facial constitutionality issue and the Appellate Division heard oral argument on November 16, 2009. On July 12, 2010, the Appellate Division affirmed the Tax Court’s decision on the facial constitutionality of the Throw-Out Rule. On October 21, 2010, the Supreme Court granted the taxpayers’ motion for leave to appeal. On May 3, 2011, Pfizer and the Division settled the dispute concerning the facial constitutionality of the Throw-Out Rule. On May 4, 2011, the Whirlpool matter was argued before the Supreme Court. By a unanimous opinion dated July 28, 2011, the New Jersey Supreme Court affirmed, with modification, the facial constitutionality of the Throw-Out Rule. Whirlpool’s as applied constitutional challenge remains for adjudication by the Tax Court of New Jersey. Discovery in this matter is ongoing. The State is vigorously defending this matter.

Banc of America Consumer Card Holdings Corporation v. Director, Division of Taxation. On or about August 5, 2011, Banc of America Consumer Card Holdings Corporation (“BOA”) filed a complaint in the Tax Court of New Jersey, contesting the Division’s May 9, 2011 denial of a CBT refund for tax periods January 1, 2006 through December 31, 2008. BOA does not challenge the State’s jurisdiction to impose CBT. BOA alleges that its income from intangibles should be sourced to BOA’s alleged commercial domicile outside of the State. The State filed an answer to the complaint on October 4, 2011, and an amended answer on March 6, 2012. The parties have agreed to a temporary stay of discovery in order to negotiate a protective order concerning BOA’s alleged confidential records that are responsive to discovery. The State is vigorously defending this matter.

New Cingular Wireless, PCS, LLC v. Director, Division of Taxation. On or about August 4, 2012, New Cingular Wireless, PCS, LLC (“New Cingular”) filed a complaint in the Tax Court, contesting the Division’s October 5, 2011 denial of a Sales and Use Tax refund claim on behalf of its customers for tax periods November 1, 2005 through September 30, 2010. The Division denied New Cingular’s claim for refund on the grounds that a portion of its claim is barred by the statute of limitations and that New Cingular had not demonstrated that it refunded the applicable Sales and Use Tax to its customers before filing its claim with the Division, as required by statute. Furthermore, the State does not permit a refund claim on behalf of a class. The State filed its answer on March 5, 2012. The State is vigorously defending this matter.

Mid-Atlantic Solar Energy Indus. Ass’n v. Christie. On February 11, 2010, the Governor issued Executive Order No. 14 (“EO 14”), which declared that a state of fiscal emergency exists due to a budget shortfall in excess of \$2.2 billion. In EO 14, the Governor also ordered the Budget Director to identify and place into reserve, pursuant to *N.J.S.A. 52:27B-26*, funds in an amount sufficient to ensure that the State budget for Fiscal Year 2010 remains balanced. In response to the Governor’s mandate, the Budget Director then placed into reserve, among other monies, \$158 million from the Clean Energy Trust Fund. On March 24, 2010, Mid-Atlantic Solar Energy Industries Association (the “Appellant”), a trade and advocacy organization comprised of solar manufacturers, filed a Notice of Appeal challenging the transfer of \$158 million of Clean Energy Trust Funds into the General Fund. The Appellant claims that the Governor’s mandate to the Budget Director violates the State Constitution and was without legislative authorization. The Appellant sought a court order directing the State Treasurer to return the \$158 million to the Clean Energy Trust Fund. All briefs were filed by June 1, 2010, and the Appellant moved on June 23, 2010 to accelerate oral argument. On June 29, 2010, a supplemental appropriation, *L. 2010,*

c. 19, was enacted providing that notwithstanding any law or regulation to the contrary, transfer of an amount not in excess of \$158 million may be transferred from the Clean Energy Fund into the General Fund as State revenue, subject to the approval of the Budget Director. On June 29, 2010, the State filed a motion to dismiss this appeal as moot. The Appellate Division denied the State's motion to dismiss the appeal as moot.

The Appellant has also filed three separate, but related challenges in this matter: *In re Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012: Revised Budgets*; *In re Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2010: Revised 2010 Budget Order Issued 21 June 2010*; and *In re P.L. 2010, c. 19*. These cases challenge P.L. 2010, c. 19, the Governor's mandate to the Budget Director to place in reserve the \$158 million of Clean Energy Funds and the transfer of such funds into the General Fund and the New Jersey Board of Public Utilities ("BPU") June 21, 2010 Budget Order which revised previously approved budgets in light of compliance with EO 14 as a violation of the Electric Discount and Energy Competition Act ("EDECA"), ultra vires, void ab initio and is arbitrary and capricious. The Appellant moved to consolidate all four appeals. The State filed a cross motion to dismiss *In re P.L. 2010, c. 19* as improperly venued in the Appellate Division and those parts of the appeals which challenge the Legislature's authority to transfer the Clean Energy Trust Fund monies to the General Fund pursuant to P.L. 2010, c. 19. In September 2010, the Appellate Division denied the Appellant's motion to consolidate the four appeals and denied the State's motion to dismiss *In re P.L. 2010, c. 19* as improperly venued in the Appellate Division.

On October 19, 2010, oral argument was held in *Mid-Atlantic Solar Energy Indus. Ass'n v. Christie*. On December 7, 2010, oral argument was held on the other three appeals: *In re Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012: Revised Budgets*; *In re Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2010: Revised 2010 Budget Order Issued 21 June 2010*; and *In re P.L. 2010, c. 19*. On March 4, 2011, the Appellate Division held that *L. 2010, c. 19*, which authorized the transfer of \$158 million of monies from the Clean Energy Fund into the General Fund, was valid, and therefore, this conclusion moots the Appellant's other three appeals. On March 23, 2011, the Appellants filed a petition for certification with the Supreme Court. On July 14, 2011, the Supreme Court denied the Appellants' petition for certification.

Challenges to L. 2010, c. 25. On September 23, 2010, American Express Travel Related Services Company, Inc. ("AMEX") filed suit against the State Treasurer and State's Unclaimed Property Administrator (the "State Defendants") challenging the establishment of an abandonment period for travelers check under the State's unclaimed property laws enacted as part of *L. 2010, c. 25* ("Chapter 25") as unconstitutional under the Contracts Clause, the Commerce Clause, the Due Process and Takings Clause of the Fifth Amendment and the Fourteenth Amendment of the United States Constitution and seeking injunctive relief against the State Defendants from enforcing Chapter 25. On November 13, 2010, the U.S. District Court ruled on AMEX's order to show cause and found that AMEX failed to establish a reasonable likelihood of success on its claims challenging the provisions of Chapter 25 which are applicable to travelers checks. On November 15, 2010, the U.S. Court of Appeals for the Third Circuit (the "Third Circuit"), on motion by AMEX, granted a preliminary injunction. In a related matter, on September 30, 2010, the New Jersey Retail Merchants Association ("NJRMA") filed suit against the State Defendants challenging the revisions to the priority scheme applicable to gift cards, gift certificates, stored value cards and stored value certificates as void and unenforceable under the priority scheme doctrine established under *Texas v. New Jersey*, 379 U.S. 674 (1965), to determine which state could escheat abandoned intangible property, as unconstitutional under the Contracts Clause, the Takings Clause of the Fifth Amendment and the Due Process Clause of the Fourteenth Amendment and seeking injunctive relief against the State Defendants from enforcing Chapter 25.

In subsequently filed related matters, on October 5, 2010, the New Jersey Food Council ("Food Council") and on October 11, 2010, American Express Prepaid Card Management Corporation ("AMEX PCMC") filed separate suits against the State Defendants challenging the reduction in the abandonment period for gift cards and stored value cards under the State's unclaimed property laws enacted as part of Chapter 25 as in violation of the federal CARD Act (15 U.S.C. 16931-1) which precludes the issuers of gift cards from imposing expiration dates earlier than five years, challenging the revisions to the priority scheme applicable to gift cards and stored value

cards as void and unenforceable under the priority scheme doctrine established under *Texas v. New Jersey*, as unconstitutional under the Contracts Clause, Takings Clause and Due Process Clause of the State Constitution, as unconstitutional under the Contracts Clause, the Takings Clause and Due Process Clause of the Fifth and Fourteenth Amendments of the United States Constitution and seeking injunctive relief against the State Defendants from enforcing Chapter 25.

On October 25, 2010, Merchants Express Money Order Company, Inc. (“MEMO”) filed suit against the State Defendants challenging the provisions of Chapter 25 applicable to money orders. MEMO alleges that the provisions of Chapter 25 applicable to money orders is unconstitutional under the Contracts Clause, Takings Clause and Due Process Clause of the State Constitution, unconstitutional under the Contracts Clause, the Takings Clause and Due Process Clause of the Fifth and Fourteenth Amendments of the United States Constitution and is seeking injunctive relief against the State Defendants from enforcing Chapter 25. On November 18, 2010, the U.S. District Court denied MEMO’s motion for preliminary injunctive relief. MEMO immediately filed a notice of appeal. Subsequent to MEMO filing its notice of appeal, MEMO and the State Defendants reached a settlement of this and two other matters pending in State court. Pursuant to the settlement, MEMO will report unclaimed money orders to the State according to the period of abandonment established in Chapter 25, subject to deduction of applicable service fees.

On November 13, 2010, the U.S. District Court concluded that the plaintiffs established a reasonable likelihood of success on the federal preemption and Contracts Clause claims and enjoined: (a) the place of purchase presumption of Chapter 25, and as administered by subsequent State Treasurer guidance; and (b) the retroactive application of the unclaimed property laws to stored value cards redeemable only for goods and services (i.e. not redeemable for cash). On December 7, 2010, the State Defendants appealed those aspects of the November 13th Order related to stored value cards to the United States Circuit Court of Appeals for the Third Circuit (the “Third Circuit”). On January 31, 2011, the Third Circuit enjoined the requirement that businesses selling stored value cards collect the zip code information from purchasers pending consideration of the issue by the full panel. On December 7, 2010, the State Defendants appealed those aspects of the U.S. District Court’s November 13th decision related to stored value cards to the Third Circuit. On January 31, 2011, the Third Circuit enjoined the requirement that businesses selling stored value cards collect the zip code information from purchasers pending consideration of the issue by the full panel. On February 8, 2011, the Third Circuit granted the motions for stays pending appeal in the AMEX, NJRMA, Food Council and AMEX PCMC matters. On January 5, 2012, the Third Circuit affirmed the U.S. District Court’s opinion. The State is vigorously defending these matters.

Federal Transit Administration Demand for Repayment. The Federal Transit Administration (“FTA”) has sent two letters to NJ Transit initially demanding the repayment by December 24, 2010, of \$271 million of federal funds that NJ Transit spent on the ARC Tunnel Project, plus interest and penalty charges. The ARC Tunnel Project was cancelled at the Governor’s direction due to concerns over projected cost overruns in excess of the project budget of \$8.7 billion. The FTA cites a provision of Title 49 of the U.S. Code which requires the repayment of federal payments made under early system work agreements where the recipient does not carry out a project for reasons within its control. Special counsel has been retained for NJ Transit to address the repayment demand. On January 25, 2011, NJ Transit submitted its opposition to FTA’s demand for repayment. On April 29, 2011, the FTA issued its final administrative decision asserting that the State owes a debt of \$271 million to the United States Government and stating that NJ Transit should contact the FTA to make arrangements for payment of the amount due. On September 30, 2011, NJ Transit and the FTA agreed to settle this matter for \$95 million, payable by NJ Transit over a five year period.

James Liik, et al v. NJ Dept of Corrections and Civil Service Commission. This matter was filed in the Mercer County, New Jersey Superior Court, Law Division in November 2009 (the “2009 Case”). The Liik plaintiffs, five senior corrections officers and PBA Local 105, filed a complaint on their own behalf and all similarly situated individuals, demanding lost wages and benefits they allegedly would have received but for their improper designation as non-employee trainees under a 1998 pilot program that established correction officer recruit trainee as a new job classification. Recruit trainees under the program were considered students,

rather than regular employees, and they were paid a weekly stipend while in training, rather than the salary of a corrections officer recruit. The complaint alleged a violation of constitutional due process principles, a violation of state statutory civil rights protections, a breach of a statutory and regulatory contract, a breach of a quasi-contract, a breach of an implied in fact contract and that the 1998 pilot program unjustly enriched the State because of the failure of the State to pay wages and benefits of a regular employee to recruit trainees. The complaint also demands punitive damages, as well as attorney fees and costs.

This action was filed shortly after the Appellate Division decision in *James Liik, et al. v. New Jersey Department of Personnel and New Jersey Department of Corrections*. The prior complaint asserted that the defendants acted outside their authority by designating plaintiffs and paying them as recruit trainees allegedly in violation of provisions of the Civil Service Act, the Administrative Procedure Act and the federal Fair Labor Standards Act. In July 2009, the Appellate Division ruled that the 1998 pilot program was statutorily authorized for one year and that the program could not continue beyond one year without rulemaking. Accordingly, the court held that the program was void after one year because it had not been continued by regulation. No damages were awarded in the prior action. The prior action has been concluded and is not subject to appeal.

The State defendants filed motions to dismiss the complaint in the 2009 Case and the Liik plaintiffs filed a cross-motion for summary judgment. The trial court dismissed all causes of action, except for the implied in fact contract claim and judgment in favor of the plaintiffs was entered on this claim. In addition, the trial court granted a motion by the Liik plaintiffs to certify the lawsuit as a class action consisting of all recruit trainees during the years 1999 to 2009. On August 18, 2011, the State filed a motion for leave to appeal the trial court's order denying the State's motion to dismiss the complaint in its entirety and the granting of summary judgment to the plaintiffs on the their implied in fact contract claim. On October 7, 2011, the Appellate Division denied the State's motion for leave to appeal. Discovery is continuing on the issue of damages on the implied in fact contract claim. The State is vigorously defending this matter.

Tort, Contract, Workers' Compensation, Medicaid 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 by employees against the State and State agencies seeking recovery for workers' compensation claims that are primarily paid out of the fund created pursuant to the New Jersey Workers' Compensation Law (N.J.S.A. 35:15-1 *et seq.*). Claimants in such matters are seeking recovery for personal injuries suffered by a claimant by accident arising out of and in the course of the claimant's employment due to the employer's negligence. The State is unable to estimate its exposure for these claims.

The Office of the Inspector General of the U.S. Department of Health & Human Services ("OIG") has conducted and continues to conduct various audits of Medicaid claims for different programs administered by the State's Department of Human Services ("DHS"). Currently, these audits span time periods between July 27, 2003 and December 31, 2007. The OIG audits, which have primarily focused on claim documentation and cost allocation methodologies, recommend that certain claims submitted by DHS be disallowed. OIG submits its recommendations on disallowances to the Centers for Medicare and Medicaid Services ("CMS") which may, in

whole or in part, accept or disagree with the OIG's recommendations. If the OIG's recommendations are not challenged by the State or are upheld by CMS, DHS will be required to refund the amount of any disallowances. However, DHS is disputing OIG's audit findings. In addition, the State has currently reserved certain revenues that would mitigate, but not completely offset, the State's exposure assuming CMS upholds the OIG's recommended claim disallowances. Given that the State is currently disputing and appealing the OIG audit findings, it cannot estimate any final refund amounts or the timing of any refund payments that may be due to CMS. These current audits and any future audits of Medicaid claims submitted by DHS may result in claim disallowances which may be significant. The State is unable to estimate its exposure for these claim disallowances. See "FINANCIAL RESULTS AND ESTIMATES—Appropriations—*Appropriations of Federal Aid*" for additional discussion of currently pending audits.

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 \$136,700,000 for tort and medical malpractice claims pending as of June 30, 2011. 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, 2011

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, 2011 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
2011

<u>Company</u>	<u>New Jersey Employees</u>
Wakefern Food Corporation	34,654
Wal-Mart Stores, Inc.	17,270
The Great Atlantic & Pacific Tea Co., Inc. (A&P)	15,899
Verizon	15,168
UPS	14,961
United Continental Holdings	14,000
Johnson & Johnson	14,000
Caesar's Entertainment	13,933
Merck & Company, Inc.	12,000
The Home Depot	11,500
Bank of America	11,000
AT&T, Inc.	>9,800
CVS Caremark	9,600
Public Service Enterprise Group, Inc. (PSEG)	9,100
Target Corporation	8,700
The Stop & Shop Supermarket Co.	8,596
TD Bank	8,577
Prudential Financial, Inc.	8,200
FedEx Corporation	8,130
Macy's	8,100
Wawa, Inc.	7,154
Trump Entertainment Resorts	6,789
Wells Fargo	6,568
Bristol-Myers Squibb Company	6,226
Lowe's Companies Inc.	6,200
Borgata Hotel Casino & Spa	6,097
Bed Bath & Beyond	6,000
JP Morgan Chase & Company	5,800
Lockheed Martin	5,800
ACME Markets, Inc.	5,251

Source: New Jersey Business Magazine, August 2011

TABLE II
POPULATION CHANGES

	Population (Thousands)			Population Per Square Mile 2010	Annual Rate of Growth (Percent)		
	Census 1990	Census 2000	Census 2010		1980 to 1990	1990 to 2000	2000 to 2010
United States	248,710	281,422	308,746	87	0.94	1.24	0.93
Northeast	50,809	53,595	55,290	342	0.34	0.54	0.31
New England	13,207	13,923	14,445	230	0.67	0.53	0.37
Middle Atlantic	37,602	39,672	40,872	412	0.22	0.54	0.30
New York	17,990	18,977	19,378	411	0.24	0.54	0.21
New Jersey	7,730	8,414	8,792	1,196	0.49	0.85	0.44
Pennsylvania	11,882	12,281	12,702	284	0.01	0.33	0.34

Source: U.S. Census Bureau, 2010 Census Release, February 2011

TABLE III
TOTAL PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2000-2011 (Dollars in Millions)

Calendar Years	Total Personal Income			
	New Jersey	New York	Pennsylvania	United States
2000	\$325,986	\$657,894	\$369,919	\$ 8,554,866
2001	336,606	676,980	377,374	8,878,830
2002	341,558	678,393	387,664	9,054,702
2003	347,692	695,392	399,547	9,369,072
2004	365,260	741,167	417,791	9,928,790
2005	379,650	786,512	432,248	10,476,669
2006	411,429	851,437	462,704	11,256,516
2007	436,120	915,526	489,076	11,900,562
2008	454,206	949,250	512,992	12,451,660
2009	433,835	904,026	499,700	11,916,773
2010	450,004	942,523	516,390	12,353,577
2011	469,115	983,868	541,297	12,981,741

Calendar Years	Total Personal Income As A Percent of 2000 Base			
	New Jersey	New York	Pennsylvania	United States
2000	100.0	100.0	100.0	100.0
2001	103.3	102.9	102.0	103.8
2002	104.8	103.1	104.8	105.8
2003	106.7	105.7	108.0	109.5
2004	112.0	112.7	112.9	116.1
2005	116.5	119.5	116.8	122.5
2006	126.2	129.4	125.1	131.6
2007	133.8	139.2	132.2	139.1
2008	139.3	144.3	138.7	145.6
2009	133.1	137.4	135.1	139.3
2010	138.0	143.3	139.6	144.4
2011	143.9	149.5	146.3	151.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of March 28, 2012

Note: Historical numbers may differ from prior reports because of the 2009 Comprehensive Revision of National Income and Product Amounts.

TABLE IV
2011 PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES

	<u>2010 Amount</u>	<u>2011 Amount</u>	<u>2011 Percent of National Average</u>	<u>Rank United States</u>	<u>Percent Change 2010 - 2011</u>
United States	39,937	41,663	100.0%	—	4.3%
New Jersey	51,139	53,181	127.6	3	4.0
New York	48,596	50,545	121.3	5	4.0
Pennsylvania	40,604	42,478	102.0	18	4.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of March 28, 2012.

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

Note: Historical numbers may differ from prior reports because of the 2009 Comprehensive Revision of National Income and Product Amounts.

TABLE V
PER CAPITA PERSONAL INCOME
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES
2000 - 2011

<u>Calendar Years</u>	<u>Per Capita Personal Income</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2000	\$38,667	\$34,623	\$30,113	\$30,319
2001	39,635	35,476	30,683	31,157
2002	39,936	35,448	31,438	31,481
2003	40,423	36,264	32,288	32,295
2004	42,302	38,660	33,664	33,909
2005	43,880	41,108	34,719	35,452
2006	47,500	44,567	36,984	37,725
2007	50,256	47,852	38,927	39,506
2008	52,141	49,408	40,674	40,947
2009	49,549	46,824	39,449	38,846
2010	51,139	48,596	40,604	39,937
2011	53,181	50,545	42,478	41,663

<u>Calendar Years</u>	<u>Per Capita Personal Income As A Percent of United States</u>			
	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>	<u>United States</u>
2000	127.5%	114.2%	99.3%	100.0%
2001	127.2	113.9	98.5	100.0
2002	126.9	112.6	99.9	100.0
2003	125.2	112.3	100.0	100.0
2004	124.8	114.0	99.3	100.0
2005	123.8	116.0	97.9	100.0
2006	125.9	118.1	98.0	100.0
2007	127.2	121.1	98.5	100.0
2008	127.3	120.7	99.3	100.0
2009	127.6	120.5	101.6	100.0
2010	128.0	121.7	101.7	100.0
2011	127.6	121.3	102.0	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of March 28, 2012

Note: Historical numbers may differ from prior reports because of the 2009 Comprehensive Revision of National Income and Product Amounts.

TABLE VI
WAGE AND SALARY WORKERS IN NONAGRICULTURAL ESTABLISHMENTS
ANNUAL AVERAGES BY NAICS INDUSTRY DIVISIONS, NEW JERSEY,
2000-2011
(In thousands)

<u>Year</u>	<u>Total Non-farm Employment</u>	<u>Manufacturing</u>	<u>Natural Resources & Mining</u>	<u>Construction</u>	<u>Trade, Transportation & Utilities</u>	<u>Information</u>	<u>Financial Activities</u>	<u>Services and Miscellaneous*</u>	<u>Government</u>
2000	3,994.5	421.6	1.9	149.6	899.0	126.9	266.8	1,539.6	588.9
2001	3,997.2	401.2	1.7	158.8	890.6	126.4	269.8	1,545.7	602.6
2002	3,983.9	367.5	1.6	162.6	881.4	113.2	276.7	1,567.5	613.5
2003	3,978.8	350.4	1.6	160.5	876.2	102.0	276.2	1,590.2	621.9
2004	3,999.1	338.2	1.6	165.9	874.7	98.0	276.9	1,610.5	633.4
2005	4,039.0	330.4	1.7	169.1	877.3	97.1	279.7	1,642.1	641.6
2006	4,070.9	323.8	1.7	174.9	874.9	97.5	279.2	1,671.8	647.3
2007	4,078.6	311.3	1.7	172.3	874.3	96.0	275.7	1,699.8	647.7
2008	4,051.2	298.8	1.7	164.5	862.4	91.2	270.2	1,713.1	649.2
2009	3,894.5	266.3	1.5	138.5	817.8	84.2	255.7	1,678.1	652.5
2010	3,850.7	257.2	1.4	129.4	810.2	79.3	251.6	1,681.8	639.9
2011	3,855.0	253.5	1.4	129.2	816.4	74.1	251.2	1,708.9	620.4

Note: Historical numbers may differ from prior reports because of the 2009 Comprehensive Revision of National Income and Products Amounts.

* 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

TABLE VII
AVERAGE ANNUAL UNEMPLOYMENT RATES
NEW JERSEY AND UNITED STATES
2001-2011

<u>Calendar Years</u>	<u>New Jersey</u>	<u>United States</u>
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%
2009	9.0%	9.3%
2010	9.6%	9.6%
2011	9.3%	9.0%

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

TABLE VIII
AVERAGE HOURLY WAGES (NAICS)
PRODUCTION WORKERS ON MANUFACTURING PAYROLLS
NEW JERSEY AND SELECTED NEIGHBORING STATES
2001-2011

<u>Calendar Years</u>	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>
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	17.89	18.58	15.61
2009	18.30	18.54	16.28
2010	18.97	18.42	16.81
2011	19.95	18.58	17.81

Source: U.S. Department of Labor, Bureau of Labor Statistics

TABLE IX
NEW VEHICLE SALES
NEW JERSEY
2002-2011

<u>Calendar Years</u>	<u>Total Vehicles</u>		
	<u>Annual</u>	<u>Monthly Average</u>	<u>% Change</u>
2002	610,422	50,869	
2003	627,499	52,292	2.8%
2004	640,787	53,399	2.1%
2005	624,000	52,000	-2.6%
2006	621,298	51,775	-0.4%
2007*	591,694	49,308	-4.8%
2008	499,554	41,630	-15.6%
2009	399,852	33,321	-20.0%
2010	420,014	35,001	5.0%
2011	458,042	38,170	9.1%

* Data for September and October 2007 are derived from R.L. Polk's New Vehicle Registrations

Source: N.J. Department of Transportation, Motor Vehicle Commission

TABLE X
NAICS COMPOSITION OF NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
NEW JERSEY AND THE UNITED STATES: 2011

	New Jersey		United States	
	No. of Jobs(000)	% of Total	US Jobs(mil.)	% of Total
Total Nonfarm	3,855.0	100.0%	131.4	100.0%
Manufacturing	253.5	6.6	11.7	8.9
Natural Resources & Mining	1.4	0.0	0.8	0.6
Construction	129.2	3.4	5.5	4.2
Trade, Transportation and Utilities	816.4	21.2	25.0	19.0
Information	74.1	1.9	2.7	2.0
Financial Activities	251.2	6.5	7.7	5.8
Services	1,708.9	44.3	55.9	42.5
Government	620.4	16.1	22.1	16.8

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

Source: U.S Department of Labor, Bureau of Labor Statistics

TABLE XI
DOLLAR AMOUNT OF ANNUAL NONRESIDENTIAL CONSTRUCTION
AUTHORIZED BY BUILDING PERMITS, 2005 TO 2011

Calendar Year	Estimated Nonresidential Costs (\$M)	% Change
2005	6,241.7	
2006	7,287.1	16.7%
2007	7,054.5	-3.2%
2008	7,968.1	13.0%
2009	4,971.4	-37.6%
2010	4,811.5	-3.2%
2011	6,091.8	26.6%

Source: New Jersey Department of Community Affairs

APPENDIX I-C
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:

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. The AMA for privilege periods commencing after June 30, 2006 shall be \$0.00, except for taxpayers exempt from corporation net income taxation pursuant to 15 U.S.C. s.381 et seq. (Pub.L.86-272). 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 three-fraction apportionment formula is used. The three-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. *P.L. 2011, c. 59* changes the three-fraction apportionment formula to a single sales fraction. The change in the apportionment method will be phased in over three years as follows: the sales fraction will account for 70% of the three-fraction formula for the 2012 privilege period, 90% for the 2013 privilege period, and 100% for the 2014 privilege period. For the 2012 and 2013 privilege periods, the property and payroll fractions evenly account for the remainder of the formula. The law also provides for a specialized sales fraction formula for airlines calculated as a ratio of airline revenue miles in this State divided by the airline’s total revenue miles. *P.L. 2011, c. 59*. 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 this 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:

<u>New Jersey Gross Receipts</u>	<u>Minimum Tax</u>
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

However, for privilege periods 2012 and forward, the minimum tax amounts set forth above are reduced by 25% for S corporations. *P.L. 2011, c. 84*. 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). Chapter 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.

P.L. 2011, c. 189 phases out the tax over three years. The tax which shall be paid shall be imposed: (1) at the rate of 4% on the gross receipts from a cosmetic medical procedure performed on or after July 1, 2012 but before July 1, 2013, (2) at the rate of 2% on the gross receipts from a cosmetic medical procedure performed on or after July 1, 2013 but before July 1, 2014, and (3) at the rate of 0% on the gross receipts from a cosmetic medical procedure performed on or after July 1, 2014.

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 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.* 2008, c. 109. The credit percentages for eligible claimants are as follows: 20% from 2003 through 2007, 22.5% in 2008, 25% for 2009, and 20% for 2010 and thereafter. *P.L.* 2010, c. 27.

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 Chapter 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*).

Effective January 1, 2012, a taxpayer is permitted an alternative business calculation deduction offsetting gains from one type of business with losses from another. *P.L. 2011, c. 60*. Net business-related losses can be carried forward for up to 20 years. The alternative business deduction is limited to four categories of business income as follows: (1) net profits from business; (2) net gains or net income derived from, or in the form of rents, royalties, patents, and copyrights; (3) distributive share of partnership income; and (4) net pro rata share of S corporation income.

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*.

Currently, 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 2010 Tax

Year Gross Income: Benefit Calculation

Not over \$50,000 Multiply the amount of the 2006 property taxes paid by 10%

Over \$50,000 but not over \$75,000 Multiply the amount of the 2006 property taxes paid by 6.67%

Over \$75,000 Not eligible

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 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 2010 Tax

Year Gross Income: Benefit Calculation

Not over \$100,000 Multiply the amount of the 2006 property taxes paid by 10%

Over \$100,000 but not over \$150,000 Multiply the amount of the 2006 property taxes paid by 5%

Over \$150,000 Not eligible

Eligibility for payment of homestead benefits is subject to change by the State budget.

Homestead Property Tax Reimbursement

The Homestead Property Tax Reimbursement (“PTR”) program is a program designed to alleviate the property tax burden for eligible claimants who are over 65 years old or are disabled persons. The PTR is calculated based upon the difference between an eligible claimant’s base year (the first year the claimant is deemed eligible to participate in the program), and the property taxes assessed and paid in the year of the PTR being sought. However, to receive a PTR, the property taxes assessed and paid must be greater than the eligible claimant’s base year. Eligibility for payment of PTRs is subject to change by the State budget.

For fiscal year 2011, only applicants who received a PTR in Fiscal Year 2010 shall be eligible for a PTR in Fiscal Year 2011 in an amount equal to the PTR paid in Fiscal Year 2010. *P.L. 2010 c. 35*. However, applicants that would otherwise be ineligible in Fiscal Year 2011 based on Fiscal Year 2010 eligibility criteria shall not receive a property tax reimbursement in Fiscal Year 2011. *P.L. 2010 c. 35*.

For fiscal year 2012, new applicants are eligible for the PTR, except that citizens with annual income of more than \$70,000 shall not be eligible for property tax reimbursements in fiscal year 2012.

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. Where a municipality imposes the optional tax, any unpaid tax is subject to interest at 5% per annum. *P.L. 2010, c. 55*. 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*.

P.L. 2011 c. 25 imposes a new tax rate on captive insurance companies. The annual minimum aggregate tax calculated for both direct premiums and assumed reinsurance premiums to be paid is \$7,500 and the annual maximum aggregate tax is \$200,000. With respect to direct premiums, captive insurers must pay a tax of .38 of 1% on the first \$20 million; .285 of 1% of the next \$20 million; .19 of 1% on the next \$20 million and .072 of 1% on each dollar thereafter on the direct premiums collected or contracted for on policies or contracts of insurance written by the company during the year ending December 31. Captive insurers may deduct return premiums including dividends on unabsorbed premiums or premium deposits returned or credited to policyholders. No tax is due or payable on considerations received for annuity contracts. With respect to assumed reinsurance premiums, the tax is imposed at the rate of .214 of 1% on the first \$20 million of assumed reinsurance premiums; .143 of 1% on the next \$20 million; .048 of 1% on the next \$20 million and .024 of 1% of each dollar thereafter. The reinsurance premium tax does not apply to premiums for risks or portions of risks, which are subject to taxation on a direct basis. In addition, the reinsurance premium tax does not apply in connection with the receipt of assets in exchange for the assumption of loss reserves and other liabilities of another insurer under common ownership and control, when (1) the transaction is part of a plan to discontinue the operations of the other insurer and (2) the intent of the parties to the transaction is to renew or maintain the business with the captive insurance company.

P.L. 2011, c. 119 modifies the tax treatment of surplus lines policies so that the tax payable pursuant to this section shall be based on the total United States premium for the applicable policy when New Jersey is the home state.

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 a tax imposed upon the sale of motor fuel, liquefied petroleum, and aviation gasoline, for use or consumption in the State. While fuel taxes are imposed upon the ultimate consumer, *P.L.* 2010, c. 22 requires that the tax be pre-collected by the fuel supplier, permissive supplier, importer, exporter, blender, distributor, aviation fuel dealer, and liquefied petroleum gas dealer; *P.L.* 2010 c. 22 changes the point of motor fuel taxation from the retail and distribution system of refineries, pipelines, ships and barges, at a terminal. A reduction in the administrative costs for both taxpayers and tax administrators is expected from changing the point of taxation. *P.L.* 2010, c. 22.

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: Motor Fuel — 10.5 cents per gallon for gasoline and blended fuel that contains gasoline or is intended for use as gasoline; 13.5 cents per gallon for diesel fuel and blended fuel that contains diesel fuel or is intended for use as diesel fuel and kerosene (but does not include aviation grade kerosene). Liquefied Petroleum Gas — 5.25 cents per gallon. Aviation gasoline — 10.5 cents per gallon. In addition to the foregoing, aviation fuel distributed to a general aviation airport is taxed at 2 cents per gallon. *P.L.* 2010, c. 22.

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: 23¼%. 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*. *P.L. 2011, c. 49* deleted the term “digital property” and replaced the term with “specified digital product.”

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 a designated Urban Enterprise Zone ("UEZ") are authorized to collect sales tax equal to 50% of the tax rate in effect, except 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*. Retail sales of personal property (except motor vehicles and energy) and sales of services (except telecommunications services and utility services) to a qualified business for the exclusive use or consumption of such business within the UEZ are exempt from sales tax. *P.L. 2007, c. 328*. Further, receipts from sales made to contractors or repairmen of materials, supplies, or services, for exclusive use in erecting structures or building on, or otherwise improving, altering, or repairing real property of a qualified business within the UEZ, are also exempt from sales tax.

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 Chapter 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 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*.

***AUDITED FINANCIAL STATEMENTS OF THE CORPORATION
AS OF DECEMBER 31, 2011 AND 2010 AND FOR THE YEARS THEN ENDED***

SOUTH JERSEY PORT CORPORATION

**AUDIT REPORT FOR THE YEAR
ENDED DECEMBER 31, 2011**

SOUTH JERSEY PORT CORPORATION

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SOUTH JERSEY PORT CORPORATION

BOARD MEMBERS

AS OF DECEMBER 31, 2011

Richard A. Alaimo, Chairman
District 3

Chad Bruner
District 2

Jonathan S. Gershen
District 3

Joseph Maressa, Jr.
District 2

Eric Martins
District 3

Craig Remington
District 2

Robert DeAngelo
District 2

Carl E. Styles
District 1

Sheila Roberts
District 2

Fran Smith
District 1

Christopher Chianese
State Treasurer Designee

SOUTH JERSEY PORT CORPORATION

PART I

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2011



Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors of the
South Jersey Port Corporation
County of Camden
101 Joseph A. Balzano Boulevard
Camden, New Jersey 08103

We have audited the accompanying financial statements of the business-type activities of the South Jersey Port Corporation a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of and for the year ended December 31, 2011 and 2010, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the South Jersey Port Corporation, a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012, on our consideration of the South Jersey Port Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and supplementary information on pages 56 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Jersey Port Corporation's basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
March 2, 2012



Certified Public Accountants & Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors of the
South Jersey Port Corporation
County of Camden
101 Joseph A. Balzano Boulevard
Camden, New Jersey 08101

We have audited the financial statements of the South Jersey Port Corporation, a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of and for the fiscal year ended December 31, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Jersey Port Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Jersey Port Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Jersey Port Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

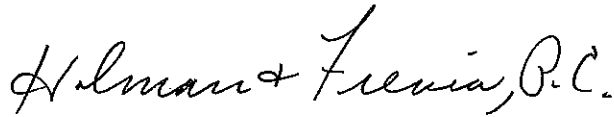
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Jersey Port Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended solely for the information and use of the South Jersey Port Corporation's management and members, others within the entity, and the Division of Local Government Services, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Holman & Frenia, P.C." in a cursive, flowing script.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
March 2, 2012

REQUIRED SUPPLEMENTARY INFORMATION – PART I

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED

Pursuant to the requirements of Governmental Accounting Standards Board (GASB) 34, the management of the South Jersey Port Corporation (the Port) offers the readers of the Port's financial statements a narrative overview and analysis of the activities of the Port for the fiscal period ending December 31, 2011.

General Port Overview

The South Jersey Port Corporation was created by NJ State Chapter 11A Statutes 12:11A-1 to 12:11A-23 to operate marine shipping terminals in the South Jersey district consisting of the counties of Mercer, Burlington, Camden, Gloucester, Salem, Cumberland and Cape May.

The Port Corporation operates the Joseph A. Balzano Marine Terminal and Broadway Terminal facilities in the City of Camden and the Port of Salem in the City of Salem. The Port Corporation reports to the State of New Jersey through the Department of the Treasury.

The South Jersey Port Corporation is the choice destination for shippers world-wide, as a leader in handling break-bulk and bulk cargoes, and as a model agency in developing public/private enterprise relationships.

The South Jersey Port Corporation is presently undertaking the development of a new marine terminal in Gloucester County, New Jersey. This project consists of the establishment, acquisition, construction, rehabilitation, improvement, ownership, operation and maintenance of a Marine Terminal to be located in the Borough of Paulsboro.

Approximately 1.87 million tons of cargo passed through the Port Corporation's facilities in 2011. Promoting economic development, enhancing intermodal facilities, and partnering with private businesses are the roles the Port Corporation firmly embodies, as is its mission of job growth and port development.

The corporation board consists of 11 members: the State Treasurer, ex-officio, or the Treasurer's designated representative, who shall be a voting member of the corporation, and ten (10) public members, each of whom shall be a resident of the port district. The Port District is comprised of seven counties: Mercer, Burlington, Camden, Gloucester, Salem, Cape May and Cumberland. There are three sub-districts. Sub-district 1 Mercer and Burlington Counties shall be represented by three (3) public members with at least one (1) of whom shall be appointed from each county within this sub-district. Sub-district 2 is Camden and Gloucester Counties they shall be represented by five (5) public members with at least three (3) public members shall be appointed from Camden County of which one (1) of the appointed Camden County members shall be appointed from the City of Camden. At least one (1) of the public members of the sub-district shall be appointed from the Borough of Paulsboro. Sub-district 3 is Salem, Cape May and Cumberland Counties and shall be represented by two (2) public members. The requisite qualification is that each member must reside within the port district and they are appointed to represent for at least three (3) years preceding their appointment. Public members serve a term of five (5) years and shall serve until their successor is appointed and qualified. Each member of the corporation before entering upon their duties shall take and subscribe an oath to perform the duties of their office faithfully, impartially and justly to the best of their ability. A record of such oath shall be filed in the office of the Secretary of State. Any vacancies in the appointed membership of the corporation occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.

Financial Highlights

The assets of the Port exceeded its liabilities at December 31, 2011 by \$43,523,681. Included in this amount are \$1,247,406 invested in capital assets, net of related debt. Also included are \$25,728,619 reserved for debt service payment, reserve for supply of inventories on hand of \$1,401,433, and unreserved retained earnings of \$15,146,223.

On December 1, 2002 the Port restructured its long term debt by refunding its Marine Terminal Revenue Bonds. It issued two new Series of Bonds totaling \$121,325,000. On October 16, 2003 the Port issued an additional \$ 11,305,000 in Marine Terminal Revenue Bonds. The net proceeds of \$11,218,000 were utilized for specific capital projects that have been completed. On November 20, 2007 the Port issued \$11,235,000 in Marine Terminal Bonds for the purpose of implementing certain capital projects of the Corporation. A majority of these funds would be funding the Paulsboro Marine Terminal. Cathodic Protection and Warehouse Replacement were also part of that issue. The net proceeds from the sale of the 2007 Series N Bonds were \$11,122,650. On January 22, 2009, The Port Issued \$25,885,000 in Marine Terminal Revenue Bonds, 2009 Series O Bonds. The majority of these funds would be for funding the site work for the Paulsboro Marine Terminal. The balance of the funds the Corporation would be doing other capital improvements for the Port and as well as land acquisition. The net proceeds from the sale of the 2009 Series O Bonds issue were \$23,423,461. On December 30, 2009, the Port issued \$157,880,000 in Marine Terminal Revenue Bonds in the Series P Bond issue. The funding for this project is for the construction of Phase I of the Paulsboro Marine Terminal. More than \$134.4 million dollars of the Series P Bond proceeds is available for the marine terminal project; which provides sufficient funding for the construction of two deep water berths and integrated infrastructure. The balance of the Bond proceeds will be used to fund the required Debt Service Reserve, and capitalized interest through January 1, 2011.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements comprise four components: 1) Statement of Net Assets, 2) Statement of Revenue and Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The statement of net assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets, whether read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The statement of revenues and expenses and changes in net assets presents information showing how the Port's operations generated revenues and incurred expenses, regardless of the timing of related cash flows. The statement of cash flows presents information showing the Port's cash receipts and payments during the fiscal period, classified by principal sources and uses, segregated into key elements.

The Notes to the financial statements provide additional information that is essential to have a full understanding of the data provided in the financial statements.

Financial Analysis

Port assets exceeded Port liabilities by \$43,523,681 and \$37,876,712 at December 31, 2011 and 2010, respectively.

<u>Port's Net Assets</u>		
<u>ASSETS</u>	2011	2010
Current & Other Assets	\$145,708,176	\$203,619,082
Capital Assets (Net)	216,714,950	208,342,036
Total Assets	362,423,126	411,961,118
<u>LIABILITIES</u>		
Current Liabilities	30,521,466	77,025,364
Long-Term Liabilities	288,377,979	297,059,042
Total Liabilities	318,899,445	374,084,406
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	1,247,406	5,225,432
Restricted for:		
Reserve for Payment of Debt Service	25,728,619	25,728,619
Reserve for Inventory Supplies	1,401,433	1,403,216
Unrestricted:		
Unreserved	15,146,223	5,519,445
Total Net Assets	\$43,523,681	\$37,876,712

A portion of the Port's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, machinery and equipment) less any related debt to acquire those assets that remain outstanding. Currently the amount of \$1,247,406 reflects the current capital assets net of related debt. An additional portion of the Port's net assets represents resources that are subject to external restrictions on how they may be used. They are used for capital projects, debt service payments, and city and county tax payments. Unrestricted net assets are available for any Port related use.

Port Activities

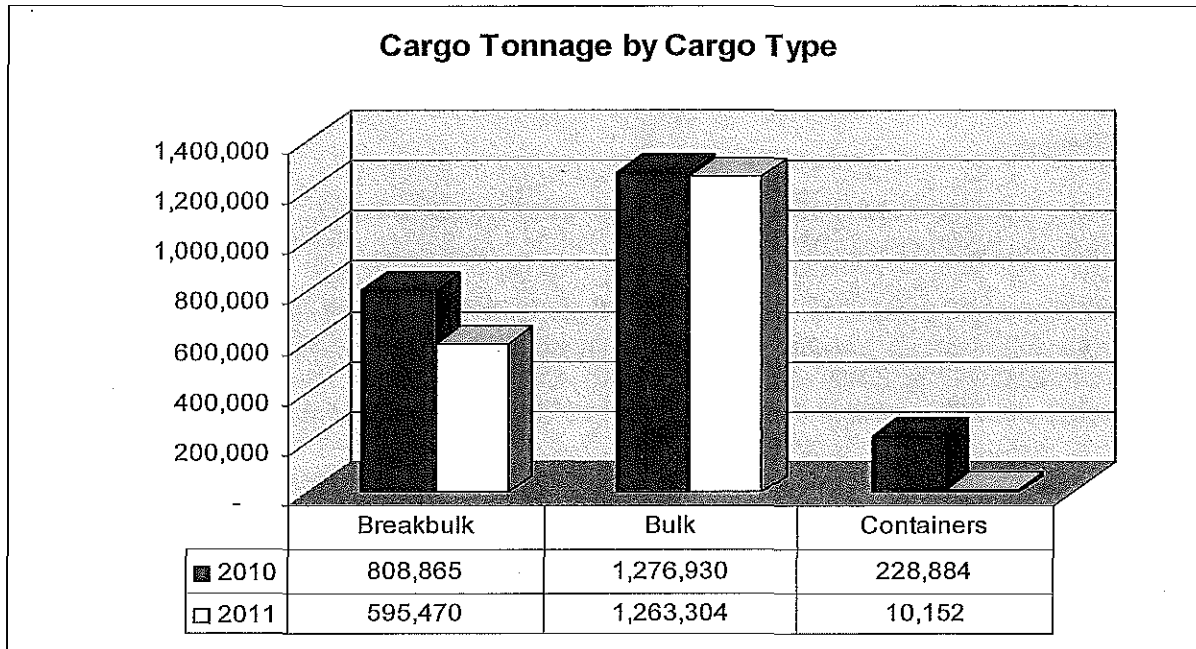
Port activity for 2011 and 2010 resulting in operating income before depreciation and amortization is \$3,517,303 and \$2,206,697 respectively.

<u>Port Changes in Net Assets</u>		
	2011	2010
Operating Revenues:		
Handling	\$3,813,719	\$3,091,161
Leasing	7,488,019	8,315,365
Dockage & Wharfage	4,486,742	4,169,726
Storage	903,371	750,840
Crane	1,246,163	1,202,252
Other	1,270,146	980,615
Total Operating Revenues	\$19,208,160	\$18,509,959

Operating Expenses:		
General Operating	\$9,370,948	\$9,897,334
Repair & Maintenance	783,407	714,766
General & Administrative	5,536,502	5,691,162
Total Operating Expenses	15,690,857	16,303,262
 Operating Income Before Other		
Operating Expenses	3,517,303	2,206,697
Other Operating Expenses:		
Depreciation	4,569,859	5,281,958
Operating Gain/(Loss)	(1,052,556)	(3,075,261)
 Non-operating Revenues/(Expenses)		
Interest on Investments	168,996	421,403
Insurance Proceeds		
Grant Revenue		318,066
Unrealized Gain/(Loss) on Investment	560,987	19,068
Federal Subsidy Revenue	3,246,652	3,255,670
Loss on Disposal of Assets		
Bond Interest	(17,122,380)	(17,395,203)
Net Non-operating Expenses	(13,145,745)	(13,380,996)
 Net Loss Before Transfer of Depreciation to Contributed Capital	(14,198,301)	(16,456,257)
Transfer of Depreciation to Contributed Capital	211,962	211,963
Net Loss Before Operating Transfers	(13,986,339)	(16,244,294)
 Operating Transfers To/From State of New Jersey/Other:		
Debt Service Aid	19,847,053	7,013,289
City of Camden PILOT Revenues	2,500,000	4,000,000
City of Camden PILOT Expenditures	(2,500,000)	(4,000,000)
County of Camden PILOT Revenues	838,000	
County of Camden PILOT Expenditures	(838,000)	
City of Salem PILOT Revenues	62,449	
City of Salem PILOT Expenditures	(62,449)	
Borough of Paulsboro PILOT Revenue	500,000	500,000
Borough of Paulsboro PILOT Expenditures	(500,000)	(500,000)
County of Gloucester PILOT Revenue	150,000	150,000
County of Gloucester PILOT Expenditures	(150,000)	(150,000)
Change in Inventory of Supplies	(1,783)	8,408
Total Operating Transfers	19,845,270	7,021,697
 Net Income/(Loss)	5,858,931	(9,222,597)
Net Assets/(Deficit) - January 1, As Previously Stated	37,193,704	48,451,301
Prior Period Adjustment		(2,035,000)
Net Assets/(Deficit) - January 1, As Restated	37,193,704	46,416,301
Net Assets/(Deficit) - December 31	43,052,635	37,193,704
 Contributed Capital, January 1	683,008	886,371
Contributions		8,600
Depreciation	(211,962)	(211,963)
Contributed Capital, December 31	471,046	683,008
Net Assets - December 31	\$43,523,681	\$37,876,712

Cargo Tonnage

The South Jersey Port Corporation activity for 2011 totaled 1,868,926 tons. This is a decrease of 19% as compared to 2010. The total tonnage decrease is due to the loss of Del Monte in September of 2010. In 2010, Del Monte accounted for 520,332 tons. Comparing the two years without the Del Monte tonnage results in 2011 being 3.7% higher than 2010



Breakbulk

Breakbulk activity for 2011 finished 26% or 213,395 tons lower when compared to 2010 Port Totals. This was due primarily to the loss of 296,325 tons of Fruit. Cocoa Beans decreased by 4.5% or 4,481 tons. Wood Products decreased by 17% or 21,621 tons. Steel however, increased by 104,915 tons from 2010, a 36% increase over prior year.

Bulk

Overall Bulk activity decreased by 1% or 8,126 tons in 2011 when compared to 2010 totals. For the year 2011, Cement decreased by 16% or 62,089 tons. Grancem® increased by 42% or 33,508 tons in 2011 over 2010. Salt imports increased by 3.5% or 3,205 tons during the year. The 736,331 tons of exported scrap metals in 2011 represents a 2.5% or 18,345 ton increase from 2010. Scrap metal activity represents a significant percentage of the Port's annual revenues and corresponding operating net income. Revenue is generated by port fees on cargo and ship activity such as dockage, wharfage, crane rental, in addition to lease rental. There are minimal port expenses such as labor associated with scrap metal and other bulk commodities. There was no Urea tonnage reported for 2011 which was a decline of 6,595 tons from prior year.

Containers

Container tonnage for the year 2011 reached 10,152 tons which is a 96% decrease from 2010 totals. The deviation is a result of the loss of the Del Monte cargo activity.

The Port of Salem

Included in the total tonnage figure of 1,868,926 was 6,784 tons of material handled at the Port of Salem. Of this total, 5,500 tons of sand was handled along with 1,284 tons for wood products.

Other Activity

Ship calls totaled 123 for the year ended 2011, 89 fewer or 41% lower than 2010. Ship days in 2011 totaled 350, a 29% decrease or 149 days less than the same period in 2010.

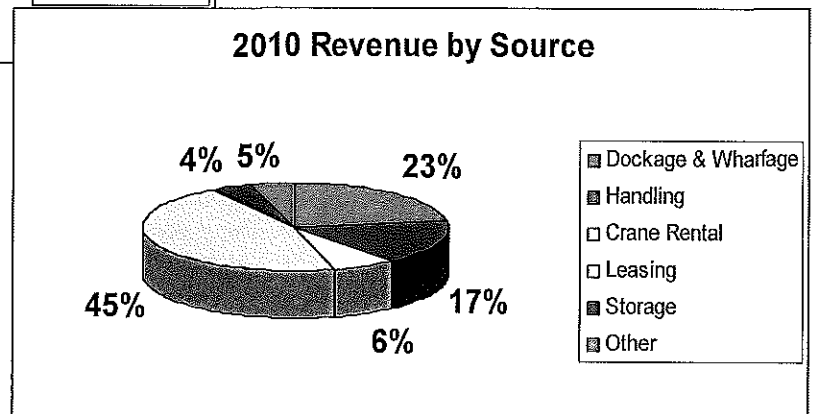
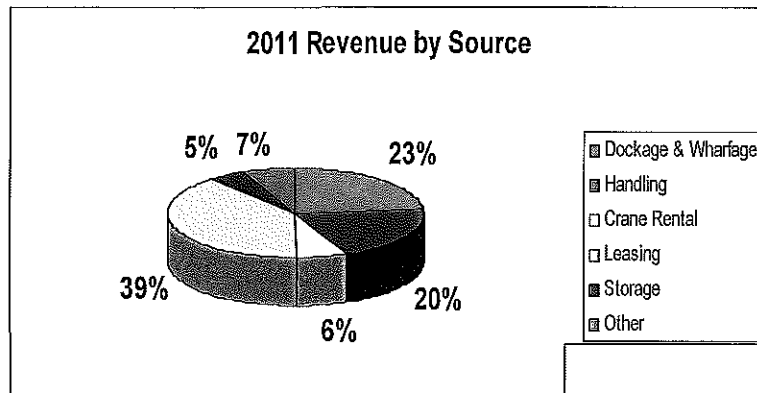
Operating Revenues

The Port Corporation generated \$19,208,160 total in operating revenues in 2011. This represents an overall increase of \$698,201 or 4% over 2010 totals.

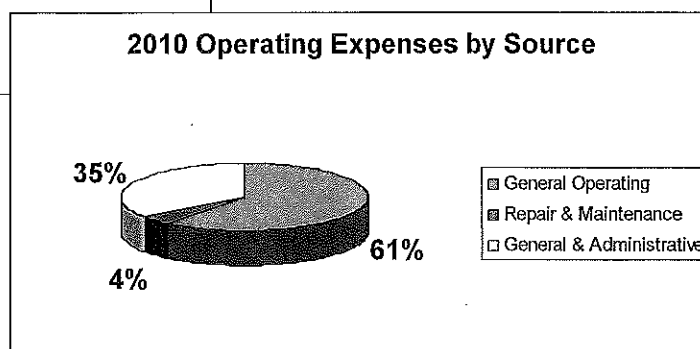
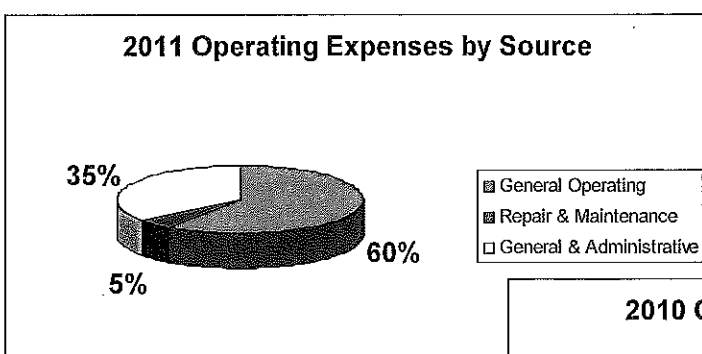
In 2011, lease revenues decreased by \$827,346 or 10% decrease from 2010 totals. This decrease was due primarily to the difference in revenue generated from utility billings to tenants. With Del Monte not occupying their leasehold in 2011, utility billings fell 47% or \$726,140. Also, revenue recognized by Holcim's tonnage shortfall guarantee in 2011 was \$243,155 less than the amount from 2010.

Dockage and Wharfage revenue increased by \$317,016 or 7% in 2011 compared to 2010. Handling revenue increased in 2011 by \$722,558 or 23% because of the increase in Steel products. Storage revenue increased by \$152,531 or 20% due to products being on premises for longer periods of time in 2011 than in 2010. Crane rental revenue increased by 43,911 or 4% when compared to 2010. Other income increased by \$289,531 or 30% due in large part to the revenue generated from the sale of scrap metals in 2011 than 2010.

Revenues by Source



Operating Expenses



Total Corporation operating expenses were \$15,690,857 in 2011, a decrease of \$612,405 or 4% when compared to 2010.

Total Port Operation expense was reduced by \$526,386 or 5% from 2010. Operating labor decreased by \$271,617 or 7% when compared to 2010. Operational employee benefits expense increased by \$491,993 or 22% more than 2010 totals. The majority of this increase was due to an increase in hospitalization of \$231,402 or 21% and an increase in worker's compensation insurance of \$135,192 or 29% more than 2010. Gas and oil expense for crane rental increased in 2011 by \$32,779 or 72% when compared to 2010. Handling expense increased by \$120,162 or 9%. Trash removal increased by \$36,567 or 45%. Security expenses increased in 2011 by \$5,003 or 33% when compared to 2010. The Port of Salem expenses increased by \$3,492 or 7%. Rental of equipment increased by \$13,091 or 91% when compared to 2010. Utility expense decreased by \$957,856 or 42% from 2010 due in large part due to Del Monte not operating at the Broadway Terminal in 2011.

Total Repairs and Maintenance expenses increased by \$68,641 or 10% in 2011 over 2010. Building and grounds repair and maintenance was increased by \$105,408 or 33% from 2010 totals. Crane repair and maintenance increased by \$2,181 or 1% from 2010. Mobile machinery and equipment repairs and maintenance decreased by \$38,948 or 18%.

Overall, General & Administrative expenses in 2011 decreased by \$154,660 or 3% in comparison to 2010. Pension expense increased by \$70,638 or 13%. General insurance costs decreased by \$291,027 or 18%. Labor for office clerical decreased by \$12,154 or 2% from 2010. Administrative labor increased by \$41,565 or 7% when compared to 2010. Payroll taxes decreased by \$8,516 or 6% and Worker's Compensation stayed consistent when compared to the prior year. The Port is self insured for Health care benefits up to \$40,000 per employee. After the target amount is reached, health care re-insurance is triggered. The increased cost for Hospitalization claims of \$23,525 or 4% less than 2010 is due in large part to a higher amount of claims submitted. Professional fees decreased by \$23,241 or 3% when compared to 2010. Miscellaneous expenses were increased by \$88,421 or 23% from 2010. Telephone expenses decreased by \$6,014 or 11% due to usage and Bad debt expense increased by 16,213 in 2011 compared to 2010.

Capital Assets

The Ports investment in Capital assets as of December 31, 2011 is \$ 216,714,950 or 4% increase (net of accumulated depreciation) over 2010 totals.

The investment in capital assets include land, buildings, piers and berth's, and machinery and equipment. Net capital assets increased by \$8,372,914 in 2011 over 2010. Annual depreciation and amortization reduced net property, plant and equipment.

<u>Capital Assets</u>		
	<u>2011</u>	<u>2010</u>
Land	\$18,235,317	\$18,235,317
Building & Improvements	43,943,179	43,943,179
Land Improvements	105,813,967	105,813,967
Equipment	24,176,869	24,145,831
Engineering & Other	7,135,677	7,135,677
Financing Costs	9,159,938	9,159,938
Subtotal	<u>\$208,464,947</u>	<u>\$208,433,909</u>
Less: Accumulated Depreciation & Amortization	<u>99,020,292</u>	<u>94,427,409</u>
Subtotal	109,444,655	114,006,500
Construction in Progress	91,231,854	78,297,095
Bond Discount & Finance	<u>16,038,441</u>	<u>16,038,441</u>
Total	<u>\$216,714,950</u>	<u>\$208,342,036</u>

Long-Term Debt

As of December 31, 2011 the Port had accumulated long-term debt of \$298,157,979. This consists of revenue bonds \$290,570,000, a capital lease of \$2,000,000, unamortized bond premium of \$1,521,286, an early retirement incentive of \$1,145,931 and a post retirement benefit of \$2,920,762.

<u>Long-Term Debt</u>		
	<u>2011</u>	<u>2010</u>
Revenue Bonds	\$290,570,000	\$296,245,000
Capital Lease	2,000,000	2,000,000
Unamortized Bond Premium	1,521,286	1,575,654
Post Retirement Benefits	2,920,762	2,682,925
Early Retirement	<u>1,145,931</u>	<u>1,130,463</u>
Total	<u>\$298,157,979</u>	<u>\$303,634,042</u>

On December 1, 2002 the Port issued Series K \$79,295,000 and Series L \$42,030,000 Marine Terminal and Revenue Refunding Bonds, and on October 16, 2003 the Port issued Series M \$11,305,000 Marine Terminal Revenue Bonds and on November 21, 2007 the Port issued Series N \$11,235,000 Marine Terminal Revenue Bonds. On January 22, 2009, the Port Issued \$25,885,000 in Marine Terminal Bonds, 2011 Series O Bonds. On December 30, 2009 the Port Issued \$157,880,000 in Marine Terminal Revenue Bonds, 2009 Series P Bonds.

During 2001 the Port entered into a Capital Lease Agreement with the Delaware River Port Authority in the amount of \$2,000,000 for an electrical substation upgrade at the Broadway Terminal. The terms of the agreement call for the lease to be repaid over 20 years at 0% interest. As of December 31, 2011 the Port has not yet commenced any payment on the Capital Lease.

The Board of Directors of the South Jersey Port Corporation adopted a resolution to allow its eligible employees to participate in the early retirement incentive program in 2003. Eight employees elected to participate in the ERI. Payments for the liability will be spread over 30 years. Each consecutive years payment would increase by 4.00%. The payment schedule incorporates an annual rate of interest equaling 8.25%.

Post retirement benefits are non-pension benefits that a governmental unit has contractually or otherwise agreed to provide employees once they have retired. An actuarially calculated amount is based on demographics of potential retirees, inflation and other factors that are part of determining pension liability. This calculation was done on a 30-year amortization schedule.

BASIC FINANCIAL STATEMENTS

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
Current Assets:		
Unrestricted Assets:		
Cash & Cash Equivalents	\$7,301,082	4,192,439
Accounts Receivable (Net of Allowance for Doubtful Accounts - \$331,261 in 2011 & \$302,063 in 2010)	2,893,670	2,312,475
Other Accounts Receivable	2,333,963	1,131,938
Prepaid Expenses	930,237	1,047,271
Inventory of Supplies	1,401,433	1,403,216
	<hr/>	<hr/>
Total Unrestricted Current Assets	14,860,385	10,087,339
	<hr/>	<hr/>
Restricted Assets:		
Cash & Cash Equivalents	101,246,790	180,090,970
Investments	9,753,948	4,804,158
Federal Subsidy Receivable		1,623,326
Due from State of New Jersey	19,847,053	7,013,289
	<hr/>	<hr/>
Total Restricted Current Assets	130,847,791	193,531,743
	<hr/>	<hr/>
Property, Plant & Equipment (Note 5):		
Completed	208,464,947	208,433,909
Construction in Progress	91,231,853	78,297,095
Bond Discount & Financing Costs	16,038,442	16,038,442
	<hr/>	<hr/>
Total Property, Plant & Equipment	315,735,242	302,769,446
Less: Accumulated Depreciation & Amortization	99,020,292	94,427,410
	<hr/>	<hr/>
Net Property, Plant & Equipment	216,714,950	208,342,036
	<hr/>	<hr/>
Total Assets	362,423,126	411,961,118
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The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010

LIABILITIES	2011	2010
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	506,023	724
Accrued Expenses	987,113	1,681,622
Payroll Taxes Payable	50,195	11,538
Accrued Vacation Payable	148,207	187,510
Deferred Income	537,751	538,215
Lease Security & Escrow Deposits	207,042	166,468
	<hr/>	<hr/>
Total Current Liabilities Payable From Unrestricted Assets	2,436,331	2,586,077
Current Liabilities Payable From Restricted Assets:		
Accounts Payable		
Accrued Interest Payable	8,561,191	8,683,042
Contracts Payable	9,743,944	59,181,245
Revenue Bonds (Short-Term Portion)	8,780,000	5,675,000
Capital Lease Payable	1,000,000	900,000
	<hr/>	<hr/>
Total Current Liabilities Payable From Restricted Assets	28,085,135	74,439,287
Long-Term Liabilities:		
Long-Term Liabilities Payable From Unrestricted Assets:		
Early Retirement Payable	1,145,931	1,130,463
Post-Retirement Benefits Payable	2,920,762	2,682,925
	<hr/>	<hr/>
Total Long-Term Liabilities Payable From Unrestricted Assets	4,066,693	3,813,388
Long-Term Liabilities Payable From Restricted Assets:		
Revenue Bonds (Long-Term Portion)	281,790,000	290,570,000
Capital Lease Payable	1,000,000	1,100,000
Unamortized Bond Premiums	1,521,286	1,575,654
	<hr/>	<hr/>
Total Long-Term Liabilities Payable From Restricted Assets	284,311,286	293,245,654
	<hr/>	<hr/>
Total Liabilities	318,899,445	374,084,406
	<hr/>	<hr/>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt:	1,247,406	5,225,432
Restricted:		
Reserve for Payment of Debt Service	25,728,619	25,728,619
Reserve for Inventory of Supplies	1,401,433	1,403,216
Unrestricted:		
Unreserved	15,146,223	5,519,445
	<hr/>	<hr/>
Total Net Assets	\$43,523,681	37,876,712
	<hr/>	<hr/>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Revenues:		
Marine Direct	\$16,536,318	15,355,999
Marine Related	1,966,643	2,632,002
Other	705,199	521,958
	<hr/>	<hr/>
Total Operating Revenues	19,208,160	18,509,959
	<hr/>	<hr/>
Operating Expenses:		
General Operating	9,370,948	9,897,334
Repairs & Maintenance	783,407	714,766
General & Administrative	5,536,502	5,691,162
	<hr/>	<hr/>
Total Operating Expenses	15,690,857	16,303,262
	<hr/>	<hr/>
Operating Income Before Other Operating Expenses	3,517,303	2,206,697
	<hr/>	<hr/>
Other Operating Expenses:		
Depreciation	4,569,859	5,281,958
	<hr/>	<hr/>
Total Other Operating Expenses	4,569,859	5,281,958
	<hr/>	<hr/>
Operating Gain/(Loss)	(1,052,556)	(3,075,261)
	<hr/>	<hr/>
Nonoperating Revenues/(Expenses):		
Interest on Investments	168,996	421,403
Grant Revenue		318,066
Federal Subsidy Revenue	3,246,652	3,255,670
Unrealized Gain/(Loss) on Investment	560,987	19,068
Bond Interest	(17,122,380)	(17,395,203)
	<hr/>	<hr/>
Net Nonoperating Expenses	(13,145,745)	(13,380,996)
	<hr/>	<hr/>
Net Loss Before Transfer of Depreciation to Contributed Capital	(14,198,301)	(16,456,257)
Transfer of Depreciation to Contributed Capital	211,962	211,963
	<hr/>	<hr/>
Net Loss Before Operating Transfers	(13,986,339)	(16,244,294)
	<hr/>	<hr/>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Transfers To/ From the State of New Jersey/Other:		
Debt Service Aid	19,847,053	7,013,289
Camden City PILOT Revenues	2,500,000	4,000,000
Camden City PILOT Expenditures	(2,500,000)	(4,000,000)
Camden County PILOT Revenues (see Note 11 on Page 45)	838,000	
Camden County PILOT Expenditures	(838,000)	
Salem PILOT Revenues (see Note 11 on Page 45)	62,449	
Salem PILOT Expenditures	(62,449)	
Paulsboro PILOT Revenues	500,000	500,000
Paulsboro PILOT Expenditures	(500,000)	(500,000)
Gloucester County PILOT Revenues	150,000	150,000
Gloucester County PILOT Expenditures	(150,000)	(150,000)
Change in Inventory of Supplies	(1,783)	8,408
	<hr/>	<hr/>
Total Operating Transfers	19,845,270	7,021,697
	<hr/>	<hr/>
Net Income/(Loss)	5,858,931	(9,222,597)
Net Assets/(Deficit) - January 1, as Previously Stated	37,193,704	48,451,301
	<hr/>	<hr/>
Prior Period Adjustment		(2,035,000)
Net Assets/(Deficit) - January 1, as Restated	37,193,704	46,416,301
	<hr/>	<hr/>
Net Assets/(Deficit) - December 31,	43,052,635	37,193,704
	<hr/>	<hr/>
Contributed Capital, January 1	683,008	886,371
Contributions		8,600
Depreciation	(211,962)	(211,963)
	<hr/>	<hr/>
Contributed Capital, December 31	471,046	683,008
	<hr/>	<hr/>
Net Assets - December 31	<u>\$43,523,681</u>	<u>37,876,712</u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Receipts from Customers	\$19,066,848	16,953,674
Interest Receipts	98,452	366,511
Payments to Employees	(4,951,222)	(5,276,558)
Payments for Employee Benefits	(4,032,419)	(3,465,736)
Payments to Suppliers	(6,603,657)	(6,250,768)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Operating Activities	3,578,002	2,327,123
	<hr/>	<hr/>
Cash Flows From Noncapital Financing Activities:		
Developers' Escrow Deposits	1,295	2,650
Developers' Escrow Refunds	(80)	(40)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Noncapital Financing Activities	1,215	2,610
	<hr/>	<hr/>
Cash Flows From Capital & Related Financing Activities:		
Acquisition & Construction of Capital Assets	(62,435,657)	(13,282,517)
State Aid for Construction Projects		1,619,421
Federal Interest Subsidy	3,246,652	3,255,670
Bond Issuance Costs		(99,067)
Interest Paid on Revenue Bonds	(17,244,232)	(12,268,127)
Principal Paid on Revenue Bonds	(5,675,000)	(5,425,000)
State Aid for Debt Service	7,013,289	8,476,559
Camden City PILOT Revenues	2,500,000	4,000,000
Camden City PILOT Payments	(2,500,000)	(4,000,000)
Camden County PILOT Revenues	838,000	
Camden County PILOT Payment	(838,000)	
Paulsboro PILOT Revenues	500,000	500,000
Paulsboro PILOT Expenditures	(500,000)	(500,000)
Gloucester County PILOT Revenues	150,000	150,000
Gloucester County PILOT Payment	(150,000)	(150,000)
Salem PILOT Revenues	62,449	
Salem PILOT Payment	(62,449)	
	<hr/>	<hr/>
Net Cash Provided/(Used) by Capital & Related Financing Activities	(75,094,948)	(17,723,061)
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Unrealized Gain/(Loss) on Investment	560,987	19,068
Purchase of Repurchase Agreement/Discount Notes	(4,949,789)	3,442,611
Interest & Dividends	168,996	421,403
	<hr/>	<hr/>
Net Cash Provided/(Used) by Investing Activities	(4,219,806)	3,883,082
	<hr/>	<hr/>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Net Increase/(Decrease) in Cash & Cash Equivalents	(75,735,537)	(11,510,246)
Balances - Beginning of Year	<u>184,283,409</u>	<u>195,793,655</u>
Balances - End of Year	<u><u>\$108,547,872</u></u>	<u><u>184,283,409</u></u>

Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:

Operating Income/(Loss)	(\$1,052,556)	(3,075,261)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Operating Activities:		
Depreciation & Net Amortization	4,569,859	5,281,958
(Increase)/Decrease in Accounts Receivable, Net	(159,894)	(1,447,592)
(Increase)/Decrease in Notes Receivable, Net		3,754
(Increase)/Decrease in Prepaid Expenses	117,034	254,064
Increase/(Decrease) in Accounts Payable	127,858	1,232,360
Increase/(Decrease) in Accrued Liabilities	(39,303)	(58,776)
Increase/(Decrease) in Early Retirement Payable	15,468	17,053
Increase/(Decrease) in Deferred Revenue	<u>(464)</u>	<u>119,563</u>
Total Adjustments	<u>4,630,558</u>	<u>5,402,384</u>
Net Cash Provided/(Used) by Operating Activities	<u><u>\$3,578,002</u></u>	<u><u>2,327,123</u></u>

The accompanying Notes to the Financial Statements are an integral part of this Statement.

SOUTH JERSEY PORT CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the South Jersey Port Corporation have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established new financial reporting requirements for state and local governmental entities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The Corporation has implemented these standards for the fiscal year-ending December 31, 2002 and future periods. With the implementation of GASB Statement 34, the Corporation has prepared required supplementary information titled *Management’s Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Corporation has implemented the following GASB Statements in the current fiscal year: Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*; Statement 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues*; Statement 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; Statement 38 – *Certain Financial Statement Note Disclosures*; Statement 40 – *Deposit and Investment Risk Disclosures* and Statement 43 & 45 – *Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*.

The accompanying financial statements present the financial position of the Corporation, the results of operations of the Corporation and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2011 for the year then ended.

A. Reporting Entity:

The South Jersey Port Corporation was created by the "South Jersey Port Corporation Act, *N.J.S.A. 12:11A*", as an instrumentality of the State of New Jersey. The Act conferred upon the Corporation the powers to establish, acquire, construct, rehabilitate, improve, operate and maintain marine terminals in the South Jersey Port district, which includes Mercer, Burlington, Camden, Gloucester, Salem, Cumberland and Cape May counties.

The South Jersey Port Corporation is a component unit of the State of New Jersey as described in Governmental Accounting Standards Board Statement No. 14 due to the existence of the above stated act, *N.J.S.A. 12: 11A*. These financial statements would be either blended or discreetly presented as part of the State of New Jersey’s financial statements if the State reported using generally accepted accounting principles applicable to governmental entities.

The operations of the Port are under the directorship of a eleven-member board. The Governor of the State appoints members for a term of five years. The day-to-day operations of the Port are under the administration of the Executive Director with approximately 85 full time employees and 7 part time employees.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Summary of Significant Accounting Policies (continued):

The primary criterion for including activities within the Corporation's reporting entity, as set forth in Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, is whether:

- ◆ the organization is legally separate (can sue or be sued in their own name);
- ◆ the Corporation holds the corporate powers of the organization;
- ◆ the Governor appoints a voting majority of the organization's board;
- ◆ the Corporation is able to impose its will on the organization;
- ◆ the organization has the potential to impose a financial benefit/burden on the Corporation;
- ◆ there is a fiscal dependency by the organization on the Corporation.

Based on the aforementioned criteria, the Corporation has no component units.

B. Accounting Policies and Basis of Presentation

- a) **Basis of Accounting** - The basic financial statements of the South Jersey Port Corporation have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.
- b) **Cash Equivalents** - For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with maturity of one year or less to be cash equivalents.
- c) **Investment in Property, Plant and Equipment** — Investment in Property, Plant and Equipment is stated at cost, which generally includes net capitalized interest expense (See Note 3) as well as professional fees incurred during the construction period.

Replacements of Property, Plant and Equipment are recorded at cost. Related costs and accumulated depreciation are removed from the accounts and any gain or loss on disposition is either credited or charged to nonoperating revenues or expenses.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets (See Note 3).

Debt issuance costs and bond discount arising from the issue of revenue bonds are amortized by the straight-line method over the bond life.

d) Marine Terminal Revenue Bond Resolution

The Corporation is subject to the provisions and restrictions of the Marine Terminal Revenue Bond Resolution adopted June 5, 1985 as supplemented March 12, 1987, January 31, 1989, October 31, 1989, March 4, 1993, December 5, 2002, September 30, 2003, June 8, 2005, October 31, 2006, August 28, 2007, October 28, 2008 and July 28, 2009. The revenues generated by operations are to be distributed monthly based upon the following priorities:

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1. Summary of Significant Accounting Policies (continued):

- (a) **Operating Account** - 1/12 of the total appropriated for operating expenses in the annual budget for the current calendar year.
- (b) **Debt Service Account** - such amount necessary to increase the retained earnings to equal the Aggregate Debt Service Requirement. (Interest and principal on the bonds to accrue to the next interest payment date).
- (c) **Debt Reserve Account** - such amount necessary to increase the retained earnings to equal the Debt Reserve Requirement.
- (d) **Maintenance Reserve Account** - such amount necessary to increase the retained earnings to equal the Maintenance Reserve Fund Requirement, which is the amount, budgeted for major renewals, repairs or replacement.
- (e) **Tax Reserve Account** - such amount to increase the balance in the Payment Account to equal the Property Tax Reserve and then such amount to increase the balance in the Reserve Account to equal the tax payments for the current year.
- (f) **General Reserve Account** - such amount that remains after all previously mentioned requirements.

The following is a summary of the functions and activities of each account created by the Bond Resolution:

Operating Account

Purpose - to account for all operating revenues and expenditures of the Corporation.

Section 711 of the Bond Resolution states that on or before November 15 in each year, the Corporation shall complete a review of its financial condition for the purpose of estimating whether the rates, rents, fees, charges and other income and receipts from operating the Marine Terminals including investment income will be sufficient to provide for all of the payments and to meet all of the following requirements:

- (a) Operating Expenses during the calendar year, including reserves therefore, provided for in the Annual Budget for such year;
- (b) An amount equal to the Aggregate Debt Service for such calendar year;
- (c) The amount, if any, to be paid during such calendar year into the Debt Reserve Account;
- (d) The amount to be paid during such calendar year into the Maintenance Reserve Account to the extent funds are available; and

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1. Summary of Significant Accounting Policies (continued):

- (e) All other charges or liens whatsoever to be paid out of revenues during such calendar year and, to the extent not otherwise provided for, all amounts payable on Subordinated Debt.

Provided, however, in no event shall such rates, rents, fees and charges in any calendar year be less than those sufficient to provide Net Revenues in such year at least equal to 1.10 times the Aggregate Debt Service for such year. The Bond Resolution further states that if the Corporation determines that such revenues may not be sufficient to provide such payments plus principal and interest due or accrued on subordinated debt and meet such other requirements, it shall forthwith conduct a study or cause the Consulting Engineers to make a study for the purpose of recommending a schedule of rates, fees and charges for the Marine Terminals which, in the opinion of the Corporation or the Consulting Engineers, will cause sufficient revenues to be collected in the following calendar year to provide funds for all such payments and will cause additional revenues to be collected in such following and later calendar years sufficient to restore the amount of such deficiency at the earliest practicable time.

Debt Service Account

Purpose - payment of principal and interest on Marine Terminal Revenue Bonds.

Debt Service payments for 2011 included \$5,675,000 for principal and \$17,244,232 for interest. Funds were provided as follows:

Debt Service Reserve Fund	\$15,578,018
Construction Fund	<u>7,341,214</u>
Total	<u>\$22,919,232</u>

Debt Reserve Account

Purpose - to provide necessary funds to meet debt service obligations should revenues be insufficient.

N.J.S.A.12:11A-14 provides the following:

"In order to assure the maintenance of the maximum Debt Service Reserve in the South Jersey Port Corporation Reserve Fund, there shall be annually appropriated and paid to the Corporation for deposit in said fund, such sum, if any, as shall be certified by the Chairman of the Corporation to the Governor as necessary to restore said fund to an amount equal to the maximum Debt Service Reserve. The Chairman shall annually, on or before December 1, make and deliver to the Governor his certificate stating the sum, if any, required to restore said fund to the amount aforesaid, and the sum or sums so certified shall be appropriated and paid to the Corporation during the then current State Fiscal Year".

The Chairman certified to the Governor that the Port Corporation anticipated it would require a State appropriation in this fund in the amount of \$19,847,053.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1. Summary of Significant Accounting Policies (continued):

Debt Reserve Account (continued):

The Reserve Fund Requirement, as established under the terms of the Marine Terminal Bond Resolution dated June 5, 1985, is the highest amount of aggregate debt service payable in any succeeding year, which amount is \$25,728,619.

Maintenance Reserve Account

Purpose - to provide funds for major renewals, repairs or replacements essential to restore or prevent physical damage to, or to prevent loss of revenues from the Marine Terminals.

Section 506 of the Bond Resolution, as amended by Section 302 of the Supplemental Bond Resolution, specified that operating revenues shall be deposited to the Maintenance Reserve Account only after meeting the necessary payments to the Operating Account, Debt Service Account, Debt Reserve Account and Rebate Account.

During the year no funds were provided from operating revenue.

Property Reserve Account

Purpose is to accumulate proceeds from the sale of land or other property and to use such funds for projects involving the acquisition of real or personal property.

Tax Reserve Account

Purpose - for the payments of amounts due to local governments in lieu of property taxes as required by *N.J.S.12:11A-20*.

N.J.S.A.12:11A-20(b) provides the following:

"To the end that counties and municipalities may not suffer undue loss of future tax revenue by reason of the acquisition of real property therein by the Corporation, the Corporation is hereby authorized, empowered and directed to enter into agreement or agreements (herein-after called 'tax agreements') with any county or municipality..... whereby it will undertake to pay a fair and reasonable sum or sums..... to compensate the said county or municipality for any loss of such tax revenue by reason of the acquisition of any such property by the Corporation....". *N.J.S.A.12:11A-20* provides the following:

"In order to assure provision of the property tax reserve in said fund, there shall be annually appropriated and paid to the Corporation for deposit in said fund, such sums, if any, as shall be certified by the Chairman of the Corporation to the Governor as then necessary to provide in said fund an amount equal to the property tax reserve. The Chairman shall annually on or before December 1 make and deliver to the Governor his certificate stating the sum if any needed to provide in said fund the amount of the

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1. Summary of Significant Accounting Policies (continued):

Tax Reserve Account (continued):

property tax reserve as of said date, and the sum or sums so certified shall be appropriated and paid to the Corporation during the then current fiscal year".

During 2011 the State of New Jersey paid to the Corporation \$2,500,000 for Camden City, \$838,000 for Camden County, \$500,000 for Paulsboro Township, \$150,000 for Gloucester County, \$62,449 for Salem City to provide sufficient funds for tax payments.

General Reserve Account

Purpose - to accumulate excess revenues, which may subsequently be transferred to other funds to meet deficiencies or for the repayment to the State, amounts paid in discharge of its obligations under the Act, or for any other lawful purpose in connection with the Marine Terminals.

To this date, operating revenues have not been sufficient to provide funds for the General Reserve Account.

Construction Account

Purpose is to account for the cost of facilities and maintain a record of the Marine Terminal Revenue Bonds.

The South Jersey Port Corporation has issued various bonds as outlined in Note 5 for the improvement of the port facilities, debt reserve funds and capitalized interest. Series K and L were issued in December 2002 and funds are still available for approved projects. During 2003 Series M Bonds were issued in the amount of \$11,305,000. In 2007 Series N Bonds were issued in the amount of \$11,235,000. During 2009 Series O Bonds in the amount of \$25,885,000 and Series P Bonds in the amount of \$157,880,000 were issued and these funds are also still available for approved projects.

With certain exceptions, existing arbitrage laws require a rebate to the federal government of all earnings on the investment of the proceeds of tax-exempt obligations, issued after September 1, 1986, in excess of the yield on such obligations and any income earned on such excess. A portion of past or future interest earnings may be subject to federal rebate. An arbitrage calculation analysis has been performed through October 31, 2008 for such required tax-exempt obligations and it has been determined that no liability is due to the federal government at this time.

Subsequent Events

The South Jersey Port Corporation has evaluated subsequent events occurring after December 31, 2011 through the date of March 2, 2012, which is the date the financial statements were available to be issued.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 2. Cash and Cash Equivalents

The Corporation is governed by the deposit and investment limitations of New Jersey state law. The Deposits and Investments held at December 31, 2011, and reported at fair value are as follows:

Type	Carrying Value
Deposits:	
Demand Deposits	<u>\$108,547,872</u>
Total Deposits	<u>\$108,547,872</u>
 Reconciliation of Statement of Net Assets:	
Current:	
Unrestricted Assets:	
Cash & Cash Equivalents	\$ 7,301,082
Restricted Assets:	
Cash & Cash Equivalents	<u>101,246,790</u>
Total	<u>\$108,547,872</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits may not be returned. The Corporation does not have a deposit policy for custodial credit risk. As of December 31, 2011, the Corporation's bank balance of \$125,506,699 was insured or collateralized as follows:

Insured	\$ 354,433
Collateralized in the Corporation's Name	
Under GUDPA (See Note 4)	19,707,576
Collateralized not in the Corporation's Name	
(New Jersey Cash Management Fund)	<u>105,444,690</u>
Total	<u>\$125,506,699</u>

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 3. Investments

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Corporation, and are held by either the counterparty or the counterparty's trust department or agent but not in Corporation's name. All of the Corporation's investments are held in the name of the Corporation and are collateralized by GUDPA.

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Corporation has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at December 31, 2011, are provided in the above schedule.

C. Investment Credit Risk

The Corporation has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Corporation or bonds or other obligations of the local unit or units within which the Corporation is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Corporation;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 3. Investments (continued):

- Agreements for the repurchase of fully collateralized securities.

As of December 31, 2011, the Corporation had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>Fair Value</u>
US Government Taxable Bonds	N/A	N/A	<u>\$9,753,948</u>
Total			<u>\$9,753,948</u>

Note 4. Governmental Unit Deposit Protection Act (GUDPA)

The Corporation deposited cash in 2011 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

SOUTH JERSEY PORT CORPORATION
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FOR THE YEAR ENDED DECEMBER 31, 2011

Note 4. Governmental Unit Deposit Protection Act (GUDPA) (continued):

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Corporation should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

Note 5. Property, Plant and Equipment

The following is a summary of property, plant and equipment at cost, less accumulated depreciation and amortization:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Land	\$ 18,235,317			\$ 18,235,317
Buildings & Improvements	43,943,179			43,943,179
Land Improvements	105,813,967			105,813,967
Equipment	24,145,831	\$ 62,384	\$(31,345)	24,176,870
Engineering & Other	7,135,677			7,135,677
Financing Costs	9,159,938			9,159,938
Subtotal	208,433,909	62,384	(31,345)	208,464,948
Less Accumulated Depreciation Amortization	(94,427,409)	(4,624,228)	31,345	(99,020,292)
Subtotal	114,006,500	(4,561,844)		109,444,656
Construction in Progress	78,297,095	12,934,758		91,231,853
Bond Discount & Financing	16,038,441			16,038,441
Total	\$208,342,036	\$ 8,372,914	\$ -	\$216,714,950

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 6. Pension

A. Plan Description

The South Jersey Port Corporation's contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (P.E.R.S.), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries. The State of New Jersey P.E.R.S. program was established as of January 1, 1955. The program was established under the provisions of *N.J.S.A.43:15A*, which assigns authority to establish and amend, benefit provisions to the plan's board of trustees. P.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625, or calling (609) 292-7524.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by N.J.S.A.43:15A and 43.3B. All benefits vest after ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Note 6C below.

C. Significant Legislation

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the District's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 6. Pension (continued):

Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS were reduced.

New Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

D. Contribution Requirements

The contribution policy is set by N.J.S.A.43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A.18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation as defined. The rate will increase over the next seven years to 7.5%. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums. The South Jersey Port Corporation's contributions to P.E.R.S. for the years ending December 31, 2011, 2010 and 2009 were \$608,757, \$461,429 and \$442,151, respectively, equal to the required contributions for each year.

E. Early Retirement Incentive Plan

In 2003 the State of New Jersey signed into Law the State Early Retirement Incentive (ERI) program as Chapter 23, PL. 2002. The ERI has a provision that allows optional participation in the program by certain State Autonomous Authorities. Participation is optional, as these organizations will have to bear the cost of the incentives provided to their employees who retire. The Board of Directors of the South Jersey Port Corporation adopted a resolution to allow its eligible employees to participate in the ERI program. In 2002 four employees elected to participate in the ERI. In 2003 an additional four employees

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 6. Pension (continued):

elected to participate in the ERI. The liability to the Corporation is \$1,145,931 as of December 31, 2011. Payments for the liability will be spread over 30 years. Each consecutive year's payment would increase by 4.00%. All the payment schedules incorporate an annual percentage rate of interest equaling 8.25%. The Port made its payment towards the ERI Program in 2011 for \$77,795, which included principal and interest.

The following is a summary of the Early Retirement Incentive Plan required payments for interest and principal:

Year	Principal	Interest	Total
2012	\$ (13,632)	\$ 94,539	\$ 80,907
2013	(11,521)	95,664	84,143
2014	(9,106)	96,615	87,509
2015	(6,358)	97,366	91,008
2016	(3,242)	97,890	94,648
2017	276	98,158	98,434
2018	4,236	98,135	102,371
2019	8,680	97,786	106,466
2020	13,656	97,069	110,725
2021	19,211	95,943	115,154
2022	25,402	94,358	119,760
2023	32,288	92,262	124,550
2024	39,933	89,599	129,532
2025	48,409	86,304	134,713
2026	57,792	82,310	140,102
2027	68,164	77,542	145,706
2028	79,615	71,919	151,534
2029	92,244	65,351	157,595
2030	106,158	57,741	163,899
2031	121,472	48,983	170,455
2032	138,312	38,961	177,273
2033	156,814	27,550	184,364
2034	<u>177,128</u>	<u>14,613</u>	<u>191,741</u>
Total	<u>\$1,145,931</u>	<u>\$1,816,658</u>	<u>\$2,962,589</u>

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt

The following is a summary of long-term debt at December 31, 2011:

Issue	Initial Date of Issue	Date of Final Maturity	Interest Rates	Original Issue Amount	Principal Balance Outstanding
Series 2002 K Marine Terminal Revenue & Revenue Refunding Bonds	12/01/02	01/01/33	4.000% 5.100%	\$79,295,000	\$ 64,720,000
Series 2002 L Marine Terminal Revenue & Revenue Refunding Bonds	12/01/02	01/01/24	4.000% 5.250%	42,030,000	22,650,000
Series 2003 M Marine Terminal Revenue Bonds	10/15/03	01/01/30	5.000%	11,305,000	9,550,000
Series 2007 N Marine Terminal Revenue Bonds	11/08/07	01/01/38	4.500% 5.250%	11,235,000	10,725,000
Series 2009 O Marine Terminal Revenue Bonds	01/29/09	01/01/39	4.000% 5.875%	25,885,000	25,045,000
Series 2009 P Marine Terminal Revenue Bonds	12/30/09	01/01/40	2.995% 7.365%	157,880,000	157,880,000
Total					290,570,000
Less: Current Maturities Included in Current Liabilities					<u>8,780,000</u>
Balance					<u>\$281,790,000</u>

The following table sets forth the amount required for payment of principal and interest due on Series K, L, M, N, O and P Bonds (whether at maturity or by sinking fund redemption):

Year	Principal	Interest	Total
2012	\$ 8,780,000	\$ 16,948,619	\$ 25,728,619
2013	9,120,000	16,579,808	25,699,808
2014	9,040,000	16,203,046	25,243,046
2015	9,410,000	15,814,406	25,224,406
2016	9,835,000	15,386,916	25,221,916
2017-2021	53,630,000	69,096,750	122,726,750
2022-2026	46,535,000	55,213,819	101,748,819
2027-2031	50,825,000	40,804,188	91,629,188
2032-2036	51,350,000	23,598,557	74,948,557
2037-2040	<u>42,045,000</u>	<u>5,951,910</u>	<u>47,996,910</u>
Total	<u>\$290,570,000</u>	<u>\$275,598,019</u>	<u>\$566,168,019</u>

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

a) On December 1, 2002, the South Jersey Port Corporation performed current refunding of Marine Terminal Revenue Bonds Series E, F, G, H and J. The Corporation issued Series K (\$79,295,000) and L Series (\$42,030,000) Marine Terminal Revenue and Revenue Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Corporation's outstanding obligations. This current refunding was undertaken to increase total debt service payments over the next 20 years by \$433,564 and to obtain an economic gain (difference between the present value of the debt service payments of the Refunded and Refunding Bonds) of \$1,822,182.

The net proceeds of the Series 2002 Bonds, together with other funds, are being used to pay the costs of a project (the "2002 Project") of the Corporation consisting generally of: (i) the current refunding of five separate series of revenue bonds previously issued by the Corporation in 1989, 1993 and 1999; (ii) financing the costs of certain capital projects of the Corporation; (iii) funding interest on a portion of the Series 2002 Bonds during the estimated construction period of the capital projects; (iv) funding a deposit to the Debt Reserve Fund and the Tax Reserve Fund established under the Bond Resolution; and (v) paying the costs of issuance of the Series 2002 Bonds.

b) On October 15, 2003 the Corporation issued \$11,305,000 Marine Terminal Revenue Bonds, Series M. The Series M Bonds were issued to provide funds to (i) fund the implementation of certain capital projects; (ii) fund interest on the 2003 Bonds through the estimated construction period of the 2003 capital project; (iii) fund a deposit to the Debt Reserve Fund, and (iv) pay the cost of issuing of the Series 2003 Bonds.

c) On November 8, 2007, the Corporation issued \$11,235,000 Marine Terminal Revenue Bonds, Series N. The Series N Bonds were issued to provide funds to (i) the implementation of certain capital projects of the Corporation (the "2007 Projects"); (ii) fund a deposit to the debt reserve fund established under the Bond Resolution and (iii) pay the costs of issuance of the Series 2007 Bonds.

d) On January 29, 2009, the Corporation issued \$25,885,000 in aggregate Marine Terminal Revenue Bonds, Series O. The Series O Bonds consist of \$19,770,000 Marine Terminal Revenue Bonds, Series O-1 (the "Series 2009 O-1 Bonds"), \$915,000 Marine Terminal Revenue Bonds, Series 2009 O-2 (the "Series 2009 O-2 Bonds"), and \$5,200,000 Marine Terminal Revenue Bonds, Series O-3 (AMT) (the "Series 2009 O-3 Bonds" and, together with the Series 2009 O-1 Bonds and the Series 2009 O-2 Bonds, "Series 2009 Bonds"). The Series O Bonds were issued to provide funds to (i) fund the implementation of certain capital projects of the Corporation; (ii) fund a deposit to the Debt Reserve Fund established under the Bond Resolution; and (iii) pay the costs of issuance of the Series 2009 Bonds.

e) On December 30, 2009, the Corporation issued \$157,880,000 in aggregate Marine Terminal Revenue Bonds, Series P. The Series P Bonds consist of \$4,925,000 Marine Terminal Revenue Bonds, Series 2009 P-1 (Federally Taxable), \$23,215,000 Marine Terminal Revenue Bonds, Series 2009 P-2 (Tax-Exempt Private Activity), and \$129,740,000 Marine Terminal Revenue bonds, Series 2009 P-3 (Federally Taxable). The Series P Bonds were issued to provide funds to (i) the 2009 Paulsboro Marine Terminal

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Project; (ii) fund a deposit to the Debt Reserve Fund; (iii) fund capitalized interest on the Series 2009 P Bonds through January 1, 2001; and (iv) pay the costs of issuance of the Series 2009 P Bonds.

The following is a summary detailing the schedule of outstanding bonds by year, series and the annual debt principal requirements for each:

.....SERIES K.....			.....SERIES L.....		.....SERIES M.....		.....SERIES N.....	
Issue Year	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate
2012	2,190,000	4.20	2,735,000	4.60	325,000	5.00	205,000	4.50
2013	2,270,000	4.40	2,870,000	5.25	340,000	5.00	210,000	4.50
2014	3,575,000	4.40	1,350,000	4.80	350,000	5.00	220,000	4.50
2015	3,750,000	4.50	1,410,000	4.80	365,000	5.00	230,000	4.50
2016	3,920,000	4.50	1,480,000	5.00	385,000	5.00	245,000	4.50
2017	4,090,000	4.50	1,560,000	5.00	400,000	5.00	250,000	4.50
2018	4,280,000	4.75	1,635,000	5.00	420,000	5.00	265,000	4.50
2019	4,485,000	4.85	-	-	440,000	5.00	280,000	4.50
2020	4,700,000	5.00	-	-	-	-	295,000	4.50
2021	-	-	-	-	-	-	-	-
2022	-	-	-	-	1,445,000	5.00	-	-
2023	8,645,000	5.00	8,620,000	5.20	-	-	960,000	4.50
2024	-	-	990,000	5.25	-	-	-	-
2025	-	-	-	-	1,670,000	5.00	-	-
2026	4,960,000	5.00	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	1,935,000	4.63
2029	-	-	-	-	-	-	440,000	4.75
2030	-	-	-	-	3,410,000	5.00	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	17,855,000	5.10	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	5,190,000	5.25
Total	<u>\$64,720,000</u>		<u>\$22,650,000</u>		<u>\$ 9,550,000</u>		<u>\$10,725,000</u>	

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Issue Year	.....SERIES O-1.....		.....SERIES O-2.....		....SERIES O-3.....		SERIES "O"
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Total Principal
2012	-			-	465,000	4.000	465,000
2013	-			-		-	-
2014	-			-		-	-
2015	-			-	1,510,000	4.500	1,510,000
2016	-			-		-	-
2017	-			-		-	-
2018	-			-		-	-
2019	-			-	2,385,000	5.500	2,385,000
2020	-			-		-	-
2021	-			-		-	-
2022	-			-		-	-
2023	2,525,000	4.625		-		-	2,525,000
2024	-			-		-	-
2025	-			-		-	-
2026	2,225,000	5.000		-		-	2,225,000
2027	-			-		-	-
2028	1,675,000	5.125	300,000	5.125		-	1,975,000
2029	-		-			-	-
2030	-		-			-	-
2031	-		-			-	-
2032	-		-			-	-
2033	-		-			-	-
2034	6,255,000	5.750	285,000	5.750		-	6,540,000
2035	-		-			-	-
2036	-		-			-	-
2037	-		-			-	-
2038	-		-			-	-
2039	<u>7,090,000</u>	5.875	<u>330,000</u>	5.875		-	<u>7,420,000</u>
Total	<u>\$19,770,000</u>		<u>\$915,000</u>		<u>\$4,360,000</u>		<u>\$25,045,000</u>

Issue Year	.....SERIES P-1.....		.....SERIES P-2.....		....SERIES P-3.....		SERIES "P"	Grand
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Total Principal	Total Principal
2012	2,860,000	2.995	-		-		2,860,000	9,225,000
2013	2,065,000	3.145	885,000	3.000	-		2,950,000	8,640,000
2014	-		3,040,000	3.000	-		3,040,000	8,535,000
2015	-		3,130,000	4.000	-		3,130,000	10,395,000
2016	-		3,255,000	4.000	-		3,255,000	9,285,000
2017	-		3,385,000	4.000	-		3,385,000	9,685,000
2018	-		4,115,000	5.750	3,520,000	5.912	7,635,000	14,235,000
2019	-		4,350,000	5.750	3,655,000	6.052	8,005,000	15,595,000
2020	-		1,055,000	5.750	3,800,000	6.152	4,855,000	9,850,000
2021	-		-		3,955,000	6.252	3,955,000	3,955,000

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Issue Year	.....SERIES P-1.....		.....SERIES P-2.....		.....SERIES P-3.....		SERIES "P" Total Principal	Grand Total Principal
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate		
2022	-		-		-		-	1,445,000
2023	-		-		-		-	20,750,000
2024	-		-		-		-	990,000
2025	-		-		-		-	1,670,000
2026	-		-		-		-	7,185,000
2027	-		-		-		-	-
2028	-		-		-		-	3,910,000
2029	-		-		29,985,000	7.065	29,985,000	30,425,000
2030	-		-		-		-	3,410,000
2031	-		-		-		-	-
2032	-		-		-		-	-
2033	-		-		-		-	17,855,000
2034	-		-		-		-	6,540,000
2035	-		-		-		-	-
2036	-		-		-		-	-
2037	-		-		-		-	-
2038	-		-		-		-	5,190,000
2039	-		-		-		-	7,420,000
2040	-		-		84,825,000	7.365	84,825,000	84,825,000
Total	<u>\$4,925,000</u>		<u>\$23,215,000</u>		<u>\$129,740,000</u>		<u>\$157,880,000</u>	<u>\$290,570,000</u>

The following is a summary detailing the schedules of annual sinking fund payment requirements by year and series:

ISSUE YEAR	SERIES K	SERIES L	SERIES M	SERIES N
2019	\$ -	\$1,710,000	\$ -	
2020	-	1,805,000	460,000	
2021	2,740,000	1,620,000	480,000	\$ 305,000
2022	2,880,000	1,700,000	505,000	320,000
2023	3,025,000	1,785,000	530,000	335,000
2024	895,000	990,000	555,000	350,000
2025	1,985,000	-	585,000	370,000
2026	2,080,000	-	615,000	385,000
2027	2,185,000	-	645,000	405,000
2028	2,300,000	-	680,000	425,000
2029	2,415,000	-	715,000	440,000
2030	2,540,000	-	755,000	475,000
2031	2,670,000	-	-	490,000
2032	2,800,000	-	-	515,000
2033	2,945,000	-	-	545,000
2034	-	-	-	575,000
2035	-	-	-	600,000
2036	-	-	-	630,000
2037	-	-	-	665,000
2038	-	-	-	695,000
Total	<u>\$31,460,000</u>	<u>\$9,610,000</u>	<u>\$6,525,000</u>	<u>\$8,525,000</u>

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

ISSUE YEAR	SERIES O-1	SERIES O-2	SERIES O-3	SERIES P-3	GRAND TOTAL
2012	-	-	465,000	-	465,000
2013	-	-	480,000	-	480,000
2014	-	-	505,000	-	505,000
2015	-	-	525,000	-	525,000
2016	-	-	550,000	-	550,000
2017	-	-	580,000	-	580,000
2018	-	-	610,000	-	610,000
2019	-	-	645,000	-	2,355,000
2020	590,000	25,000	-	-	2,880,000
2021	615,000	30,000	-	-	5,790,000
2022	645,000	30,000	-	-	6,080,000
2023	675,000	30,000	-	-	6,380,000
2024	705,000	35,000	-	3,545,000	7,075,000
2025	740,000	35,000	-	4,825,000	8,540,000
2026	780,000	35,000	-	5,045,000	8,940,000
2027	815,000	40,000	-	5,275,000	9,365,000
2028	860,000	40,000	-	5,520,000	9,825,000
2029	900,000	40,000	-	5,775,000	10,285,000
2030	955,000	45,000	-	6,040,000	10,810,000
2031	1,010,000	45,000	-	6,325,000	10,540,000
2032	1,065,000	50,000	-	6,630,000	11,060,000
2033	1,130,000	50,000	-	6,945,000	11,615,000
2034	1,195,000	55,000	-	7,280,000	9,105,000
2035	1,260,000	60,000	-	7,630,000	9,550,000
2036	1,335,000	60,000	-	7,995,000	10,020,000
2037	1,415,000	65,000	-	8,375,000	10,520,000
2038	1,495,000	70,000	-	8,775,000	11,035,000
2039	1,585,000	75,000	-	9,195,000	10,855,000
2040	-	-	-	9,635,000	9,635,000
Total	<u>\$19,770,000</u>	<u>\$ 915,000</u>	<u>\$4,360,000</u>	<u>\$114,810,000</u>	<u>\$195,975,000</u>

The following Term Bonds are subject to mandatory sinking fund redemption prior to maturity on January 1 of each of the years and in the respective principle amounts set forth below at a redemption price of 100% of the principle amount plus accrued interest to the date of redemption:

Series K - Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2021	\$2,740,000
2022	2,880,000
2023	<u>3,025,000</u>
Total	<u>\$8,645,000</u>

Series K - Bonds Maturing January 1, 2026

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 895,000
2025	1,985,000
2026	<u>2,080,000</u>
Total	<u>\$4,960,000</u>

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Series K - Bonds Maturing January 1, 2033

<u>Year</u>	<u>Principal Amount</u>
2027	\$2,185,000
2028	2,300,000
2029	2,415,000
2030	2,540,000
2031	2,670,000
2032	2,800,000
2033	<u>2,945,000</u>
Total	<u>\$17,855,000</u>

Series L - Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2019	\$1,710,000
2020	1,805,000
2021	1,620,000
2022	1,700,000
2023	<u>1,785,000</u>
Total	<u>\$8,620,000</u>

Series L - Bonds Maturing January 1, 2024

<u>Year</u>	<u>Principal Amount</u>
2024	<u>\$990,000</u>

Series M - Bonds Maturing January 1, 2022

<u>Year</u>	<u>Principal Amount</u>
2020	\$ 460,000
2021	480,000
2022	<u>505,000</u>
Total	<u>\$1,445,000</u>

Series M - Bonds Maturing January 1, 2025

<u>Year</u>	<u>Principal Amount</u>
2023	\$ 530,000
2024	555,000
2025	<u>585,000</u>
Total	<u>\$1,670,000</u>

Series M - Bonds Maturing January 1, 2030

<u>Year</u>	<u>Principal Amount</u>
2026	\$ 615,000
2027	645,000
2028	680,000
2029	715,000
2030	<u>755,000</u>
Total	<u>\$3,410,000</u>

Series N - Bonds Maturing January 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2030	\$ 475,000
2031	490,000
2032	515,000
2033	545,000
2034	575,000
2035	600,000
2036	630,000
2037	665,000
2038	<u>695,000</u>
Total	<u>\$5,190,000</u>

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Series N - Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2021	\$305,000
2022	320,000
2023	<u>335,000</u>
Total	<u>\$960,000</u>

Series N - Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 350,000
2025	370,000
2026	385,000
2027	405,000
2028	<u>425,000</u>
Total	<u>\$1,935,000</u>

Series N- Bonds Maturing January 1, 2029

<u>Year</u>	<u>Principal Amount</u>
2029	<u>\$440,000</u>

Series O-1 - Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2020	\$590,000
2021	615,000
2022	645,000
2023	<u>675,000</u>
Total	<u>\$2,525,000</u>

Series O-1 - Bonds Maturing January 1, 2026

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 705,000
2025	740,000
2026	<u>780,000</u>
Total	<u>\$2,225,000</u>

Series O-1 - Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
2027	\$ 815,000
2028	<u>860,000</u>
Total	<u>\$1,675,000</u>

Series O-1 - Bonds Maturing January 1, 2034

<u>Year</u>	<u>Principal Amount</u>
2029	\$ 900,000
2030	955,000
2031	1,010,000
2032	1,065,000
2033	1,130,000
2034	<u>1,195,000</u>
Total	<u>\$6,225,000</u>

Series O-1 - Bonds Maturing January 1, 2039

<u>Year</u>	<u>Principal Amount</u>
2035	\$1,260,000
2036	1,335,000
2037	1,415,000
2038	1,495,000
2039	<u>1,585,000</u>
Total	<u>\$7,090,000</u>

SOUTH JERSEY PORT CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Note 7. Long-Term Debt (continued):

Series O-2 Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2020	\$ 25,000
2021	30,000
2022	30,000
2023	30,000
2024	35,000
2025	35,000

Series O-2 – Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2026	\$35,000
2027	40,000
2028	40,000
Total	<u>\$300,000</u>

Series O-2 - Bonds Maturing January 1, 2034

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2029	\$ 40,000
2030	45,000
2031	45,000
2032	50,000
2033	50,000
2034	55,000
Total	<u>\$ 285,000</u>

Series O-2 – Bonds Maturing January 1, 2039

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2035	\$ 60,000
2036	60,000
2037	65,000
2038	70,000
2039	75,000
Total	<u>\$330,000</u>

Series O-3 - Bonds Maturing January 1, 2012

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2011	445,000
2012	465,000
Total	<u>\$ 910,000</u>

Series O-3 – Bonds Maturing January 1, 2015

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2013	\$ 480,000
2014	505,000
2015	525,000
Total	<u>\$1,510,000</u>

Series O-3 - Bonds Maturing January 1, 2019

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2016	\$ 550,000
2017	580,000
2018	610,000
2019	645,000
Total	<u>\$2,385,000</u>

Series P-3 – Bonds Maturing January 1, 2029

<u>Year</u>	<u>Principal Amount</u>
-------------	-------------------------

2024	\$ 3,545,000
2025	4,825,000
2026	5,045,000
2027	5,275,000
2028	5,520,000
2029	5,775,000
Total	<u>\$29,985,000</u>

SOUTH JERSEY PORT CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Series O-3 - Bonds Maturing January 1, 2040

<u>Year</u>	<u>Principal Amount</u>
2030	\$ 6,040,000
2031	6,325,000
2032	6,630,000
2033	6,945,000
2034	7,280,000
2035	7,630,000

Series P-3 - Bonds Maturing January 1, 2040

<u>Year</u>	<u>Principal Amount</u>
2036	\$ 7,995,000
2037	8,375,000
2038	8,775,000
2039	9,195,000
2040	<u>9,635,000</u>
Total	<u>\$84,825,000</u>

The Series 2002 Bonds maturing before January 1, 2014 are not subject to optional redemption prior to their stated maturities. The Series 2002 Bonds maturing on or after January 1, 2014 are subject to redemption prior to maturity, at the option of the Corporation, as a whole or in part at anytime on or after January 1, 2013. Any such redemption shall be made at a redemption price of 100% of the principle amount plus accrued interest.

The Series 2003 Bonds maturing before January 1, 2015 are not subject to optional redemption prior to their stated maturities. The Series 2003 Bonds maturing on or after January 1, 2015 are subject to redemption prior to maturity, at the option of the Corporation, as a whole or in part at any time on or after January 1, 2014. Any such redemption shall be made at a redemption price of 100% of the principle amount plus accrued interest.

The Series 2007 Bonds maturing before January 1, 2018 are not subject to optional redemption prior to their stated maturities. The Series 2007 Bonds maturing on or after January 1, 2018 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2017. The Series 2007 Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity at the written election of the Corporation signed by an Authorized Officer, as set forth in said written election and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2007 Bonds called for redemption, without premium, plus accrued interest to the date of redemption.

The Series 2009 O-1 Bonds and Series 2009 O-2 Bonds maturing on or after January 1, 2020 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2019. The Series 2009 O-1 Bonds and the Series 2009 O-2 Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity and by either election, and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2009 Bonds called for redemption, without premium, plus accrued interest to the date of redemption. The Series 2009 O-3 Bonds are not subject to optional redemption prior to their stated maturities.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

The Series 2009 P-1 Taxable Bonds are not subject to redemption prior to their stated maturities. The Series 2009 P-2 Tax-Exempt Private Activity Bonds maturing on or after January 1, 2021 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2020. The Series 2009 P-2 Tax-Exempt Private Activity Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity at the written election of the Corporation signed by an Authorized Officer, as set forth in said written election, and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2009 P-2 Tax-Exempt Private Activity Bonds called for redemption, without premium, plus accrued interest to the date of redemption. The Series 2009 P-3 Taxable Build America Bonds are not subject to optional redemption prior to their stated maturities.

The Series 2009 P-3 Taxable Build America Bonds are subject to redemption prior to maturity by written direction of the Corporation, in whole or in part, at any time on any business day, at the "Make-Whole Redemption Price". The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the Series 2009 P-3 Taxable Build America Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009 P-3 Taxable Build America Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009 P-3 Taxable Build America Bonds are to be redeemed, discounted to the date on which the Series 2009B Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted "Treasury Rate" plus 25 basis points, plus, in each case, accrued and unpaid interest on the Series 2009 P-3 Taxable Build America Bonds to be redeemed to the redemption date.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available on a date that is selected by the Corporation that is not less than two (2) business days and not more than fifty (50) days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2009 P-3 Taxable Build America Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one (1) year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one (1) year will be used.

The following table sets forth the amount of interest subsidy payments expected to be requested for the Build America Bonds:

Year	Interest Subsidy to be Received
2012	\$ 3,246,651
2013	3,246,651
2014	3,246,651
2015	3,246,651
2016	3,246,651

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 7. Long-Term Debt (continued):

Year	Interest Subsidy to be Received
2017-2021	15,459,467
2022-2026	14,013,805
2027-2031	10,880,546
2032-2036	6,606,129
2037-2039	<u>1,445,344</u>
Total	<u>\$64,638,546</u>

The following is a summary of all long-term debt of the Corporation as of December 31, 2011:

	Balance December 31, 2010	Issued	Retired	Balance December 31, 2011	Due Within One Year
Bonds Payable	\$ 296,245,000		5,675,000	290,570,000	8,780,000
Capital Lease	2,000,000			2,000,000	1,000,000
Unamortized Bond Premium	1,575,654		54,368	1,521,286	54,368
Post Retirement Benefits	2,682,925	237,837		2,920,762	
Early Retirement	<u>1,130,463</u>		<u>(15,468)</u>	<u>1,145,931</u>	<u>(13,632)</u>
Total	<u>\$303,634,042</u>	<u>237,837</u>	<u>5,713,900</u>	<u>298,157,979</u>	<u>9,820,736</u>

Note 8. Self-Insurance Fund

The Port Corporation is self insured for health care benefits under third party "administrative services only" plan arrangement. Claims are paid on a claims basis. The Port Corporation assumes liability for health claims up to \$40,000 for each individual and up to \$2,437,600 annually for all enrollees on an aggregate basis. For amounts in excess of individual and aggregate coverage, a commercial insurance policy has been obtained.

Note 9. Economic Dependency

The South Jersey Port Corporation depends upon the State of New Jersey for economic assistance. Under the provisions of the South Jersey Port Corporation Act, the Board Chairman of the Corporation annually certifies to the State of New Jersey the amounts required to maintain certain reserve balances in the debt service and debt service reserve accounts and also in the tax maintenance reserve account.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 10. Deferred Compensation Plan

Employees of the South Jersey Port Corporation may participate in the New Jersey State Employees' Deferred Compensation Plan. The Plan was established by New Jersey Public Law 1978, Chapter 39 and is subject to compliance with Section 457 of the Internal Revenue Code. The New Jersey State Employees' Deferred Compensation Board is the governing body of the Plan.

Note 11. PILOT Payments

City of Camden PILOT Payments – The Corporation entered into a 2011 payment in lieu of tax agreement with the City of Camden requiring the Corporation to make payment of two and a half million dollars (\$2,500,000). The City's fiscal year for 2011 began in July 1, 2010 and ended June 30, 2011. Pursuant to the 2011 "PILOT" agreement, the Corporation is not required to make the 2012 "PILOT" payment until such time as the payment has been appropriated by the State of New Jersey and the payment is received by the Corporation.

County of Camden PILOT Payments - The Corporation has entered into a 2011 payment in lieu of tax agreement with the County requiring the Corporation to make payment of eight hundred thirty eight thousand dollars (\$838,000) in the calendar year 2011. An appropriation of \$419,000 will be required from the State to make payment to the 2011 and 2010 County of Camden "PILOT Tax Agreement".

City of Salem PILOT Payments – The Corporation has entered into a 2011 payment in lieu of tax agreement with the City of Salem requiring the Corporation to make payment of sixty four thousand four hundred and fifty dollars \$62,450 in the calendar year 2011. An appropriation of \$31,225 will be required from the State to make payment to the 2011 and 2010 City of Salem "PILOT Tax Agreement".

Borough of Paulsboro PILOT Payments – The Corporation has entered into a 2011 payment in lieu of tax agreement with the Borough requiring the Corporation to make annual payments of five hundred thousand (\$500,000) in the calendar year 2011. An appropriation of \$500,000 will be required from the State to make payment to the 2011 County of Gloucester "PILOT Tax Agreement".

In December 2005, the Board of Directors of the South Jersey Port Corporation entered into a lease agreement with the Borough of Paulsboro for the lease of 190 acres for the Building of a Port Facility. In the lease agreement the South Jersey Port Corporation agreed to make a Payment in Lieu of Taxes ("PILOT") to the Borough of Paulsboro of \$500,000 (five hundred thousand dollars) plus 2 % of the value of the Buildings and 1 % of the value of the land that will be subleased to private companies. The enabling legislation of the South Jersey Port Corporation requires that the State of New Jersey will fund/replenish the Property Tax Reserve Fund of the South Jersey Port Corporation for any such monies owed on PILOT agreements such as the PILOT agreement with the Borough of Paulsboro.

County of Gloucester PILOT Payments – The Corporation has entered into a 2011 payment in lieu of tax agreement with the County requiring the Corporation to make annual payments of one hundred fifty thousand dollars (\$150,000). An appropriation of \$150,000 will be required from the State to make payment to the 2011 County of Gloucester "PILOT Tax Agreement".

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 11. PILOT Payments (continued);

All Pilot payments are Pursuant to *N.J.S.A.12: 11A20* the amounts are credited to the "South Jersey Port Corporation Tax Reserve Fund". (See Schedule in Supplementary Schedules)

Note 12. Capital Projects and Funding Sources

During 2001 South Jersey Port Corporation entered into a Capital Lease with the Delaware River Port Authority in the amount of \$2,000,000 for electrical substation upgrades at the Broadway terminal. The lease term is twenty years at no interest rate. As of the date of this report no payments have been made on the lease.

The Corporation's construction in progress consists of the following: Cathodic Protection in the amount of \$3,500,600, Paulsboro Marine Terminal Project for Bond Series N in the amount of \$2,894,935, the Paulsboro Marine Terminal Project for Bond Series O-1 in the amount of \$15,098,002, Dredging for Bond Series O-1 in the amount of \$1,152,837, Gantry Crane Refinishing for Bond Series O-1 in the amount of \$716,534, IT and Security for Bond Series O-1 in the amount of \$324,560, Cathodic Protection For Bond Series O-1 in the amount of \$189,491, Skylight Renovations for Bonds Series O-3 in the amount of \$1,686,859 and Paulsboro Marine Terminal Project for Bond Series P-3 in the amount of \$62,626,763. Also, in 2009 the SJPC received a grant from the Department of Transportation for the Railroad Rehabilitation and Upgrade of the Broadway Terminal Railroad Track in the amount of \$2,305,315. Demolition of G Building totaling \$720,798. Total construction in progress amounted to \$91,231,853.

Note 13. Port of Salem

On February 12, 2003 Salem Terminals Limited, LLC informed the Port Corporation that it was vacating on September 1, 2004, the Port leased the Salem Terminal facilities to National Docks. The term of the lease is for ten years with two 5-year options. The premises will be used, maintained and operated as an active marine shipping terminal for the handling, on and off the water, of bulk materials, such as sand, gravel and stone or any other commodity typical to water and truck borne transport. The premises shall also be used in the transport of commercial products to locations in Delaware, New Jersey, Pennsylvania and Maryland, via barge, and in the building for commercial processing and bagging operations for value added products.

The base rent for the first 5 years is \$5,000 per month. This rental rate of \$5,000 per month is discounted by 50% or \$2,500 per month. The rent abatement for 60 months is to rebate the tenant up to \$150,000 for site repairs and upgrading.

The rental rate for the second 5 years is \$5,000 per month in addition to a surcharge of \$.20 per ton shipped by National Docks thru the Port of Salem by water.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 14. Paulsboro Marine Terminal Project and Financing

The Corporation and the Borough of Paulsboro entered into that certain "Redevelopment Agreement" with respect to the Development and Construction of a Marine Terminal within the Borough of Paulsboro, South Jersey Port District dated January 16, 2006 (as amended, the "Redevelopment agreement"). Under the Redevelopment Agreement, the Corporation was granted the right and obligation to develop the Paulsboro Marine Terminal located in Paulsboro, Gloucester County, in two phases, with (i) Phase I constituting a replacement for the loss of function of two berths and other related infrastructure and equipment resulting from a pier collapse at the Corporation's Beckett Street Terminal and (ii) Phase II constituting an expansion of Phase I through the addition of another two piers adjacent to the two replacement berths (the "Paulsboro Marine Terminal Project").

The Paulsboro Marine Terminal is located along the eastern bank of the Delaware River, across from the Philadelphia International Airport, just south of Mantua Creek in the Borough of Paulsboro, Gloucester County, New Jersey. The site consists of primarily two parcels, both of which are controlled by Paulsboro: (1) a 130-acre parcel that was previously operated by BP Oil Company (the "BP Site") and (2) an adjacent 60-acre parcel that was operated by Essex Chemical, which is a wholly owned subsidiary of The Dow Chemical Company (the "Essex Site").

The parameters of the development of the Paulsboro Marine Terminal Project were set forth in the Redevelopment Agreement, including without limitation:

A General Development Plan for the Paulsboro Marine Terminal Project approved by Paulsboro; An estimate of the cost for Phase 1 of the Paulsboro Marine Terminal Project, the replacement phase of the Paulsboro Marine Terminal Project, depending on the design approved by appropriate governmental officials, in an amount up to approximately \$136 million; provided, however, that Section 4.1(1) of the Redevelopment Agreement expressly states that should the ultimate cost for Phase 1 exceed such amount, the Redevelopment Agreement shall not prohibit the Corporation from issuing Bonds in excess of such initial estimate; and The Corporation's right and obligation to issue Additional Bonds pursuant to Section 206(c) of the Bond Resolution, or subordinate bonds permitted by the Bond Resolution, to finance Phase I of the Paulsboro Marine Terminal Project.

Pursuant to the Redevelopment Agreement, the Corporation entered into a series of agreements to commence the development of the Paulsboro Marine Terminal Project.

Site access was obtained through the combination of (i) a Sublease Agreement dated January 16, 2006, as amended, with Paulsboro, as sub-lessor, and the Corporation, as sub-lessee (the original lease is with BP Oil Company, as fee owner and lessor, and Paulsboro, as lessee) for the approximately 130-acre parcel that was previously operated by BP Oil Company, and (ii) a Lease Agreement dated August 6, 2009 between Paulsboro, as owner and lessor, and the Corporation, as lessee, for the adjacent 60-acre parcel that was operated by Essex Chemical, which is a wholly owned subsidiary of The Dow Chemical Company, and which site is now owned in fee by Paulsboro.

The tax payment requirements of the Act were satisfied through the execution and delivery of two payments in lieu of tax agreements on January 16, 2006, as amended, one with each of Paulsboro and

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 14. Paulsboro Marine Terminal Project and Financing (continued):

Gloucester County. Both of these payments in lieu of tax agreements provide for the payment by the Corporation to such parties of a base amount, independent of Paulsboro Marine Terminal development.

In addition, the Paulsboro agreement provides for Paulsboro to receive from or through the Corporation a second additional payment tied to a portion of such development.

These various agreements also provide that the Corporation can develop the Paulsboro Marine Terminal Project, so long as the uses of the port fit within the General Development Plan approved by Paulsboro under the Redevelopment Agreement, and further, so long as such uses do not disturb (i) the No Further Action letter and Deed Notice forwarded from the NJDEP to Essex Chemical in 2003 regarding the Essex site, and (ii) the multi-phased remedial investigation and action, which is expected to continue for many years, for the BP site.

The Corporation and the Gloucester County Improvement Authority ("GCIA") have also entered into that certain "Paulsboro Port Project Development and Management Agreement" dated as of August 1, 2009 (the "Development and Management Agreement"). Pursuant to the Development and Management Agreement, the Corporation shall set forth the overall parameters for the design and development of the

Paulsboro Marine Terminal, and the GCIA shall enter into the various contracts required to implement this development. Among other things, this arrangement allows the Corporation to focus on the future leasing of the Paulsboro Marine Terminal, to maximize its revenue potential. Further, in order to expedite the development of the Paulsboro Marine Terminal, this Development and Management Agreement, in combination with the Thirteenth Supplemental Bond Resolution, provide for GCIA to access the Series 2009 O Bond proceeds, the Series 2009 P Bond proceeds, along with future Additional Bond or subordinate bond proceeds for the development of the Paulsboro Marine Terminal Project, to pay necessary development costs such as planning, design and construction costs, without individual contract approval from the Corporation.

The GCIA has an account titled the Paulsboro Port Marine Terminal Account in which project funds will be deposited as needed. This account is an interest bearing account and any interest income earned on this account would be interest income to the South Jersey Port Corporation.

The Corporation retains the right to discontinue this arrangement with GCIA for the development of the Paulsboro Marine Terminal should the development materially deviate from a mutually agreed upon budget and schedule for the Paulsboro Marine Terminal.

The Corporation is in the process of negotiating operation contracts for that portion of the Paulsboro Marine Terminal that shall house private operations, which in turn is expected to generate revenues for the Corporation, in part, to repay debt service on the Series 2009 P Bonds. In particular, the Corporation is looking into certain renewable energy uses for the Paulsboro Marine Terminal, having executed a memorandum of understanding for the assemblage of offshore based wind turbine facilities, and is presently in negotiation for other similar facilities. While the Corporation remains optimistic in its pursuit of these operations, vendors, and fees, it made no representation to holders of the Series 2009 P Bonds that the Corporation shall enter into a sufficient number of these agreements, in both number and

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 14. Paulsboro Marine Terminal Project and Financing (continued):

dollar value, such that such agreements shall generate sufficient revenues to pay the principal of, and interest on the Series 2009 P Bonds in full and on time.

The Corporation has not yet funded, though it contemplates the possibility of funding, a third and fourth berth for the Paulsboro Marine Terminal Project. The costs for this Phase II of the Paulsboro Marine Terminal Project, and whether the Corporation would issue parity Bonds or subordinated debt to fund Phase II, has not yet been determined by the Corporation. Accordingly, the Corporation can make no representation whether Phase II shall be implemented. Further, the Corporation relied upon Section 206(c) of the Bond Resolution in authorizing the Series 2009 P Bonds, as the initial two berths Paulsboro Marine Terminal Project shall replace the two lost piers at the Corporation's Beckett Street Terminal. Absent a further loss to Corporation port facilities, this replacement provision of the Bond Resolution would not be available to fund Phase II, and accordingly the Corporation would need to rely on some other provision of the Bond Resolution in order to authorize parity Bonds to fund the Phase II Project.

Paulsboro Bonds

The Corporation issues \$157,880,000 of its Marine Terminal Revenue Bonds, Series 2009 P, on December 30, 2009. Prior to the issuance of the Series 2009 P Bonds, the Corporation had issued a portion of the Series 2007 Bonds (\$3,285,000) pursuant to the Original Ninth Supplemental Resolution, and a portion of the Series 2009 O Bonds (\$15,572,986) pursuant to the Twelfth Supplemental Resolution (as defined below) (such earmarked portions, together with the Series 2009 P Bonds and any series of Additional Bonds issued for the Paulsboro Marine Terminal Project, the "Paulsboro Bonds"), for an aggregate of \$18,857,986 principal amount of Bonds that have been issued for the Paulsboro Marine Terminal Project. The Series 2007 Bonds were issued pursuant to the Act and the General Bond Resolution, as further supplemented by the Corporation's Original Ninth Supplemental Resolution. The Series 2009 O Bonds were issued pursuant to the Act and the General Bond Resolution, as further supplemented by the Corporation's Twelfth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Bonds; Series 2008 O adopted October 28, 2008 (the "Twelfth Supplemental Resolution").

Pursuant to the Ninth Supplemental Resolution and the Thirteenth Supplemental Resolution, the Corporation has authorized an additional \$188,715,000 for the Paulsboro Marine Terminal Project, against which all of the principal amount of the Series 2009 P Bonds shall be allocated. Accordingly, after the issuance of the Series 2009 P Bonds in the aggregate principal amount of \$157,880,000, (i) the aggregate amount of Bonds issued for the Paulsboro Marine Terminal Project will be \$176,737,986, and (ii) the aggregate amount of Bonds authorized by the Corporation, but remaining unissued, for the Paulsboro Marine Terminal Project is \$30,835,000.

Pursuant to Section 201(D) and Exhibit C of the Original Ninth Supplemental Resolution, authorized, but unissued Paulsboro Bonds (up to \$132,715,000 in aggregate principal amount) could not have been issued until the Sufficiency Test defined therein had been satisfied or waived in accordance with the terms thereof, which required the consent of the Corporation and the State Treasurer, but did not require Bondholder consent. The Amendment No. 2 to Ninth, and Thirteenth Supplemental Resolutions specifically waived and revoked the Sufficiency Test, with the adoption thereof providing the

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 14. Paulsboro Marine Terminal Project and Financing (continued):

Corporation's consent to this waiver and revocation, and the State Treasurer's pre-adoption and post adoption approval of Amendment No. 2 to Ninth and Thirteenth Supplemental Resolutions providing the State Treasurer's consent to this waiver and revocation. Accordingly, satisfaction of the Sufficiency Test set forth in the Original Ninth Supplemental Resolution is not a condition precedent to the issuance of the Series 2009 P Bonds.

2009 P Paulsboro Marine Terminal Project

A portion of the proceeds of the Series 2009 P Bonds will be used by the Corporation to fund the creation of the waterside and landside connections that will facilitate the inter-modal handling of cargoes from ship to truck and/or rail at the two-berth Paulsboro Marine Terminal, including the following costs of the Paulsboro Marine Terminal Project (collectively, the "2009 P Paulsboro Marine Terminal Project"):

- (i) Select demolition and renovation of residual structures;
- (ii) Hauling and receiving of fill material for upland (e.g. on-site) use;
- (iii) The placement, grading and compaction of fill material atop of the existing sub-grade to raise the proposed post-construction elevation above the 100-year flood plain;
- (iv) Deep soil compaction techniques and placement of surcharge material within areas of historic fill placement along the Delaware River shoreline;
- (v) Installation of the required storm water management collection, distribution and outfall system;
- (vi) Installation of the primary electrical power supply (feed) and high mast lighting system and other utility infrastructure such as potable water, fire water, sanitary sewer, telecommunications, and IT;
- (vii) Acquisition of additional real property to facilitate site access, complete the perimeter of the site and to enable off-site mitigation of unavoidable environmental impacts;
- (viii) Construction of two deep-water berths and integrated infrastructure to facilitate approximately 1,500 linear feet of wharfage along the Delaware River that interconnects with the existing shoreline;
- (ix) Dredging to approximately 42-foot depths from MLW;
- (x) Construction of in-terminal access roads, retaining walls and rail infrastructure;
- (xi) Construction of security gate and access control provisions;
- (xii) Acquisition and installation of rail mounted ship to shore crane;
- (xiii) Creation of a maintenance facility; and
- (xiv) Funding the management functions necessary to achieve the implementation and start-up of the Paulsboro Marine Terminal.

Key aspects of this development include the construction, commissioning, startup and operation of the Paulsboro Marine Terminal that consists of a pile-supported wharf structure combined with pile-supported access trestles and adjacent backland infrastructure. The backland infrastructure is planned to include a combination of transit sheds, warehouses, processing facilities, paved open storage areas, truck/rail loading and unloading areas, maintenance facilities and office space. In addition to the

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 14. Paulsboro Marine Terminal Project and Financing (continued):

Paulsboro Marine Terminal, off-site components not being financed by the Corporation include the construction of a new vehicular access road and bridge, rehabilitation of mainline rail infrastructure and utility service (e.g. power, sewer & potable water) upgrades.

The purpose of this development is to construct and operate the Paulsboro Marine Terminal at the Port of Paulsboro, which will consist of a marine terminal and processing/distribution center within a site that has been designated by Paulsboro as an area in need of redevelopment. The Corporation anticipates that the creation of the Port of Paulsboro will enable cost effective handling of more than 3.0 million tons of deep draft, internationally sourced, non-containerized cargo.

The 2009 P Bonds were issued to finance the 2009 P Paulsboro Marine Terminal Project pursuant to the Act, Section 206(c) of the General Bond Resolution, which permits the Corporation to issue Additional Bonds for Projects consisting of the repair or the replacement of facilities (i.e., Beckett Street) that are deemed to be essential for the production of Revenues of the Corporation or for the elimination of conditions in the Corporation's facilities that are deemed to be hazardous to persons or to property, the Ninth Supplemental Resolution and the Thirteenth Supplemental Resolution.

The balance of the proceeds of the Series 2009 P Bonds were used to fund the deposit to the Debt Reserve Fund, to capitalize interest on the Series 2009 P Bonds through January 1, 2011 and to pay the costs of issuance associated with the Series 2009 P Bonds.

The aggregate deposits to the Debt Reserve Fund from the proceeds of the Series 2009 P Bonds caused the balance in the Debt Reserve Fund to be at least equal to the Debt Reserve Requirement under the Bond Resolution.

Note 15. Port of Paulsboro Project Status

The South Jersey Port Corporation (SJPC), in conjunction with the Gloucester County Improvement Authority (GCIA), is redeveloping the former 130-acre British Petroleum (BP) Oil Terminal and an adjacent 60-acre former Essex Industrial Chemicals, Inc. (Essex) into a new, deep-water marine terminal with associated processing, distribution, assembly and intermodal operations that will be known as the Paulsboro Marine Terminal project. This project is being funded by SJPC marine terminal revenue bonds. Direct vehicular and truck access from Interstate 295 to the terminal will be provided via a two-lane, public access road and bridge structure over Mantua Creek. The access road and bridge project is being funded by a grant agreement between the NJ Department of Transportation, Gloucester County and the GCIA.

The Port of Paulsboro site is located along the Delaware River at River Mile (RM) 90 in the Borough of Paulsboro, New Jersey, which is directly across the river from the Philadelphia International Airport. The terminal site is bordered by the Delaware River to the north; Mantua Creek to the east; residential neighborhoods to the west; and a combination of developed and non-developed land to the south. Access

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 15. Port of Paulsboro Project Status (continued):

to the Delaware River's main channel is direct and without obstacle. Phase I project elements are a two berth pile supported wharf, site development and improvements including dredging and fill material placement, as well as the creation of an approximately 20-acre tidal wetlands mitigation site at a former dredged material management facility known as the Delaware River Equestrian, Agricultural and Marine Park, (i.e. DREAM Park), which is operated by the GCIA.

While construction on the marine terminal commenced in early 2010, key waterfront development related environmental permits were obtained in October 2010 and January 2011. As of January 2012, the Port of Paulsboro has completed site demolition and is nearing the completion of dredging and dredged material management activities. To-date, more than 400,000 cubic yards of clean fill material has been hauled, placed and compacted on-site to raise the site elevation to above the 100-year floodplain elevation. In addition, a new perimeter retaining wall and stormwater management system have been installed. While the access road alignment has been cleared and clean fill material placed along the eastern portion of the alignment, the Appellate Division of the NJ District Court issued a stay of construction for a portion of the access road alignment. Oral argument occurred September 26, 2011. The Appellate Division court process continues. Bridge construction will resume once the court ordered stay of construction is removed. The balance of 2012 is expected to include the completion of the fill material placement and the commencement of wharf and bridge construction and associated terminal infrastructure, such as utilities, rail track and internal roadways. Completion of the Phase I construction program is targeted for late calendar year 2013.

Note 16. Reserve for Inventory of Supplies

Inventories are valued at historical cost. The costs of inventories in Business-Type Activities are recorded as expenditures when purchased. The Corporation established their inventory of supplies in 2005, currently valued at \$1,401,433 as of December 31, 2011.

Note 17. Post-Retirement Health Benefits

The Port Corporation provides health care benefits to its eligible retired employees. In order for a retiree to be eligible to receive retirement benefits from the Corporation the following conditions must be met:

- A. Retire with 25 or more years of service in the New Jersey State Retirement System regardless of age.
- B. Retire at age 60 or later with 15 or more years of service.

Eligible retirees meeting the above requirements cannot have hospitalization insurance from another source. In addition, the retired Employee, his/her spouse and dependants, as defined in the plan, will be covered until said Employee reaches age 65. Should the Employee not reach age 65, his/her spouse and dependants will nevertheless be covered during the period up to the time the Employee would have

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 17. Post-Retirement Health Benefits (continued):

reached the age of 65. The Corporation pays 100% of the medical and prescription cost after co-pays of single and dependent coverage for retirees hired prior to January 1, 1991. The Corporation pays 80% of the medical cost and 100% of the prescription cost after co-pays of single and dependent coverage for retirees hired on or after January 1, 1991. Retirees hired on or after December 1, 2000 pay \$25 per week toward their benefits.

The South Jersey Port Corporation's annual Other Post-Employment Benefit cost is calculated based on the Annual Required Contribution. The actuarial cost method used to determine the Plan's funding requirements is the "Unit Credit" method. Under this method, an actuarial accrued liability is determined as the present value of earned benefits which is allocated to service before the current plan year. The normal cost amount is expected to increase annually at the discount rate, currently 5%. The Plan is currently unfunded. The unfunded actuarial liability is amortized over a period not to exceed 30 years. The following table shows the changes in the Corporation's annual Other Post-Employment Benefit cost Note 17. Post-Retirement Health Benefits (continued):

for the year, the amount actually contributed to the Plan and changes in the Corporation's net Other Post-Employment Benefit obligation to the plan:

Annual Required Contribution	\$ 237,837
Interest on Net Other Post-Employment Benefit	-
Adjustment to Annual Required Contribution	<u>237,837</u>
Annual Other Post-Employment Benefit Contributions Made	<u>-</u>
Increase in Net Other Post-Employment Benefit Obligation	237,837
Net Other Post-Employment Benefit, Beginning of Year	<u>2,682,925</u>
Net Other Post-Employment Benefit, End of Year	<u>\$2,920,762</u>

The Corporation's annual Other Post-Employment Benefit cost, the percentage of annual Other Post Employment Benefit cost contributed to the Plan, and the net Other Post Employment Benefit obligation (OPEB) for the year ending December 31, 2011 is as follows:

YEAR ENDED	ANNUAL OPEB COST	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
12/31/11	\$ 237,837	0%	\$2,960,762

Actuarial assumptions were used to value the post-retirement medical liabilities. Actuarial assumptions were based on the actual experience of the covered group, to the extent that creditable experience data was available, with an emphasis on expected long-term future trends rather than giving undue weight to recent past experience. The reasonableness of each actuarial assumption was considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions. In accordance with Local Finance Notice 2008-15 issued by the New Jersey Department of

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 17. Post-Retirement Health Benefits (continued):

Community Affairs, the Port Corporation used demographic and health care assumptions consistent with the assumptions used by the New Jersey Division of Pensions and Benefits and the State Health Benefits Plan as reported in their July 1, 2006 Actuarial Valuation to value the GASB obligations, except where it was appropriate to use different assumptions.

Two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that being partially funded. A discount rate of 5.0 percent was assumed, for purposes of developing the liabilities and Annual Required Contribution on the basis that the Plan would not be funded. We assumed health care costs would increase annually at a rate of 7%.

The valuation projects the cost to the South Jersey Port Corporation of providing medical, prescription drugs, dental and vision benefits to employees who remain in the medical plan after retirement (post-employment coverage). South Jersey Port Corporation self-insures the health plan. The Corporation elected to use for this valuation claims costs based on the claims costs for the South Jersey Port Corporation health claims experience and demographics. Benefit claims were based on an annual average claims cost of approximately \$5,498 per covered retiree for family coverage and \$2,199 for single coverage prior to age 65. The annual cost to purchase stop loss insurance is included in the total annual health care cost and the annual cost to administer the retiree claims, approximately 2%, is included in the annual health care costs. For claims cost purposes, it was assumed that married employees will remain married.

An actuarial study was conducted for the Corporation for the first time in calendar year 2007. As per GASB #45 the Corporation is not required to perform another actuarial study until 2013.

The Corporation currently has thirteen eligible retired employees receiving retirement benefits. The net Other Post-Employment Benefit obligation to the Corporation to provide benefits to the retirees for the year ended December 31, 2011, was \$2,960,762. Actual cost incurred for Early Retiree Benefits for the year ended December 31, 2011 totaled \$237,837.

Note 18. Arbitrage Rebate Calculation

The arbitrage rebate requirement imposed by section 148 of the Internal Revenue Code require that certain profits or arbitrage earned from investing proceeds of tax-exempt bonds be rebated to the Federal Government. The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purpose investments purchased with gross proceeds of the bonds over the amount that would have been earned if such non-purpose investments were invested at a yield equal to the yield of the bonds.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 18. Arbitrage Rebate Calculation (continued):

This Arbitrage calculation has been performed through October 19, 2008 and the Corporation is in material compliance with the arbitrage rebate requirements.

Note 19. Air Product/Air Gas

During the lease term of Air Products/Air Gas, Air Products/Air Gas operations contaminated the premises. While the lease term has ended, the site is the subject of DEP oversight and remediation. Air Products/Air Gas continues to remediate the site in cooperation with SJPC and DEP. SJPC continues to carry on its books accruing rent from the termination of the lease to the present as anticipated damages for Air Products/Air Gas contamination of the site. The receivable is anticipated to be resolved in conjunction with the conclusion of the remediation process or by suit. As of December 31, 2011 lease rental billings for Air Products/Air Gas totaled \$194,463.

Note 20. Holcim/St Lawrence Lease

Pursuant to the Lease between SJPC and Holcim (Formerly St. Lawrence Cement), St. Lawrence Cement guaranteed an average minimum discharge of 675,000 tons per year and provided for penalties in the event the 675,000 annual tonnages was not met. As part of the agreement, SJPC acknowledged that Holcim is owed \$3,300,000 for its predecessor's construction of a barge berth and paid Holcim \$1,650,000. With respect to the remaining \$1,650,000, SJPC has agreed to issue credits to Holcim for a percentage of the revenues generated by the Port for (a) tonnage discharged in excess of the 675,000 annual tonnage guarantee (tonnage credits) and (b) tonnage off-loaded at Pier 1A by persons or entities other than Holcim (pier usage credits).

The tonnage and pier usage credits are credited towards Holcim tonnage shortfalls under the 675,000 annual tonnage guarantee. If there is no shortfall in the annual tonnage guarantee the credits are due as payment to Holcim. It is SJPC's understanding that both the credits and any payments reduce the afore-described \$1.65 million plus interest equal to the 1 year London Interbank offer rate. Once such tonnage and pier usage credits equal \$1.65 million plus the LIBOR interest, Holcim is no longer entitled to any further credits. The remaining tonnage and usage credits to Holcim as of December 31, 2011 are \$1,236,662.

Note 21. Prior Period Adjustments

The following prior period adjustment was made to the 2010 financial statements:

1. This adjustment was made due to the understatement of the Post Retirement Benefits Payable liability.

SOUTH JERSEY PORT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 21. Prior Period Adjustments (continued):

Post-Retirement B Guarantee Benefits Payable December 31, 2009	\$ 271,000
Prior Period Adjustment	<u>2,035,000</u>
Balance Restated	<u>\$ 2,306,000</u>
Total Net Assets December 31, 2009	\$48,451,301
Prior Period Adjustment	<u>(2,035,000)</u>
Net Assets Restated	<u>\$46,416,301</u>

Note 22. Subsequent Events

The South Jersey Port Administration has been working toward the issuance of the Series 2012 Q Bond Series, to be issued pursuant to the Amended and Restated Fourteenth Supplemental Resolution that was adopted on January 31, 2012 SJPC board meeting. These bonds will advance-refund the 2002 K Bond Series and also provide funds for the 2012 Capital Program for the South Jersey Port Corporation. The debt service on the 2012 Q Bond Series will be similar to but no greater than the debt service on the 2002 Bond Series K.

The 2012 Q Bond Series will be sold via competitive bids sometime in May; the exact date will depend on the timing of the State's approval of the minutes from the April 24, 2012 board meeting, since the 2011 Audit needs to be included in the POS for the 2012 Q Bond Series.

Port officials hope that the Corporation will realize at least \$2 million dollars in new capital funds for the 2012 Capital Program; the final amount will be dependent on interest rates that are received at bid.

SUPPLEMENTARY SCHEDULES

SOUTH JERSEY PORT CORPORATION
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES
ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	2011			2010		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Revenues:						
Marine Direct:						
Leases - Marine Direct	\$6,403,370	6,403,370	6,082,593	\$5,421,692	5,421,692	6,138,438
Crane Rental	1,074,247	1,074,247	1,246,163	1,412,865	1,412,865	1,202,252
Dockage	1,376,951	1,376,951	1,623,940	1,746,900	1,746,900	1,458,787
Handling	2,962,843	2,962,843	3,813,719	2,688,768	2,688,768	3,091,161
Storage	605,537	605,537	903,371	1,161,632	1,161,632	750,840
Wharfage	2,523,711	2,523,711	2,862,802	2,856,914	2,856,914	2,710,939
Demurrage	3,656	3,656	3,730	5,376	5,376	3,582
Total Marine Direct	14,950,315	14,950,315	16,536,318	15,294,147	15,294,147	15,355,999
Marine Related:						
Leases - Industrial	654,513	654,513	584,096	762,666	762,666	629,457
Utilities	1,728,728	1,728,728	821,330	1,808,179	1,808,179	1,547,470
Port of Salem Revenue	90,000	90,000	105,000	156,328	156,328	105,000
Miscellaneous	168,616	168,616	456,217	71,207	71,207	350,075
Total Marine Related	2,641,857	2,641,857	1,966,643	2,798,380	2,798,380	2,632,002
Other Income:						
Income on Investments	425,000	425,000	98,452	490,082	490,082	366,511
Miscellaneous	123,027	123,027	606,747	39,228	39,228	155,447
Total Other Income	548,027	548,027	705,199	529,310	529,310	521,958
Total Revenues	<u>\$18,140,199</u>	<u>18,140,199</u>	<u>19,208,160</u>	<u>18,621,837</u>	<u>18,621,837</u>	<u>18,509,959</u>
Operating Expenses:						
Port Operations:						
Labor Expense:						
Labor Crane	\$215,600	215,600	227,288	\$249,998	249,998	176,288
Labor Handling	1,281,383	1,281,383	1,266,582	1,196,474	1,196,474	1,371,743
Labor Repairs & Maintenance	742,368	742,368	689,908	679,324	679,324	764,688
Security	662,064	662,064	684,026	647,064	647,064	700,218
Supervisors	557,637	557,637	629,294	636,397	636,397	755,778
Total Labor Expense	3,459,052	3,459,052	3,497,098	3,409,257	3,409,257	3,768,715
Payroll Taxes	395,709	395,709	398,239	376,621	376,621	357,560
Workers Compensation Insurance	574,317	574,317	593,700	548,007	548,007	458,508
Employee Benefits:						
Hospitalization	1,338,750	1,338,750	1,331,822	1,450,000	1,450,000	1,100,420
Vacation, Holiday, Sick, Pension	498,263	498,263	411,839	628,311	628,311	327,119
Total Employee Benefits	2,807,039	2,807,039	2,735,600	3,002,939	3,002,939	2,243,607
Crane Rental - Gas & Oil	73,500	73,500	78,119	68,384	68,384	45,340

SOUTH JERSEY PORT CORPORATION
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES
ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	2011			2010		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Expenses (Continued):						
Handling:						
Gas & Oil	168,000	168,000	222,326	159,701	159,701	152,359
Miscellaneous	45,000	45,000	55,769	27,563	27,563	35,966
Trucking Expenses	25,000	25,000	51,549	3,921	3,921	3,484
Clerking & Checking	1,012,428	1,012,428	1,147,879	936,006	936,006	1,165,552
Total Handling	1,250,428	1,250,428	1,477,523	1,127,191	1,127,191	1,357,361
Rental of Equipment	19,394	19,394	27,420	4,050	4,050	14,329
Trash Removal	65,000	65,000	117,899	70,838	70,838	81,332
Security:						
Contracted Services	11,504	11,504	13,553	3,440	3,440	4,597
Other Expenses	13,500	13,500	6,671	15,593	15,593	10,624
Total Security	25,004	25,004	20,224	19,033	19,033	15,221
Port of Salem Operations	49,920	49,920	53,457	52,445	52,445	49,965
Utilities	2,545,000	2,545,000	1,363,608	2,588,967	2,588,967	2,321,464
Total Port Operations	10,294,337	10,294,337	9,370,948	10,343,104	10,343,104	9,897,334
Repairs & Maintenance:						
Buildings & Grounds:						
Contracted	265,000	265,000	252,285	232,264	232,264	180,267
Fees & Permits	31,500	31,500	15,769	22,032	22,032	26,629
Materials	112,000	112,000	155,852	114,457	114,457	111,602
Total Buildings & Grounds	408,500	408,500	423,906	368,753	368,753	318,498
Cranes:						
Contracted	125,000	125,000	125,182	154,833	154,833	134,970
Materials	75,000	75,000	60,208	64,532	64,532	48,239
Total Cranes	200,000	200,000	185,390	219,365	219,365	183,209
Mobile Machinery & Equipment:						
Contracted	16,500	16,500	12,673	14,778	14,778	14,483
Equipment	25,500	25,500	23,855	9,378	9,378	29,640
Materials	176,781	176,781	117,220	149,477	149,477	153,664
Small Tools	21,167	21,167	20,363	11,418	11,418	15,272
Total Mobile Machinery & Equipment	239,948	239,948	174,111	185,051	185,051	213,059
Total Repairs & Maintenance	848,448	848,448	783,407	773,169	773,169	714,766

SOUTH JERSEY PORT CORPORATION
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES
ACTUAL COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	2011			2010		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Expenses (Continued):						
General & Administrative:						
Labor - Office Clerical & Related	885,000	885,000	823,511	816,964	816,964	835,665
Labor - Administrative	654,000	654,000	630,613	667,067	667,067	672,178
Payroll Taxes	140,000	140,000	136,623	143,892	143,892	128,107
Workmen's Compensation	5,801	5,801	4,236	4,236	4,236	4,236
Employee Benefits:						
Hospitalization	696,000	696,000	633,593	651,000	651,000	610,068
Pension	590,494	590,494	623,923	541,424	541,424	553,285
Insurance	1,500,000	1,500,000	1,366,634	1,671,627	1,671,627	1,657,661
Professional Fees	760,000	760,000	727,069	760,184	760,184	750,310
Miscellaneous	475,523	475,523	469,947	424,127	424,127	381,526
Telephone	48,957	48,957	58,549	62,160	62,160	52,535
Utilities	30,000	30,000	30,000	30,000	30,000	30,000
Bad Debt	60,000	60,000	31,804			15,591
Total General & Administrative	5,845,775	5,845,775	5,536,502	5,772,681	5,772,681	5,691,162
Total Operating Expenses	16,988,560	16,988,560	15,690,857	16,888,954	16,888,954	16,303,262
Operating Income Before Other Operating Expenses	\$1,151,639	1,151,639	3,517,303	1,732,883	1,732,883	2,206,697

SOUTH JERSEY PORT CORPORATION
SCHEDULE OF NET ASSETS
DECEMBER 31, 2011

ASSETS	UNRESTRICTED OPERATING ACCOUNTS	RESTRICTED			CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
		DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT			
Current Assets:							
Cash & Cash Equivalents	\$7,301,082	779,733	786		100,012,660	453,611	108,547,872
Investments			9,753,948				9,753,948
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$331,261)	2,893,670						2,893,670
Due from State			19,847,053				19,847,053
Other Accounts Receivable	2,333,963						2,333,963
Prepaid Expenses	930,237						930,237
Inventory of Supplies	1,401,433						1,401,433
Interfund Accounts Receivable	52,378,047	57,473,304	39,901,825	510,175	46,283,817		196,547,168
Total Current Assets	67,238,432	58,253,037	69,503,612	510,175	146,296,477	453,611	342,255,344
Property, Plant & Equipment (Note 3)					208,464,947		208,464,947
Construction in Progress					91,231,853		91,231,853
Bond Discount & Financing Costs					16,038,442		16,038,442
Subtotal					315,735,242		315,735,242
Accumulated Depreciation & Amortization					99,020,292		99,020,292
Total Property, Plant & Equipment & Construction in Progress					216,714,950		216,714,950
Total Assets	67,238,432	58,253,037	69,503,612	510,175	363,011,427	453,611	558,970,294

SOUTH JERSEY PORT CORPORATION
SCHEDULE OF NET ASSETS
DECEMBER 31, 2011

LIABILITIES	UNRESTRICTED OPERATING ACCOUNTS	RESTRICTED			CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
		DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT			
Current Liabilities Payable from Assets:							
Accounts Payable	55,799					450,224	506,023
Contracts Payable					9,743,944		9,743,944
Capital Lease Payable					1,000,000		1,000,000
Accrued Expenses	915,780						915,780
Accrued Interest Payable		8,561,191					8,561,191
Accrued Vacation Payable	148,207						148,207
Accrued Payroll	71,333						71,333
Payroll Taxes Payable	50,195						50,195
Deferred Income	537,751						537,751
Lease Security & Escrow Deposits	207,042						207,042
Revenue Bonds - Short Term					8,780,000		8,780,000
Interfund Accounts Payable	45,093,783	49,691,846	43,774,993		57,983,159	3,387	196,547,168
Total Current Liabilities	47,079,890	58,253,037	43,774,993		77,507,103	453,611	227,068,634
Revenue Bonds (Long-Term Portion)					281,790,000		281,790,000
Early Retirement Payable	1,145,931						1,145,931
Post Retirement Benefits Payable	2,920,762						2,920,762
Capital Lease Payable					1,000,000		1,000,000
Unamortized Bond Premiums					1,521,286		1,521,286
Total Liabilities	51,146,583	58,253,037	43,774,993		361,818,389	453,611	515,446,613
NET ASSETS							
Investment in Capital Assets, Net of Related Debt				510,175	1,193,038		1,703,213
Reserve for Payment of Debt Service			25,728,619				25,728,619
Reserve for Inventory Supplies	1,401,433						1,401,433
Unreserved	14,690,416						14,690,416
Net Assets	\$16,091,849	-	25,728,619	510,175	1,193,038	-	43,523,681

SOUTH JERSEY PORT CORPORATION
SCHEDULE OF CHANGES IN NET ASSETS ALL ACCOUNTS
DECEMBER 31, 2011

	OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE	MAINTENANCE RESERVE	CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
Net Assets, Beginning of Year	\$6,922,661		25,728,619	510,175	4,715,257		37,876,712
Add:							
Excess of Revenue Over Expenses	3,517,303						3,517,303
State of New Jersey:							
Debt Service Aid			19,847,053				19,847,053
PILOT Payments						4,050,449	4,050,449
Federal Subsidy Revenue	3,246,652						3,246,652
Depreciation on Contributed Capital					211,962		211,962
Unrealized Gain/(Loss) on Investment	560,987						560,987
Interest on Investments					168,996		168,996
Inventory of Supplies	(1,783)						(1,783)
Interfund Transfers	39,578,399	17,122,380			40,457,043	4	97,157,826
Total	53,824,219	17,122,380	45,575,672	510,175	45,553,258	4,050,453	166,636,157
Deduct:							
Bond Interest		17,122,380					17,122,380
Depreciation/ Amortization Expense					4,569,859		4,569,859
Transfer of Depreciation to Contributed Capital					211,962		211,962
Camden City PILOT Payment						2,500,000	2,500,000
Camden County PILOT Payment						838,000	838,000
Gloucester County PILOT Payment						150,000	150,000
Paulsboro PILOT Payment						500,000	500,000
Salem PILOT Payment						62,449	62,449
Interfund Transfers	37,732,370		19,847,053		39,578,399	4	97,157,826
Total	37,732,370	17,122,380	19,847,053		44,360,220	4,050,453	123,112,476
Net Assets December 31, 2011	\$16,091,849	-	25,728,619	510,175	1,193,038	-	43,523,681

APPENDIX III

DEFINITIONS AND SUMMARIES OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

APPENDIX III

SUMMARIES OF CERTAIN PROVISIONS OF THE RESOLUTION

The Marine Terminal Revenue Bond Resolution, adopted June 5, 1985, as amended and supplemented (the “General Bond Resolution”), as further supplemented by the “Amended and Restated Fourteenth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Refunding Bonds, Series 2012 Q” adopted on January 31, 2012 (the “Fourteenth Supplemental Bond Resolution”) contain various covenants and security provisions, certain of which are summarized below. The General Bond Resolution and the Fourteenth Supplemental Bond Resolution are collectively referred to herein as the “Resolution.”

The following summary does not purport to be a full and complete statement of the provisions of the Resolution, and the Resolution should be read in full for a complete understanding of all covenants and security provisions.

For convenience of reference, the number or numbers of the relevant section or sections of the Resolution appear following the respective captions in this summary. Whenever particular provisions of the Resolution are referred to, such provisions are incorporated by reference to the Resolution. Copies of the Resolution may be obtained from the office of the Secretary of the Corporation.

Definitions (General Bond Resolution)

Capitalized terms that are not defined herein shall have the meanings assigned to such terms in the Resolution. Certain other terms are defined as follows:

“Additional Bonds” shall mean Bonds authenticated and delivered on original issuance pursuant to the Resolution.

“Aggregate Debt Service” for any calendar year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all series of Bonds.

“Bond” or “Bonds” shall mean any bond or bonds, issued under the Resolution, including the Series 2012 Bonds described in the Official Statement.

“Capital Appreciation Bond” shall mean a Bond or Bonds with a stated value at maturity, including Bonds for such time as they may cease to bear current interest and shall have a stated value at maturity.

“CEDE & Co.” shall mean Cede & Co., as nominee of The Depository Trust Company, New York, New York.

“Cost,” with respect to any portion of the Marine Terminals, shall mean the Corporation's costs of physical construction, acquisition, demolition, reconstruction, rehabilitation, restoration or relocation by or for the Corporation of real or personal property or an interest therein and costs of the Corporation incidental to such construction, acquisition, demolition, reconstruction, rehabilitation, restoration or relocation, the cost of any indemnity and surety bonds and premiums on insurance or construction, engineering expenses, legal fees and expenses, costs of financing, audit fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution to be paid into any Fund under the Resolution upon the issuance of any series of Bonds, payments when due

(whether at the maturity of principal, at the due date of interest or upon redemption) on any indebtedness of the Corporation (other than the Bonds) incurred for such costs with respect to the Marine Terminals, costs of machinery, equipment supplies and initial working capital and reserves required by the Corporation for the commencement of operation of any Project, reimbursement of State advances, deposits of moneys or securities in connection with condemnation proceedings, any other cost properly attributable to such construction or acquisition and reimbursement to the Corporation for any such items of Cost theretofore paid by the Corporation.

“Debt Reserve Requirement” shall mean the portion of the “maximum debt service reserve” referred to in and required by Section 13 of the Act relating to Bonds. As of particular date of computation, this term shall mean the largest amount of money required by the terms of any contracts between the Corporation and its Bondholders to be raised in any succeeding calendar year for the payment of interest on and maturing principal of Outstanding Bonds and payments required by the terms of any such contracts to be put into sinking funds established for the payment or the redemption of such Bonds, calculated on the assumption that Bonds will cease to be Outstanding after the date of such computation by reason of the payment of Bonds at their respective maturities and the payments of such required moneys to sinking funds and the application thereof in accordance with the terms of any such contracts to the retirement of Bonds and shall constitute an amount of money equal to the largest amount of Aggregate Debt Service due or payable in any succeeding calendar year.

The amount of the Debt Reserve Requirement shall be adjusted to the extent permitted by law as follows: (i) if so provided in a Supplemental Resolution authorizing Variable Interest Rate Bonds, the Debt Service Requirement shall be calculated for such Variable Rate Bonds to equal the rate that would have been borne by such Bonds had they been issued as fixed rate Bonds of the same maturity or in such other reasonable amounts determined by Supplemental Resolution as is consistent with the Act and as would maximize investment possibilities consistent with federal regulations on Arbitrage and (ii) if any Variable Interest Rate Bond or Bonds shall be converted to a fixed rate Bond or Bonds for the remainder of the term thereof and as a result of such conversion a deficiency shall be created in the Debt Reserve Fund, the Debt Reserve Requirement shall be calculated so as to exclude the amount of such deficiency for ten months and the Debt Reserve Requirement shall be increased in each of the ten months after the date of such conversion by an amount that shall be equal to 10% of the aforesaid deficiency.

“Debt Service” for any period shall mean, as of any date of calculation and with respect to any series of Bonds, an amount equal to the sum of (i) the interest accruing during such period on Bonds outstanding of such series, except to the extent that such interest is to be paid from deposits (including investment income thereon) in the Debt Service Fund made from Bond proceeds and (ii) that portion of each Principal Installment for such series that would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such series or, if there shall be no such preceding Principal Installment due date, from a date one year (or such lesser period as shall be appropriate if Principal Installments shall become due more frequently than annually) preceding the due date of the Principal Installment or from the date of issuance of the Bonds of such series, whichever is later. In the case of Variable Interest Rate Bonds, with respect to a particular period and date of calculation, the interest rate thereon shall be calculated on the assumption that such Bonds will bear interest during such period at the Maximum Interest Rate for such Bonds except that, if on such date of calculation the interest rate on such Bonds shall then be fixed for a specified period, for the purposes of the foregoing calculation the interest rate for the purposes of such calculation shall be such actual interest rate and except that for the purposes of the Additional Bond tests described

below the interest rate shall be calculated on such reasonable basis and at least equal to the Variable Interest Rate borne by such Bonds on the date of issuance of such Additional Bonds or paid for such Bonds on the interest payment date for such Bonds preceding such issuance as determined by the Supplemental Resolution authorizing the issuance of such Additional Bonds.

“Debt Service Requirement” shall mean, as of any date of calculation, an amount equal to the sum of (i) interest on the Bonds of all series accrued and unpaid and to accrue to the next ensuing interest payment date for the Bonds and (ii) Principal Installments due and unpaid and that portion of the Principal Installment for all series of Bonds next due that would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the next ensuing interest payment date for the Bonds.

“DTC” shall mean The Depository Trust Company, New York, New York, a limited purpose company organized under the laws of the State of New York, in its capacity as Securities Depository for the Series 2012 Bonds and its successors and assigns.

“Investment Obligations” means to the extent permitted by law (a) any direct and general obligation of or any obligation fully and unconditionally guaranteed by the United States of America including obligations that do not pay current interest; (b) any bond, debenture, note, participation certificate or other evidence of indebtedness issued or guaranteed by any agency or corporation that has been created or may be created hereafter pursuant to an Act of Congress as an agency or an instrumentality of the United States of America; (c) negotiable or nonnegotiable certificates of deposit issued by any bank, savings and loan association, trust company or national banking association, which certificates of deposit, except in the case of certificates of deposit issued by a bank, savings and loan association, trust company or national banking association having a capital stock and surplus of more than \$200,000,000, shall be continuously secured by obligations described in clauses (a), (b) or (d) of this definition, that shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit (as determined by such bank, savings and loan association, trust company or national banking association) and shall be lodged with the Trustee, as custodian, by the Bank, the savings and loan association, the trust company or the national banking association issuing such certificates of deposit; (d) full faith and credit obligations of the State; (e) deposits in interest bearing accounts in any bank, savings and loan association, trust company or national banking association having capital surplus of more than \$200,000,000; (f) shares or beneficial interests in an investment fund or trust whose assets consist of obligations described in clauses (a) or (b) of this definition; (g) interests in the State of New Jersey Cash Management Fund or other similar common trust fund for which the New Jersey State Treasurer is the custodian; (h) investment agreements with any bank, trust company or national banking association having a capital stock and surplus of more than \$200,000,000 or with any government bond dealer reporting to, trading with and recognized as a primary dealer by the Federal Reserve Bank of New York or Philadelphia for the purchase of securities described in clause (a) or (b) above, provided such investment agreements shall be continuously secured by obligations described in clauses (a) or (b) of this definition having a market value (exclusive of accrued interest) at all times at least equal to the principal amount invested in such investment agreement; or (i) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (a) hereof, provided that such obligations shall be held in trust for the Corporation by a bank, trust company or national banking association having a capital stock and surplus of more than \$200,000,000.

“Maintenance Reserve Requirement” shall mean an amount at least equal to 3% of the amount of Debt Service and Operating Expenses described in the Annual Budget for the then

current calendar year plus such additional amount as shall be provided in the Annual Budget.

“Marine Terminals” shall mean the real and personal property acquired, constructed, leased or operated or to be acquired, constructed, leased or operated by the Corporation for marine terminal purposes of the Corporation under the Act, including (without limiting the generality of the foregoing) (i) the Corporation's existing marine terminal property, (ii) all Projects and (iii) all other real or personal property and rights therein and appurtenances necessary, useful or convenient for the effectuation, the establishment, the acquisition, the construction, the rehabilitation, the improvement, the maintenance, the ownership and the operation of marine terminals by the Corporation pursuant to the Act.

“Net Revenues” for any calendar year or period of 12 calendar months shall mean the Revenues during such year or period less the amounts paid from the Revenue Fund into the Operating Fund during such year or period.

“Operating Expenses” shall mean the Corporation's expenses for operation, maintenance, repairs, ordinary replacement and ordinary reconstruction of the Marine Terminals, including payments into reserves in the Operating Fund for items of Operating Expenses, the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, administrative and engineering expenses, legal and financial advisory expenses, investment financing expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums, lease payments, including, without limitation, payments under that certain electrical substation lease with the Delaware River Port Authority and that certain Del Monte building lease with the Delaware River Port Authority, and any other current expenses or obligations required to be paid by the Corporation, all to the extent properly and directly allocable to the Marine Terminals. Operating Expenses shall not include any costs or expenses for new construction, for major repairs and replacements, for any allowance for any depreciation or for any Tax Payments.

“Option Bonds” shall mean Bonds that by their terms may be tendered for payment by the Corporation prior to the stated maturity thereof at the option of the Holder or that may have their maturities extended by and at the option of the Holder.

“Outstanding,” when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon authenticated and delivered under the Resolution except:

- (i) Any bonds cancelled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or the redemption of which moneys, equal to the principal amount or the Redemption Price thereof, as the case may be, with interest to the date of maturity or the Redemption Date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or the Redemption Date);
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Resolution;
- (iv) Bonds deemed to have been paid as provided in the Resolution; and
- (v) Option Bonds deemed tendered in accordance with the provisions of the Supplemental

Resolution authorizing such Bonds on the applicable adjustment or conversion date if the interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution.

“Paulsboro Marine Terminal Project” shall mean, those certain capital projects in connection with the loss of function of two berths and other related infrastructure and equipment due to a pier collapse at the Corporation’s Beckett Street marine terminal (now known as the Joseph A. Balzano Terminal), at a replacement marine terminal to be located in the Borough of Paulsboro, Gloucester County, New Jersey, pursuant to the Supplemental Bond Resolution.

“Principal Installment” shall mean, as of any date of calculation and with respect to any particular future date and Outstanding Bonds of any series, (i) the principal amount of Bonds of such series due on such certain future date for which no Sinking Fund Installments have been established, and (ii) the unsatisfied balance (determined as provided in the Resolution) of any Sinking Fund Installments due on such certain future date for Bonds of such series, plus the amount of the Sinking Fund redemption premiums, if any, that would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment.

In the case of Capital Appreciation Bonds the unsatisfied balance shall be computed on the basis of the portion of the accreted value deemed to accrete for any period of time on the basis of the accreted values provided for such Bonds in the Supplemental Resolution authorizing such Bonds.

“Project” shall mean one or more major renewals or replacements of the Marine Terminals or major additions or improvements thereto and any additional development by the Corporation for marine terminal purposes consisting of any one or more piers, wharves, docks, bulkheads, ships, basins, roadways, railroad connections, side tracks, sidings and other buildings, facilities, equipment acquisition or improvements necessary or convenient to the accommodation of steamships or other vessels and their cargoes or passengers or the processing, the treating or the transportation of such cargoes and all real or personal property and rights therein and appurtenances thereto, necessary, useful or convenient for the effectuation, the establishment, the acquisition, the construction, rehabilitation, the improvement, the operation, the maintenance or the ownership of such development by the Corporation pursuant to the Act.

“Property Tax Reserve Requirement” shall mean the “property tax reserve” referred to in Section 20 of the Act and as of any particular date of computation in any calendar year, the total amount of money required by the terms of all Tax Agreements to be raised in such year for Tax Payments (as defined in the Act) reduced by the amount of all such prior Tax Payments made in such year.

“Rebate Requirement” shall mean the amount calculated in accordance with the Internal Revenue Code of 1986, as may be amended, and the regulations promulgated thereunder for deposit in the Rebate Fund.

“Redemption Price” shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bonds or the Resolution, or, in the case of Capital Appreciation Bonds, the accreted value determined in accordance with the Supplemental Resolution authorizing such Bonds plus any premium provided

therein.

“Revenues” shall mean (i) all revenues, income, rents, charges, fees and receipts derived by the Corporation from the ownership and the operation of the Marine Terminals, any subsidies or other payments payable to the Corporation annually as a supplement to revenues of the Marine Terminals pursuant to a legally enforceable contract with a governmental body or donations for operating expenses on hand, (iii) the proceeds of any insurance covering business interruption loss relating to the Marine Terminals and (iv) interest received on any moneys or securities held pursuant to the Resolution and paid into the Revenue Fund. Revenues shall not include any appropriations made by the State for the Debt Reserve Fund or for the Tax Reserve Fund, nor government grants or other donations.

Revenues shall not include the repayment of any sums loaned by the Corporation if permitted by law to private facility owners available from proceeds of bonds issued for such purpose and secured by such repayments.

“Securities Depository” shall mean the depository for the Series 2012 Bonds so long as the Series 2012 Bonds are not in certificated form, which, initially, shall be DTC.

“Sinking Fund Installment” shall mean the amount of money required by the Resolution or by a Supplemental Resolution of the Corporation authorizing a series of Additional Bonds to paid into the sinking fund accounts in the Debt Service Fund by the Corporation toward the retirement of any bonds of such series but does not include any amount payable by reason only of a maturity of a Bond.

“State” shall mean the State of New Jersey.

“Tax Agreements” shall mean all agreements entered into between the Corporation and any county or municipality under the Act, together with any and all amendments thereof and supplements thereto, pursuant to which the Corporation undertakes to make tax payments (as defined in the Act) in accordance with the terms of such agreements as compensation for loss of tax revenue by acquisition of real property by the Corporation.

“Tax Payments” shall mean as of any particular date of computation and with respect to a particular calendar year, the total amount of money (if any) that the Corporation then is obligated and is required to pay pursuant to Tax Agreements in the manner and to the extent set forth and provided for in such Tax Agreements.

“Tax Certificate and Agreement” shall mean the tax certificate pertaining to arbitrage and other matters dated the date of delivery of the Series 2012 Bonds delivered by the Corporation.

“Tax Reserve Fund” shall mean the “South Jersey Port Corporation Tax Reserve Fund” that is referred to in Section 20 of the Act and so designated and that is established pursuant to the Resolution.

“Variable Interest Rate” shall mean a variable interest rate to be borne by a series of Bonds or by any one or more maturities within a series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Resolution authorizing such series of Bonds. Such Supplemental Resolution also shall specify either (i) the particular period or periods of time for which each value of such variable interest rate shall remain in effect, or (ii) the time or times

upon which any change in such variable interest rate shall become effective. Such rate shall not exceed the Maximum Interest Rate determined in the Supplemental Resolution authorizing such Bonds.

“Variable Interest Rate Bonds”, for any period of time, shall mean Bonds that during such period bear a Variable Interest Rate, provided that Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be deemed Variable Interest Rate Bonds.

Resolution to Constitute Contract (General Bond Resolution, Section 103)

In consideration of the purchase and the acceptance of any and all of the Bonds authorized to be issued under the Resolution by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the Corporation and the Holders from time to time of the Bonds and the coupons appertaining thereto, if any. The pledge made in the Resolution and the covenants and the agreements therein set forth to be performed on behalf of the Corporation shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds and the coupons, all of which, regardless of the time or the times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds or the coupons over any other thereof except as expressly provided in or permitted by the Resolution.

Authorization of Bonds (General Bond Resolution, Section 201 and Supplemental Bond Resolution, Section 201)

The Resolution authorizes Bonds of the Corporation to be designated as “Marine Terminal Revenue Bonds, Series 2012 Q”, and provides that the Series 2012 Bonds may be issued in one or more sub-series. The Bonds shall be direct and general obligations of the Corporation, and the full faith and credit of the Corporation are pledged for the payment of the principal and the Redemption Price of and the interest on the Bonds. The aggregate principle amount of the Bonds that may be executed, authenticated and delivered under the Resolution is not limited except as is or as thereafter may be provided in the Resolution or as may be limited by law.

Additional Bonds-Ordinary Issuance (General Bond Resolution, Section 205)

Additional Bonds may be issued by the Corporation pursuant to the Resolution either for the purpose (a) of paying Costs of a Project and (b) of raising funds to complete any Project for which Additional Bonds were issued pursuant to clause (a) above.

If such Additional Bonds are authorized for a purpose described in clause (a) of the preceding paragraph, the Trustee shall authenticate and shall deliver Additional Bonds only upon receipt by it of, among other things:

(a) An Accountant's Certificate setting forth (i) for any period of 12 consecutive calendar months out of the 15 calendar months next preceding the authentication and the delivery of the Additional Bonds of such series, the Net Revenues for such period, (ii) the Debt Service for such period with respect to all series of Bonds Outstanding immediately prior to the authentication and the delivery of such series of Additional Bonds, (iii) the Aggregate Debt Service with respect to all Bonds to be Outstanding immediately after authentication and delivery of such series of Additional Bonds for each future calendar year and including the year next preceding the date of the latest maturity of any Bonds of any series to be Outstanding immediately after such authentication

and delivery, and (iv) the annual average of the Aggregate Debt Service so determined for each future calendar year;

(b) A certificate of the Consulting Engineers setting forth (i) their estimate of the Net Revenues for each of the five consecutive calendar years following the year in which the Project being financed is estimated by such Consulting Engineers to be completed and (ii) the annual average of the Net Revenues for such five-year period;

(c) A certificate of an Authorized Officer of the Corporation showing that (i) Net Revenues (as set forth pursuant to clause (i) of subparagraph (a) above) for the twelve-month period so selected are at least equal to 1.10 times the Debt Service with respect to all Series of Bonds Outstanding immediately prior to the authentication and the delivery of such series of Additional Bonds (as set forth pursuant to clause (ii) of subparagraph (a) above), (ii) the Net Revenues for each of the five consecutive years estimated pursuant to clause (i) of subparagraph (b) above are at least equal to the Aggregate Debt Service for each such year (as set forth pursuant to clause (iii) of subparagraph (a) above), and (iii) the annual average of the estimated Net Revenues for the five-year period following the estimated completion of the Project (as set forth pursuant to clause (ii) of subparagraph (b) above) is at least equal to 1.10 times the annual average of the Aggregate Debt Service for each future calendar year (as set forth pursuant to clause (iii) of subparagraph (a) above).

(d) A certificate of the Consulting Engineers setting forth the estimated total cost of the Project, the estimated date of completion of such Project and the opinion that the proceeds of the Additional Bonds together with any other funds that may be available for the Project will be sufficient to complete the Project.

If Additional Bonds are authorized to complete a Project for which Additional Bonds are issued, such Bonds shall be authenticated and shall be delivered only upon receipt of a Certificate of the Consulting Engineers stating (i) the purpose for which the Additional Bonds are to be issued, and (ii) the opinion that the amount of the proceeds of the Additional Bonds, together with other funds of the Corporation then available or expected to be available therefor, will be sufficient to pay the Cost of completion of the Project.

Additional Bonds - Extraordinary Issuance (General Bond Resolution, Section 206)

One or more series of Additional Bonds may be authorized and may be delivered upon original issuance for the purpose of paying Costs of a Project but without regard to the requirements for ordinary issuance set forth above under the following circumstances:

(a) For Projects for which the Consulting Engineers have prepared a certificate setting forth an estimated of Net Revenues derived directly or indirectly from the Project for each of the five consecutive calendar years following the estimated completion of the Project, the Accountant has prepared a certificate setting forth the Debt Service and the annual average of the Debt Service with respect to the proposed issue of Additional Bonds for each calendar year such Bonds are to be Outstanding and an Authorized Officer of the Corporation has prepared a certificate showing that in every year for five years commencing after completion of the Project the Net Revenues set forth in the Consulting Engineers' certificate described in this subparagraph shall equal or shall exceed the Debt Service for each such year set forth in the Accountant's certificate described in this subparagraph and that the annual average of the Net Revenues for such five-year period will equal 120% of such annual average of Debt Service for the Project, provided that the

Additional Bonds issued for such Project together with any other funds that may be available therefore will be sufficient in the opinion of the Consulting Engineers to complete such Project, and provided that an Authorized Officer of the Corporation has prepared an economic impact statement with respect to such Project and has delivered it to the Governor of the State prior to adoption of the Supplemental Bond Resolution authorizing such Additional Bonds;

(b) For Projects consisting of the acquisition of real property and improvements thereon determined by resolution of the Corporation, on the basis of such factors and information as determined to be reasonable by the members of the Corporation, to be necessary to maintain or to enhance Revenues of the Corporation from all Corporation facilities, provided that Bonds issued for such Project shall not exceed in aggregate amount, but shall be sufficient to provide for, the Cost of such Project, including any relocation assistance required to be paid, any Costs related to such acquisition, any necessary reserves, costs of issuance, capitalized interest for a period not exceeding the period ending on the first interest payment date following such acquisition and all incidental costs, over the amount in the Property Reserve Fund, which amount shall be used for the Cost of the Project, and provided further that the aggregate amount of Bonds Outstanding for such Project together with Bonds Outstanding for other such real estate Projects authorized pursuant to this subsection do not exceed \$10,000,000 except that Bonds Outstanding authorized pursuant to this subsection will cease to count against the \$10,000,000 limit when the Consulting Engineers execute a certificate that the Revenues derived directly or indirectly from the property acquired as part of such Project authorized under this subsection or any portion thereof has equaled 1.10 times the amount of the Debt Service on the Additional Bonds or prorated portions thereof issued to finance such Project or portion thereof for a period of one year.

(c) For Projects consisting of the repair or the replacement of facilities that are deemed to be essential for the production of Revenues of the Corporation or for the elimination of conditions in the Corporation's facilities that are deemed to be hazardous to persons or to property, provided that the aggregate amount of Bonds for such Project shall not exceed the Cost of such Project over the amount of any insurance proceeds received for facilities to be replaced as part of the Project, if any, plus any amounts available therefor in the Maintenance Reserve Fund or in any Project account therefor in the Construction Fund and not already encumbered as determined by certificate of an Authorized Officer of the Corporation and provided further that any such insurance proceeds and amounts available in the Maintenance Reserve Fund and in any Project Account therefor in the Construction Fund shall be used for the Costs of the Project.

Refunding Bonds (General Bond Resolution, Section 207)

One or more series of Bonds may be authenticated and may be delivered upon original issuance to refund any or all Outstanding Bonds of one or more series, Outstanding Bonds of any maturity within a series or any Subordinated Debt, and to make deposits in any Fund under the Resolution as determined by the Corporation in the Supplemental Resolution authorizing such Bonds.

If such Bonds shall be authorized for the purpose of refunding Outstanding Bonds, such Bonds shall be authenticated and shall be delivered by the Trustee only upon receipt by it of, among other things:

(a) Such instructions to the Trustee as necessary to comply with all requirements set forth for defeasance in the Resolution so that the Bonds to be refunded will be paid or will be deemed to be paid pursuant to the Resolution; and

(b) Either (i) moneys in an amount sufficient to effect payment of the principal or the Redemption Price, if applicable, and the interest due and to become due on the Bonds to be refunded on and prior to the redemption date or the maturity date thereof, as the case may be, which moneys shall be held by the Trustee or by any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded or (ii) Investment Obligations described in subsections (a) or (d) of the definition thereof provided in the Resolution in such principal amounts, of such maturities and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the defeasance provisions of the Resolution.

Nothing provided in the Resolution shall be construed to prevent the Corporation from issuing its Bonds to provide for defeasance of all of its Outstanding Bonds under the Resolution and such refunding bonds are not Refunding Bonds within the meaning of Article II of the Resolution.

Obligation of Bonds (General Bond Resolution, Section 301)

The Bonds shall be payable, with respect to interest, principal and Redemption Price, solely from the Revenues, the proceeds of Bonds and any other funds that under the Act may be used for the payment of principal of or interest on Bonds of the Corporation.

Privilege of Redemption and Redemption Prices (General Bond Resolution, Section 401)

The Bonds of any series that are redeemable prior to maturity, at the option of the Corporation, shall be subject to redemption by or on behalf of the Corporation prior to maturity to such extent, through application of such moneys, at such time or times, in such order and on such other terms and conditions as shall be provided by the Resolution and referred to in the Bonds and in all cases at the Redemption Prices set forth in the Bonds and applicable upon such redemption, together with interest accrued to the redemption date. If less than all of the Bonds of such series of like maturity then Outstanding are to be redeemed, the particular Bonds to be redeemed shall be selected by lot in such manner as the Trustee reasonably may determine and as shall be provided in the Resolution.

Notice of Redemption (General Bond Resolution, Section 403)

When the Trustee shall be required, shall be authorized or shall receive notice from the Corporation of its election to redeem Bonds, the Trustee shall select the Bonds to be redeemed and shall give notice in the name of the Corporation of the redemption of such Bonds in accordance with the terms and the provisions of the Bonds and of the Resolution. The Trustee shall mail a copy of such notice, postage prepaid, not less than twenty-five (25) days before such redemption date to the registered owner of any Bond all or a portion of which is to be redeemed at his last address, if any, appearing upon the registration books of the Corporation that are kept and are maintained by the Registrar. Such mailing shall not be a condition precedent to such redemption, and failure so to mail such notice shall not affect the validity of any proceedings for the redemption of Bonds.

If at the time of mailing of any notice of redemption the Corporation shall not have deposited with the Trustee monies sufficient to redeem all the Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption monies with the Trustee not later than the opening of business on the redemption date and shall be of no effect unless such monies are so deposited. If such monies are not deposited by such date and time, the Trustee shall promptly

notify the owners of all Bonds called for redemption of such fact.

The Pledge Effected by the Resolution (General Bond Resolution, Section 501)

There are pledged for the payment of the principal and the Redemption Price of and the interest on the Bonds in accordance with their terms and the provisions of the Resolution permitting the application thereof for the purposes and on the terms and the conditions set forth in the Resolution, (a) the proceeds of the sale of the Bonds, (b) the Revenues, (c) the Construction Fund, the Revenue Fund, the Operating Fund, the Debt Service Fund, the Bond Account in the Debt Reserve Fund, the Maintenance Reserve Fund, the General Reserve Fund and the Property Reserve Fund, including the investments, if any, thereof, and (d) all amounts received from the State as appropriation; for the Bond Account in the Debt Reserve Fund.

The proceeds of the sale of Bonds, the Revenues and other moneys and securities pledged immediately shall be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Corporation, irrespective of whether such parties have notice thereof.

Establishment of Funds (General Bond Resolution, Section 502 and Article III of the Fourteenth Supplemental Bond Resolution)

Pursuant to the Resolution the Corporation has established the following special funds:

- (a) Marine Terminal Construction Fund and within such Fund for the various projects included as part of the 2012 Projects separate accounts to be held by the Trustee,
- (b) Marine Terminal Revenue Fund to be held by the Trustee,
- (c) Marine Terminal Operating Fund to be held by the Corporation,
- (d) Marine Terminal Debt Service Fund to be held by the Trustee, and within such Fund a separate account designated the "2012 Debt Service Account," to be held by the Trustee,
- (e) South Jersey Port Corporation Reserve Fund to be held by the Trustee, and within such Fund a separate account designated the "2012 Bond Account," and within such Account, and such other accounts as may be created by resolution of the Corporation authorizing Subordinated Debt or debt not secured by Revenues,
- (f) 2012 Bond Rebate Fund, to be held by the Corporation and maintained outside the pledge of the Resolution,
- (g) Marine Terminal Maintenance Reserve Fund to be held by the Trustee,
- (h) South Jersey Port Corporation Tax Reserve Fund to be held by the Trustee,
- (i) Marine Terminal General Reserve Fund to be held by the Corporation, and
- (j) Marine Terminal Property Reserve Fund to be held by the Trustee.

Construction Fund (General Bond Resolution, Section 503 and Section 301 of the Supplemental Bond Resolution)

The Resolution provides for the establishment of a Construction Fund into which may be deposited any moneys that are required to be so paid by the provisions of the Resolution and, at the option of the Corporation, any moneys received for or in connection with the Marine Terminals by the Corporation from any other source unless required to be otherwise applied as provided by the Resolution.

Notwithstanding any of the other provisions of the Resolution, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

The Corporation shall approve and shall direct the payment of all amounts due and owing on account of a Cost of a Project by a certificate of an Authorized Officer of the Corporation, which shall state with respect to such payment:

- (a) the item number of the payment;
- (b) the name of the person, the firm or the corporation to whom the payment is due;
- (c) the amount to be paid;
- (d) the fact that an obligation in the stated amount has been incurred by the Corporation, that each item thereof is a proper and reasonable charge against the Construction Fund, that such amount either (i) has not been paid theretofore or (ii) is in reimbursement of an amount paid by the Corporation on account of a Cost of the Project and that insofar as any such obligation was incurred for work, materials, equipment or supplies, that such work was actually performed or such materials, equipment or supplies actually were installed in furtherance of the Project, were delivered at the site of the Project for that purpose or were delivered for storage or for fabrication at a place or places approved by an Authorized Officer of the Corporation and under the control of the Corporation or that such charge is a progress payment due on equipment being fabricated to order;
- (e) the fact that a Tax Agreement or Tax Agreements required by the Act exist for land to be acquired or improved and are on file with the Trustee; and
- (f) that there has not been filed with or served upon the Corporation any notice of any lien, right to lien or attachment upon or claim that in the opinion of counsel to the Corporation validly may affect the right to receive payment of any of the moneys payable to the person, the firm or the corporation named in such order and that has not been released or that will not be released or that will not be released simultaneously with the payment of such obligations, and in the event any assignment of the right to receive payment has been made and notice thereof has been given to the Corporation and the Corporation has accepted such assignment, the order accepting payment shall recite that fact and shall direct payment to be made to the assignee thereof as shown by the records of the Corporation.

If any certificate filed with the Trustee in accordance with requirements set forth in the preceding paragraph contains any item for the payment of the cost and the expense of acquisition of any lands, easements or rights or interests in or relating to lands, there shall be attached to such

certificate, before any transfer or payment with respect to such item shall be made: (a) an appraisal of the value of such land or rights in land and (b) a certificate of an Authorized Officer of the Corporation to the effect that such lands, easements, rights or interests have been or are being acquired and are necessary to maintain or to enhance Revenues of the Corporation from all Corporation facilities and either (i) that the Corporation will have upon the payment of such item title in fee simple to or perpetual easements for the present purposes of the Corporation over and through such property subject to no lien, charge or encumbrance thereon or affecting the title thereto except such as will not cause the possession and the use of the property by the Corporation for its present purposes to be disturbed materially, or (ii) if such payment is a payment for an option to purchase, for a quitclaim deed or for a lease or release, a payment on a contract to purchase or a payment to the United States of America, to the State of New Jersey, to any political subdivision of the State or to a public utility for the acquisition of a right or an interest in lands less than a fee simple or a perpetual easement Or if such payment is a part payment for any such purpose, that such payment is proper and that the acquisition of such lesser right or interest is sufficient for the purposes of the Corporation.

Pursuant to the Supplemental Bond Resolution the Corporation has established a separate account designated as the 2012 Construction Account, for purposes of funding the 2012 Capital Investment Program (defined in the Supplemental Bond Resolution). Pursuant to the Supplemental Bond Resolution the Corporation has established that the Trustee may disburse amounts from the 2012 Project Account for the Cost of the 2012 Capital Investment Program.

Revenues and Revenue Fund (General Bond Resolution, Section 504)

All Revenues shall be deposited promptly by the Corporation with the Trustee to the credit of the Revenue Fund.

Operating Fund (General Bond Resolution, Section 505)

As soon as practicable in each month after the deposit of Revenues in the Revenue Fund and in any case no later than the 25th day of such month, the Trustee shall withdraw from the Revenue Fund and shall transfer to the Corporation for deposit in the Operating Fund a sum that, together with any amount therein not set aside as a reserve or to be used or to be appropriated to meet Operating Expenses, is equal to one-twelfth (or such greater fraction if the period is less than 12 months as may be appropriate) of the money appropriated for Operating Expenses in the Annual Budget for the then current calendar year. The Corporation from time to time may direct that additional amounts shall be transferred from the Revenue Fund to the Operating Fund as a reserve for Operating Expenses, provided that the total amount of such reserve held at any time shall not exceed 25% of the amount appropriated by the Annual Budget for Operating Expenses for the then current calendar year.

Amounts in the Operating Fund shall be paid out from time to time by the Corporation for reasonable and necessary Operating Expenses, provided, however, that no such payment shall be made if the amount of such payment is in excess of the unencumbered balance of the appropriation in the Annual Budget.

Payments into Certain Funds (General Bond Resolution, Section 506, as amended by Section 201 of the Fifth Supplemental Resolution)

As soon as practicable in each month after the deposit of Revenues and the transfer for such

month to the Operating Fund and in any case no later than the 25th day of such month, the Trustee shall withdraw from the Revenue Fund the remaining amount in the Revenue Fund and shall allocate and shall apply such amount as follows:

(1) First, to the Debt Service Fund, if and to the extent required so that the balance in the Fund shall equal the Debt Service Requirement, provided that, for the purposes of computing the amount to be allocated to such Fund, there shall be excluded the amount, if any, set aside in such Fund that was deposited therein from the proceeds of each series of Bonds less an amount equal to the interest accrued and unpaid and to accrue on the Bonds of such series (or any Refunding Bonds issued to refund such Bonds) to the next ensuing interest payment date for the Bonds;

(2) Second, to the Bond Account in the Debt Reserve Fund, if and to the extent necessary for the balance in such account to equal the Debt Reserve Requirement;

(3) Third, to the Maintenance Reserve Fund, the amount, if any, necessary so that such amount, together with all other amounts paid during the same calendar year, shall equal the Maintenance Reserve Requirement;

(4) Fourth, to the Tax Reserve Fund for credit to the Payment Account, the amount, if any, required so that the balance in such account shall at least equal the Property Tax Reserve Requirement; and

(5) Fifth, to the General Reserve Fund, to the extent of any remaining balance of such moneys withdrawn from the Revenue Fund;

provided, however, that no transfers shall be required to be made to the Debt Service Fund if the amount held in the Debt Service Fund and in the Bond Account in the Debt Reserve Fund is sufficient to pay in full principal and interest or redemption price on all Outstanding Bonds in accordance with their terms.

Debt Service Fund (General Bond Resolution, Section 507)

The Trustee shall pay out of the Debt Service Fund to the respective Paying Agents (a) on or before each interest payment date for any of the Bonds, the amount required for the interest extent payable on such date; (b) on or before each date principal is due, the amount required for the payment of such principal on such due date; and (c) on or before any redemption date for the Bonds, the amount required for the payment of the Redemption Price and the interest due on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents in accordance with the terms of the Bonds.

The Trustee shall pay out of the Debt Service Fund to the appropriate Paying Agents on or before the day preceding such redemption date (or maturity date) the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or the redemption of Bonds shall be paid by the Corporation from the Operating Fund or from the General Reserve Fund pursuant to the Resolution, as it may determine.

Upon any such purchase or redemption of Bonds of any series and maturity for which Sinking Fund Installments shall have been established, there shall be credited toward each such

Sinking Fund Installment thereafter to become due (other than that next due) an amount bearing the same ratio to such Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total principal amount of such Sinking Fund Installments to be credited. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

Debt Reserve Fund (General Bond Resolution, Section 508)

If at any time any interest on Bonds, any principal of Bonds or any Sinking Fund Installment for Bonds has become due and payment thereof in full has not been made or provided for and other moneys of the Corporation, including the General Reserve Fund, shall not be available therefor under the Resolution, the Trustee forthwith shall withdraw from the Bond Account in the Debt Reserve Fund an amount not exceeding the amount required to provide for such payment in full and shall deposit such amount in the Debt Service Fund for application to such payment.

Whenever the amount in the Bond Account in the Debt Reserve Fund exceeds the Debt Reserve Requirement after all withdrawals from the Bond Account in the Debt Reserve Fund provided for above shall have been made, whenever the amount in the Debt Service Fund is not less than the amount required to be in such Fund pursuant to the Resolution and whenever all withdrawals or payments from the Bond Account in the Debt Reserve Fund required by any provision of the Resolution shall have been made, the Trustee shall withdraw from the Bond Account in the Debt Reserve Fund the amount of any excess therein over the Debt Reserve Requirement as of such Date and shall pay the moneys so withdrawn into the Maintenance Reserve Fund to the extent of any deficiency therein and, if there be no such deficiency therein, then into the Tax Reserve Fund to the extent of any deficiency therein and, if there be no such deficiency therein, then into the General Reserve Fund.

If at any time the amount in the Bond Account in the Debt Reserve Fund shall be less than the Debt Reserve Requirement or shall be insufficient for the purpose of any withdrawal required to be made therefrom, the Trustee shall request the Corporation to withdraw from any moneys available in the General Reserve Fund the amount of such deficiency and to transfer to the Trustee for deposit the amount so withdrawn in the Bond Account in the Debt Reserve Fund and the Corporation shall act accordingly.

Maintenance Reserve Fund (General Bond Resolution, Section 509)

Moneys to the credit of the Maintenance Reserve Fund may be applied to the costs of improvements, of betterments or of major renewals, repairs or replacements essential to restore or to prevent physical damage to or to prevent loss of Revenues from the Marine Terminals or from any part thereof or to enhance Revenues deposited in an appropriate account in the Construction Fund. Such moneys shall be deposited in an appropriate account in the Construction Fund upon requisition by an Authorized Officer of the Corporation and shall be applied to such purposes, provided that before any moneys in such Fund shall be so deposited and applied, the Trustee shall have received:

(a) a certificate signed by an Authorized Officer of the Corporation stating the improvements, the betterments or the major renewals, repairs or replacements to the Marine Terminals to be made and the amount needed to pay the Cost thereof, and

(b) a certificate of the Consulting Engineers stating that the improvements, the betterments or the major renewals, repairs or replacements requested to be made by the Corporation are advisable to maintain or to improve Revenues or are essential to restore or to prevent physical damage to or to prevent loss of Revenues from the Marine Terminals.

No such payments shall be made from the Maintenance Reserve Fund to the extent that the proceeds of insurance or other moneys recoverable as the result of damage, if any, are available at such time to pay such Costs.

Any moneys and securities in the Maintenance Reserve Fund not needed for any of the purposes for which the Maintenance Reserve Fund was established nor reasonably expected to be needed for any such purposes, upon written request of the Corporation and the concurrence of the Consulting Engineers, may be transferred by the Trustee from the Maintenance Reserve Fund to the Corporation for deposit in the General Reserve Fund.

Property Reserve Fund (General Bond Resolution, Section 510)

The Corporation by resolution may authorize the appropriation of moneys from the Property Reserve Fund into an appropriate account in the Construction Fund for Projects involving the acquisition of real or personal property and may deposit such sums in such manner or may authorize the appropriation of moneys from the Property Reserve Fund for the purchase or the redemption of Bonds.

Tax Reserve Fund (General Bond Resolution, Section 511)

The Corporation shall certify to the Trustee the amount of the Tax Payments due for each calendar year and the Trustee may rely on such certification. The Trustee shall withdraw from the Payment Account in the Tax Reserve Fund such amounts as shall be requisitioned by the Corporation from time to time for Tax Payments and shall apply the same to the payment of Tax Payments pursuant to the provisions of the Tax Agreements. The Trustee shall apply such amounts to such purpose by paying the same to the Corporation and the Trustee shall not be under any further duty to see to the application thereof. Before any such payment shall be made, the Corporation shall file with the Trustee: (a) its requisition therefor stating the amount of the Tax Payments and (b) attached to such requisition a certificate signed by an Authorized Officer of the Corporation stating the purpose of such expenditure and the opinion that the amount thereof is required to be paid by or pursuant to the provisions of the Tax Agreements. If at any time the amount in the Payment Account is insufficient to make a Tax Payment then required to be made, an amount sufficient to make such Tax Payment shall be withdrawn from the Reserve Account and shall be deposited into the Payment Account.

If at any time the amount in the Reserve Account in the Tax Reserve Fund shall be less than the amount of the Tax Payments for the current calendar year or shall be insufficient for the purpose of any withdrawal required to be made therefrom and the amount in the Bond Account in the Debt Reserve Fund shall be not less than the Debt Reserve Requirement, the Trustee shall request the Corporation to withdraw from any moneys available in the General Reserve Fund the amount of such deficiency and to transfer to the Trustee for deposit the amount so withdrawn in the Reserve Account and the Corporation shall act accordingly.

No amount shall be withdrawn from or shall be paid out of the Tax Reserve Fund except as provided in the Resolution or for the payment of Tax Payments in accordance with the terms of the Tax Agreements. Any and all sums appropriated and paid to the Corporation pursuant to the Act or otherwise for the purpose of the Tax Reserve Fund shall be deposited in the Payment Account therein and shall be held therein for use and for application only for the purpose of such account under the Act and the Resolution and for no other purpose.

General Reserve Fund (General Bond Resolution, Section 512)

The Corporation shall transfer from the General Reserve Fund to the following Funds the amount necessary (or all the moneys in the General Reserve Fund if less than the amount necessary) to make up any deficiencies in payments to such Funds required under the Resolution, such transfers to be made, in the following order of priorities: the Debt Service Fund, the Bond Account in the Debt Reserve Fund, the Operating Fund, the Maintenance Reserve Fund, any accounts for Subordinated Debt in the Debt Reserve Fund and the Tax Reserve Fund. Such transfer shall be made notwithstanding any other provision of the Resolution requiring deposits in the General Reserve Fund to be applied to the purchase or the redemption of Bonds.

Amounts in the General Reserve Fund not required to meet a deficiency as set forth above may be applied to any one or more of the following:

- (a) Tax Payments;
- (b) the purchase or the redemption of any Bonds and expenses in connection therewith;
- (c) payments of principal or redemption price of and interest on any Subordinated Debt, which may be issued for any lawful purpose of the Corporation, and payments into the Debt Reserve Fund with respect thereto required by the Act;
- (d) reimbursements to the State for amounts paid by the State in discharge of obligations of the State under the Act;
- (e) payments into any separate account or accounts established in the Construction Fund for application to the purposes of such account;
- (f) improvements, extensions, betterments, renewals and replacements of any properties or facilities of the Marine Terminals;
- (g) Operating Expenses or Project Costs in anticipation of the receipt of grants or other revenues; and
- (h) any other lawful purpose in connection with the Marine Terminals.

Amounts in the General Reserve Fund shall be paid by the Corporation for application to the purposes specified above subject to the provisions of the Resolutions and the terms of any pledge securing Subordinated Debt.

Rebate Fund (Supplemental Bond Resolution, Section 304)

(A) Pursuant to the Resolution, there is established with respect to the Series 2012 Bonds a separate fund designated as the “2012 Bond Rebate Fund” (the “*2012 Bond Rebate Fund*”), which shall be held by the Corporation separate and apart from its other funds and accounts and maintained outside the pledge of the Bond Resolution, in accordance with the Supplemental Bond Resolution. The Corporation shall apply the amounts in the 2012 Bond Rebate Fund at the times and in the amounts set forth in the Tax Certificate and Agreement solely for the purpose of making rebate payments to the United States of America in accordance with Section 148 of the Internal Revenue Code of 1986, as amended (the “*Code*”).

(B) The Corporation shall prepare or cause to be prepared periodically as described below while the Series 2012 Bonds are Outstanding, and upon retirement of the last of the Series 2012 Bonds, an arbitrage statement (an “*Arbitrage Statement*”) setting forth in accordance with the Tax Certificate and Agreement the amount of rebatable arbitrage earnings with respect to the Series 2012 Bonds (if any) and the amount (if any) to be deposited into the 2012 Bond Rebate Fund (the “*2012 Rebate Amount*”). An Arbitrage Statement shall be prepared within thirty (30) days after the end of each fifth Bond Year (as defined below) and within thirty (30) days after the retirement of the last Outstanding 2012 Bond. The 2012 Rebate Amount with respect to a particular Arbitrage Statement shall be calculated by or on behalf of the Corporation in accordance with (i) the Tax Certificate and Agreement and (ii) the applicable Treasury Regulations promulgated under the Code. The Corporation shall retain records of the information used to prepare each Arbitrage Statement until six (6) years after the retirement of the last of the Series 2012 Bonds. For these purposes, the “*Bond Year*” shall be the one-year period with respect to the Series 2012 Bonds selected by the Corporation.

(C) Each Arbitrage Statement shall set forth in reasonable detail the computations made, and shall contain (i) the amounts (if any) required to be deposited to the 2012 Bond Rebate Fund for such Bond Year, and (ii) the amounts (if any) required by the Code and the applicable Treasury Regulations to be rebated to the United States of America for such Bond Year.

(D) The Corporation shall withdraw from the 2012 Bond Rebate Fund and pay over to the United States of America not later than sixty (60) days after the end of the fifth Bond Year with respect to the Series 2012 Bonds, and each succeeding fifth Bond Year, an amount equal to ninety percent (90%) of the rebatable arbitrage earnings as of the end of such fifth Bond Year or succeeding fifth Bond Year. The Corporation shall also withdraw from the 2012 Bond Rebate Fund and pay over to the United States of America not later than the Final Rebate Date (as defined below) an amount equal to one hundred percent (100%) of the rebatable arbitrage earnings as of the Final Rebate Date, together with any income that is attributable to such rebatable arbitrage earnings as set forth in the applicable Treasury Regulations; *provided, however*, that no rebatable arbitrage earnings shall be paid over to the United States of America if no rebate of arbitrage with respect to the Series 2012 Bonds is required under the circumstances and the law then prevailing (as a result, for example, of the exemption set forth in Section 148(f)(4)(C) of the Code). For these purposes, the “*Final Rebate Date*” shall be sixty (60) days after the date on which the last Outstanding Series 2012 Bond is discharged. Withdrawals from the 2012 Bond Rebate Fund may be made upon the written direction of the Corporation (as a result, for example, of negative arbitrage, if any, in other funds established for the Series 2012 Bonds).

(E) All amounts in the 2012 Bond Rebate Fund shall be held by the Corporation outside the pledge of the Bond Resolution, and the Corporation shall pay such amounts to the United States of America or otherwise from time to time in accordance with the Resolution and the applicable Treasury Regulations promulgated under the Code.

(F) The requirements for any payment or deposit of money or for the delivery of any Arbitrage Statement as described in the Resolution may be modified, and such modification shall be incorporated into the Resolution and supersede any earlier provisions, upon delivery to the Corporation of an opinion of Bond Counsel that such payments or deposits are no longer necessary, or that some further action is required, to maintain the exclusion from federal income tax of interest on the Series 2012 Bonds.

(G) Moneys held in the 2012 Bond Rebate Fund shall be invested and reinvested by the Corporation in Investment Obligations that mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from the 2012 Bond Rebate Fund. Net interest earned on any moneys or investments in the 2012 Bond Rebate Fund shall be retained in the 2012 Bond Rebate Fund.

Payment of Bonds (General Bond Resolution, Section 701)

The Corporation has covenanted duly and punctually to pay or to cause to be paid, but solely from the Revenues and the proceeds of the Bonds and any Funds or accounts pledged therefor by the Resolution, the principal or the Redemption Price, if any, of every Bond and the interest thereon at the dates and the places and in the manner provided in the Bonds and in any coupons thereto appertaining, according to the true intent and meaning thereof.

Power to Operate Marine Terminals and to Collect Rates Fees and Rents (General Bond Resolution, Section 706)

The Corporation has and will have so long as any Bonds are Outstanding good right and lawful power to construct, to reconstruct, to improve, to maintain, to operate and to repair the Marine Terminals and to fix and to collect rates, fees, rents and other charges in connection therewith.

Consulting Engineers (General Bond Resolution, Section 707)

Until the Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, the Corporation shall employ an independent engineer or an engineering firm or corporation who has or have a good reputation for skill and for experience in such work and, except in the case of the Consulting Engineers employed by the Corporation at the time of the adoption of the General Bond Resolution, who shall be satisfactory to the Trustee for the purpose of performing and of carrying out the duties imposed on the Consulting Engineers by the Resolution.

Annual Budget (General Bond Resolution, Section 708, as amended by Section 604 of the Seventh Supplemental Resolution)

Not less than 15 days prior to the beginning of each calendar year, the Corporation shall prepare, shall adopt and shall file with the Trustee an Annual Budget for the ensuing calendar year. Each such Annual Budget shall include appropriations for Debt Service expected to accrue in such year, for the estimated Operating Expenses for such year and for the estimated amount for betterments, for improvements or for major renewals, repairs and replacements for the Marine Terminals for such year, including the requirement for such year for the Maintenance Reserve Fund. Such Annual Budget may set forth additional material as the Corporation may determine and shall contain a certificate of the Consulting Engineers approving the same. The Corporation at any time

may adopt an amended Annual Budget for the remainder of the then current calendar year. Such amended Annual Budget shall be filed promptly with the Trustee.

Operation and Maintenance of Marine Terminals Construction or Acquisition of Projects (General Bond Resolution, Section 710)

The Corporation at all times shall operate or shall cause to be operated the Marine Terminals properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, shall preserve, shall reconstruct and shall keep the same or shall cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof in good repair, working order and condition and from time to time shall make or shall cause to be made all necessary and proper repairs, replacements and renewals so that at all times the operation of the Marine Terminals may be conducted properly and advantageously. The Corporation shall proceed diligently with the construction and the acquisition of any Project for which Bonds are issued pursuant to a Supplemental Resolution.

Rates and Charges (General Bond Resolution, Section 711)

(1) The Corporation at all times shall charge and shall collect rates, rents, fees and other charges for the use of the Marine Terminals as shall be required to provide Revenues that shall be at least sufficient in each calendar year for the payment of the sum of:

(a) Operating Expenses during such calendar year, including reserves therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such calendar year;

(c) The amount, if any, to be paid during such calendar year into the Debt Reserve Fund;

(d) The amount expected to be paid during such calendar year into the Maintenance Reserve Fund to the extent funds are available; and

(e) All other charges or liens whatsoever expected to be paid out of Revenues during such calendar year and, to the extent not otherwise provided for, all amounts payable on Subordinated Debt; provided, however, that in no event shall such rates, rents, fees and charges in any calendar year be less than those sufficient to provide Net Revenues in such year at least equal to 1.10 times the Aggregate Debt Service for such year. The collection of Revenues in any calendar year in an amount in excess of the aggregate payments specified above for such calendar year shall not be taken into account as a credit against such aggregate payments for any subsequent calendar year or years.

(2) On or before November 15 in each year the Corporation shall complete a review of its financial condition for the purpose of estimating whether the rates, the rents, the fees, the charges and other income and the receipts from the operating of the Marine Terminals, will be sufficient to provide all of the payments and to meet all other requirements as specified in subsection 1 of this section and shall by resolution make a determination with respect thereto. If the Corporation determines that such Revenues may not be sufficient to provide such payments and to meet such other requirements, it shall conduct forthwith a study or shall cause the Consulting Engineers to make a study for the purpose of recommending a schedule of rates, fees and charges for the Marine

Terminals that, in the opinion of the Corporation or the Consulting Engineers, whichever is conducting such study, will cause sufficient Revenues to be collected in the following calendar year to provide funds for all payments and other requirements as specified in subsection 1 of this section for such following year and will cause additional Revenues to be collected in such following and later calendar years sufficient to restore the amount of such deficiency at the earliest practicable time. If, in any calendar year, the Net Revenues collected shall not equal or exceed 110% of the Aggregate Debt Service plus principal and interest due or accrued on Subordinated Debt, the Corporation shall (a) unless it has already obtained a study and a recommendation from its Consulting Engineers pursuant to the immediately preceding sentence, forthwith cause the Consulting Engineers to make a study for the purpose stated in such sentence and (b) as promptly as practicable and in any case no later than the next April 1, establish and place in effect a schedule of rates, rents, fees and charges as recommended by the Consulting Engineers.

Maintenance of Insurance (General Bond Resolution, Section 712)

The Corporation shall at all times keep the properties of the Marine Terminals that are of an insurable nature and of the character usually insured by those operating properties similar to the properties of the Corporation insured against loss or damage by fire and from other causes customarily insured against. The Corporation also at all times shall maintain adequate insurance or reserves against loss or damage from such hazards and risks to the person and to the property of others as are usually insured or reserved against by those operating properties similar to the properties of the Marine Terminals.

Enforcement of Charges (General Bond Resolution, Section 714)

The Corporation shall take all reasonable measures permitted by law to enforce prompt payment to it of all rates, fees, rents and charges and other Revenues.

Sale, Lease or Encumbrance of Marine Terminals (General Bond Resolution, Section 715)

Except as provided below, no part of the Marine Terminals shall be sold, leased or otherwise disposed of or encumbered.

The Corporation may sell or may exchange any property (including real property) constituting part of the Marine Terminals that is not useful for the purposes of the Corporation or for the Marine Terminals and that does not make a significant contribution directly or indirectly to the Revenues of the Corporation as determined by certificate of the Consulting Engineers.

The Corporation may sell or may exchange property in order to acquire other property if the Consulting Engineers determine by certificate that the new property is more useful to the purposes of the Corporation.

If proceeds of any sale are not used to replace property so sold, such proceeds shall be deposited in the Property Reserve Fund. Also, the proceeds of any land sale dating prior to the effective date of the Resolution plus interest thereon shall be deposited in the Property Reserve Fund.

To the extent permitted by the Act, the Corporation may lease or may make contracts, may grant licenses for management, for use or operation of or with respect to all or any part of the Marine Terminals and may lease or may make contracts or may grant licenses for the management

or the operation of, or may grant other rights with respect to, all or any part of the Marine Terminals for business, commercial or other use if such lease, contract, license or right in the opinion of the Corporation (a) does not impede or restrict the Corporation in its operation of the Marine Terminals, the purposes of the Corporation under the Act or its ability to finance improvements of Marine Terminals on a tax-exempt basis, (b) is necessary to assist in defraying expenses of the Corporation and to make possible the operation of the facilities of the Marine Terminals at reasonable rates, (c) will increase facilities for such purpose, or (d) will further the public and corporate purposes of the Corporation under the Act. Any payments under or in connection with any such lease, contract, license or right in respect of any part of the Marine Terminals (except any such payments specifically excluded from the definition of Revenues) shall be applied in the same manner and to the same purposes as Revenues.

Any lease containing an option to purchase property or any lease, the payments of which may be applied to the purchase price of property, shall be treated as a sale.

Creation of Liens (General Bond Resolution, Section 716)

The Corporation shall not issue any Bonds, notes or other evidences of indebtedness, other than the Bonds, secured by a pledge of or other lien or charge on the Revenues (including amounts that the Corporation thereafter may be entitled to expend for Operating Expenses) and shall not create or cause to be created any lien or charge on such Revenues or on any amounts held by the Trustee or any Paying Agent under the Resolution, provided, however, that no provision of the Resolution shall prevent the Corporation from issuing Bonds or notes for the purposes of the Corporation payable out of, or secured by a pledge of, Revenues to be derived on and after such date as the pledge of the Revenues provided in the Resolution shall be discharged and satisfied as provided in the Resolution, from issuing Bonds in accordance with the Resolution subject to the terms and the conditions thereof or from issuing Bonds or notes for the purposes of the Corporation that are payable out of or are secured by the pledge of amounts that may be withdrawn from the General Reserve Fund and that shall recite on their face that such pledge of such amounts is and shall be in all respects subordinate to the provisions of the Resolution and the lien and the pledge created by the Resolution in favor of the Bonds. Nothing in the Resolution will prevent the Corporation from issuing obligations if permitted by law to finance private facilities if the obligations are not secured by Revenues.

Accounts and Audit (General Bond Resolution, Section 717)

The Corporation shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Marine Terminals or any part thereof and which, together with other books and papers of the Corporation, shall at all reasonable times be subject to the inspection of the Trustee, the State or the Holder or the Holders of not less than five percent (5%) in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing. The Corporation shall cause its books and its accounts to be audited annually. Within three months after the making of such audits, copies of the reports of such audits so made shall be furnished to the Corporation, the Consulting Engineer and the Trustee. As required by the Act, such audits shall include statements in reasonable detail, accompanied by an Accountant's Certificate, of financial condition, of Revenues and Operating Expenses, of all funds held by the Trustee or by any other Fiduciary and the security held therefor, of the number, the amount and the classification of users and of services of the Marine Terminals and of the Revenues collected in each classification. The Corporation shall cause a copy of every such report of audit to be mailed to every Bondholder who within two years prior to

the date of each such report shall have filed with the Corporation a statement of his name and address together with a request for copies of such reports.

Maintenance of Tax Exempt Status (Supplemental Bond Resolution, Section 401)

The Corporation covenants and agrees that it shall comply with the requirements of the Code relating to investment restrictions on the proceeds of the Series 2012 Bonds and the calculation and payment of the rebate amounts described in Section 304 of the Supplemental Bond Resolution. The Corporation shall not make or permit any investment or other use of the proceeds of the Series 2012 Bonds that would cause the Series 2012 Bonds to be “arbitrage bonds”, as that term is defined in Section 148 and Section 103(b)(2) of the Code, and the Corporation shall comply with the requirements of any such Code sections and regulations throughout the term of the Series 2012 Bonds. The Corporation shall not operate any facilities that were financed or refinanced with the proceeds of the Series 2012 Bonds or cause the same to be operated in any manner that would, in and of itself, cause the interest paid on the Series 2012 Bonds to be subject to federal income tax in the hands of the Holders of the Series 2012 Bonds.

Events of Default (General Bond Resolution, Section 801)

If one or more of the following events (in the Resolution called “Events of Default”) shall happen, that is to say:

(i) if default shall be made in the due and punctual payment of the principal of or the Redemption Price of any Bond (including payment of any Sinking Fund Installment therefor) when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise,

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment shall become due and payable, and such default shall continue for a period of 30 days,

(iii) if default shall be made by the Corporation in the performance or the observance of any other of the covenants, the agreements or the conditions on its part contained in the Resolution or in the Bonds, and such default shall continue for a period of 60 days after written notice thereof to the Corporation by the Trustee or to the Corporation and to the Trustee by the Holders of not less than 10% in principal amount of the Bonds Outstanding, or

(iv) if the Corporation shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of New Jersey;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the Corporation) or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the Corporation and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if,

at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee and all other sums then payable by the Corporation under the Resolution (except the principal of and the interest accrued since the next preceding interest date on the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Corporation or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefore, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Corporation and to the Trustee, may rescind such declaration and may annul such default in its entirety, or, if the Trustee shall have acted itself and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Powers of Amendment (General Bond Resolution, Section 1102)

Any modification or amendment of the Resolution and of the rights and the obligations of the Corporation and of the Holders of the Bonds and any coupons thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution (i) of the Holders of at least two thirds in principal amount of the Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several series of Bonds then outstanding are affected by the modification or the amendment, of the Holders of at least two-thirds in principal amount of the Bonds of each series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or the amendment changes the terms of any Sinking Fund Installment, of the Holders of at least two thirds in principal amount of the Bonds of the particular series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given, provided, however, that if such modification or amendment will not take effect by its terms so long as any Bonds of any specified like series and maturity remain Outstanding, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this provision. No such modification or amendment shall permit a change in the terms of redemption or of maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount of the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment or shall change or shall modify any of the rights or the obligations of any fiduciary without its written assent thereto. For the purposes of this provision, a series shall be deemed to be affected by a modification or by an amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such series. The Trustee in its discretion may determine in accordance with the foregoing powers of amendment whether or not Bonds of any particular series or maturity would be affected by any modification or any amendment of the Resolution, and any such determination shall be binding and conclusive on the Corporation and all Holders of Bonds.

Defeasance (General Bond Resolution, Section 1201)

If the Corporation shall pay or shall cause to be paid or if otherwise there shall be paid to the Holders of all Bonds and coupons the principal or the Redemption Price, if applicable of, and the interest due or to become due thereon at the times and in the manner stipulated therein and in the Resolution then the pledge of any Revenues and other moneys and securities pledged under the Resolution and all covenants, agreements and other obligations of the Corporation to the Bondholders thereupon shall cease, shall terminate, shall become void and shall be discharged and satisfied. In such event, the Trustee shall prepare a statement for such period or periods as shall be requested by the Corporation to be prepared and to be filed with the Corporation. Upon the request of the Corporation, the Trustee shall execute and shall deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction. Thereupon the Fiduciaries shall pay over or shall deliver to the Corporation all moneys or securities held by them pursuant to the Resolution that are not required for the payment of principal, for the payment of Redemption Price, if applicable, or for the payment of coupons not theretofore surrendered for such payment or redemption. If the Corporation shall pay or shall cause to be paid or if there shall otherwise be paid to the Holders of all Outstanding Bonds of a particular series and any coupons appertaining thereto the principal or the Redemption Price, if applicable, thereof and the interest due or to become due thereon at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the Corporation to the Holders of such Bonds thereupon shall cease, shall terminate, shall become void and shall be discharged and satisfied.

Bonds, coupons or interest installments for the payment or the redemption of which moneys or Investment Obligations described in subparagraph (a) or (d) of the definition therefor provided herein, the principal of and the interest on which when due will provide such money, shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the Corporation of funds for such payment or redemption or otherwise at the maturity date or the redemption date thereof) shall be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. All Outstanding Bonds of any series and all coupons appertaining to such Bonds shall prior to the maturity date or the redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph upon compliance with conditions required by the Resolution.

Incidental and Additional Action (Supplemental Bond Resolution, Section 602)

The Authorized Officers of the Corporation are authorized and directed to take such actions and to execute and deliver such other documents and instruments as may be necessary or appropriate in order to effectuate the purposes of the Supplemental Bond Resolution. In furtherance and not in limitation of the foregoing, in connection with the sale and delivery of the Series 2012 Bonds, and at such other times as shall be determined by an Authorized Officer of the Corporation, the Authorized Officers of the Corporation are also hereby authorized to take the following actions and to make the following determinations with respect to the Series 2012 Bonds through the execution of the Series Certificate or such other document executed by any one such Authorized Officer of the Corporation:

(A) To execute and deliver such other documents as may be necessary or appropriate in order to effectuate the foregoing Sections hereof, including, without limitation, the appropriate sub-series designations, final maturity dates, principal amounts, interest rates and redemption features of the Series 2012 Bonds, which shall be evidenced by the Series Certificate to be delivered by an Authorized Officer of the Corporation, the delivery of which is also hereby authorized.

(B) To make such other determinations, to execute such other documents, instruments and papers (including, without limitation, the certificate required by Section 206 of the Original Bond Resolution), and to do such other acts and things as may be necessary or advisable in connection with the issuance, sale and delivery of, and security for, the Series 2012 Bonds and as are not inconsistent with the provisions of the Supplemental Bond Resolution. Any and all actions heretofore taken by the Authorized Officers of the Corporation that are in conformity with the purposes and intents of the Act and the Bond Resolution and in furtherance of the issuance of the Series 2012 Bonds are in all respects hereby ratified, confirmed and approved.

All matters determined by an Authorized Officer of the Corporation under the authority of the Supplemental Bond Resolution shall constitute and be deemed matters incorporated into the Supplemental Bond Resolution and approved by the Corporation. Whenever an Authorized Officer of the Corporation is authorized or directed to take any action pursuant to this Supplemental Bond Resolution with or upon the advice, consent or consultation with or by any other person, agency, office or official, a certificate of such Authorized Officer of the Corporation may be relied upon as being determinative that such advice, consultation or consent has in fact occurred and that such actions of the Authorized Officer of the Corporation are valid and binding.

APPENDIX IV

FORM OF BOND COUNSEL OPINION

UPON ISSUANCE OF THE BONDS, CAPEHART & SCATCHARD, P.A.,
BOND COUNSEL, IS EXPECTED TO DELIVER ITS APPROVING OPINION
IN SUBSTANTIALLY THE FOLLOWING FORM

May __, 2012

South Jersey Port Corporation
P.O. Box 129
2nd & Beckett Streets
Camden, New Jersey 08103

Re: South Jersey Port Corporation \$_____ Marine Terminal
Revenue Refunding Bonds, Series 2012 Q

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the South Jersey Port Corporation (the "Corporation") of its Marine Terminal Revenue Refunding Bonds, Series 2012 Q in the aggregate principal amount of \$_____ (the "Series 2012 Q Bonds"), dated as of May __, 2012. The Series 2012 Q Bonds are issued pursuant to the provisions of the South Jersey Port Corporation Act, P.L. 1968, c. 60, N.J.S.A. 12:11A-1 et seq., as amended and supplemented (the "Act"), the Marine Terminal Revenue Bond Resolution of the Corporation adopted on June 5, 1985, as amended and supplemented (as so amended and supplemented, the "General Bond Resolution"), as further supplemented by the "Amended and Restated Fourteenth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Refunding Bonds, Series 2012 Q" (the "Fourteenth Supplemental Resolution", and together with the General Bond Resolution, the "Bond Resolution") and by the Series Certificate to be executed by an Authorized Officer of the Corporation simultaneously with the issuance and delivery of the Bonds (the "Series Certificate").

As provided in the Bond Resolution, the Series 2012 Q Bonds are being issued as Additional Bonds under the Bond Resolution on a parity with all other bonds issued and Outstanding under the Bond Resolution, and are payable from and secured by a pledge of the Revenues of the Corporation and the funds held under the Bond Resolution.

The Series 2012 Q Bonds are dated the date of delivery, and mature on the dates and in the amounts set forth therein and in the Series Certificate. Interest on the Series 2012 Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2013 (each an "Interest Payment Date") until final maturity thereof or earlier redemption, at the interest rates set forth in the Series Certificate. The Series 2012 Q Bonds are subject to redemption prior to maturity as set forth therein. Principal and redemption premium, if any, of the Series 2012 Q Bonds are payable by presentation and

surrender thereof at the principal corporate trust office of U.S. Bank, National Association, Morristown, New Jersey (the "Trustee" and "Paying Agent"). Except as set forth below regarding payments made to Cede & Co., interest on the Series 2012 Q Bonds is payable by check or draft of the Paying Agent mailed to each registered owner of the Series 2012 Q Bonds at the address of such registered owner shown on the registration books maintained by the Trustee, in its capacity as registrar, as of the fifteenth day of the month next preceding the Interest Payment Date.

The Series 2012 Q Bonds are issued in fully registered form without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of the Series 2012 Q Bonds will be made in book-entry-only form (without certificates) in denominations of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2012 Q Bonds, payment of the principal and redemption premium, if any, of and interest on the Series 2012 Q Bonds will be made by the Trustee or the Paying Agent, as the case may be, directly to Cede & Co., as nominee for DTC, in immediately available funds when due. Disbursal of such payments to the DTC participants is the responsibility of DTC, and disbursal of such payments to the beneficial owners of the Series 2012 Q Bonds is the responsibility of the DTC participants and not the responsibility of the Corporation, the Trustee or the Paying Agent.

In our capacity as Bond Counsel and as a basis for the opinions set forth below, we have examined the proceedings relating to the authorization and issuance of the Series 2012 Q Bonds, including among other things: (a) evidence of the formation and organization of the Corporation; (b) certified copies of the Bond Resolution; (c) the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (the "Code"); and (d) certificates of Corporation officials and the Trustee as to material factual matters. We have also examined an authenticated Series 2012 Q Bond, and we have assumed that all other Bonds have been similarly executed by the Corporation and authenticated by the Trustee. In such examination, we have assumed and relied upon the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

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

1. The Corporation has been duly created and is validly existing as a public body corporate and politic under the Act, with power to adopt the Resolution and to issue the Series 2012 Q Bonds.

2. The Resolution has been duly and lawfully adopted by the Corporation, is in full force and effect, is valid and binding upon the Corporation and is enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required.

3. The Series 2012 Q Bonds have been duly authorized and issued by the Corporation in accordance with the Act and the provisions of the Bond Resolution, are valid and binding, direct and general obligations of the Corporation enforceable in accordance with their terms and the terms of the Bond Resolution, and are entitled to the benefits of the Resolution and the Act.

4. The Bond Resolution creates a valid pledge that it purports to create of the Revenues and other moneys and securities held thereunder to secure the Series 2012 Q Bonds, subject to the application thereof to the purposes and on the conditions permitted by the Bond Resolution.

5. The Internal Revenue Code ("Code") and the regulations promulgated thereunder contain requirements that must be satisfied subsequent to the issuance of the Series 2012 Q Bonds in order for interest on the Series 2012 Bonds to be and remain excludable from gross income for purposes of federal income taxation. Assuming continuing compliance by the Corporation with the provisions of the Code pertaining to the issuance of the Series 2012 Q Bonds, interest on the Series 2012 Q Bonds is excludable from gross income of the owners thereof for federal income tax purposes, and will not be treated as an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. For certain corporate holders, interest on the Series 2012 Q Bonds is includable in adjusted current earnings for purposes of computing such holders' alternative minimum tax liability.

6. Interest on the Series 2012 Q Bonds and gain from the sale thereof are excludable from gross income under the New Jersey Gross Income Tax Act.

For purposes of this opinion, the enforceability (but not the validity) of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws now or hereafter enacted by any state or by the federal government affecting the enforcement of creditors' rights generally.

Other than as set forth in Paragraphs 5 and 6 hereof, we express no opinion regarding other federal and state tax consequences arising with respect to the Series 2012 Q Bonds nor have we been retained to monitor compliance with the requirements of the Code subsequent to the issuance of the Series 2012 Q Bonds.

South Jersey Port Corporation

May __, 2012

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This opinion is given as of the date hereof and we assume no obligation to update or supplement the opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX V

CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “**Disclosure Agreement**” or the “**Agreement**”) is made as of the __ day of _____, 2012, by and among the South Jersey Port Corporation, a public body corporate and politic of the State of New Jersey (the “**Corporation**”), the Treasurer of the State of New Jersey (the “**Treasurer**”), and U.S. Bank National Association (the “**Dissemination Agent**”), in its capacity as Trustee under the Bond Resolution of the Corporation adopted on June 15, 1985, as amended and supplemented (the “**General Bond Resolution**”), as further supplemented by Amended and Restated Fourteenth Supplemental Marine Terminal Revenue Bond Resolution of the Corporation adopted January 31, 2012 (the “**Fourteenth Supplemental Resolution**”) and, together with the General Bond Resolution, the “Bond Resolution”) and by the Series Certificate of the corporation (the “**Series Certificate**”). This Disclosure Agreement is entered into in connection with the issuance by the Corporation of its Marine Terminal Revenue Refunding Bonds, Series 2012 Q (the “**Series 2012 Q Bonds**”).

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Series 2012 Q Bonds (collectively, the “**Bondholders**”) and in compliance with the Securities Exchange Commission (the “**SEC**”) Rule 15c2-12(b)(5), as it may be amended from time to time, including administrative or judicial interpretations thereof (the “**Rule**”), as it applies to the Series 2012 Q Bonds.

Section 2. Definitions. In addition to definitions set forth above and the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean the Corporation’s Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Continuing Disclosure Information**” shall mean, collectively, (i) each Annual Report, (ii) each Treasurer’s Annual Report, (iii) any notice required to be filed with the MSRB pursuant to Section 3(c) of this Disclosure Agreement, (iv) any notice required to be filed with the MSRB pursuant to Section 5(c) of this Disclosure Agreement, and (v) any notice of a Listed Event required to be filed with the MSRB pursuant to Section 7(c) of this Disclosure Agreement.

“**EMMA**” shall mean the Electronic Municipal Market Access System, an internet based filing system created and maintained by the MSRB in accordance with Release No. 34-59062, of the Commission, dated December 5, 2008, pursuant to which issuers of tax-exempt bonds, including the Series 2012 Q Bonds, and other filers on behalf of such issuers shall upload Continuing Disclosure Information to assist underwriters in complying with the Rule and to provide the general public with access to such Continuing

Disclosure Information, or such other public or private repository or entity that shall hereafter be designated by the Commission as a repository for purposes of the Rule.

“Listed Events” shall mean any of the events listed in Section 7(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Opinion of Counsel” shall mean a written opinion of counsel expert in federal securities law acceptable to the Treasurer and the Corporation.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as it may be amended from time to time, including administrative or judicial interpretations thereof, as it applies to the Bonds.

“State” shall mean the State of New Jersey.

“Treasurer’s Annual Report” shall mean the Treasurer’s Annual Report provided pursuant to and as described in Sections 5 and 6 of this Disclosure Statement.

Section 3. Provisions of the Annual Reports.

- (a) The Corporation shall, no later than September 15, 2012 and September 15 of each year during which any of the Series 2012 Q Bonds remain outstanding, provide to the Dissemination Agent, the Corporation’s Annual Report prepared in each case for the fiscal year of the Corporation ending the immediately preceding December 31 (or if the fiscal year of the Corporation shall end on any date other than December 31, the Corporation shall provide its Annual Report to the Dissemination Agent not later than the fifteenth day of the ninth month next following the end of such other fiscal year); provided, however, that the audited financial statements of the Corporation may be submitted separately from the Corporation’s Annual Report and later than the date required herein for the filing of the Corporation’s Annual Report if the audited financial statements of the Corporation are not available by such date, but only if the unaudited financial statements of the Corporation are included in the Corporation’s Annual Report. Each Annual Report provided to the Dissemination Agent by the Corporation shall comply with the requirements of Section 4 of this Disclosure Agreement but may be submitted as a single document or as separate documents comprising a package. In addition, each Annual Report may cross-reference other information which is available to the public on EMMA or which has been filed with the SEC.

- (b) The Dissemination Agent, promptly on receiving the Annual Report, and in any event not later than October 1 in each year (or if the fiscal year of the Corporation shall end on any date other than December 31, not later than the first day of the tenth month next following the end of such other fiscal year) shall submit each such Annual Report received by it to the MSRB in an electronic format as prescribed by the MSRB and accompanied by such identifying information as is prescribed by the MSRB. If the Corporation fails to submit its Annual Report to the Dissemination Agent by the date required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to the Corporation advising of such failure. Whether or not such notice is given or received, if the Corporation thereafter fails to submit its Annual Report to the Dissemination Agent by the last Business Day of the month in which such Annual Report was due, the Dissemination Agent shall promptly send notice to the MSRB, in electronic format, in substantially the form attached as Exhibit A hereto, together with identifying information as prescribed by the MSRB.
- (c) Notwithstanding anything to the contrary in this Disclosure Agreement, in order to expedite the transmission of the Annual Report to the MSRB, as set forth in paragraphs (a) through (c) of this Section 3, the Corporation shall have the option, but shall not be obligated, to submit its Annual Report directly to the MSRB, in an electronic format as prescribed by the MSRB and accompanied by such identifying information as is prescribed by the MSRB, not later than September 15 of each year (or if the fiscal year of the Corporation shall end on any date other than December 31, not later than the fifteenth day of the ninth month next following the end of such other fiscal year). In the event that the Corporation elects to submit its Annual Report directly to the MSRB, the Corporation shall, at the same time, submit its Annual Report to the Dissemination Agent together with evidence that such Annual Report has been forwarded by the Corporation to the MSRB, upon which evidence the Dissemination Agent may rely. In the event that the Corporation elects not to submit the Annual Report directly to the MSRB, the Corporation shall provide its Annual Report to the Dissemination Agent within the time period specified in paragraph (a) of this Section 3. If the Dissemination Agent does not receive notice that the Corporation has submitted the Annual Report directly to the MSRB, the Dissemination Agent shall give notice in substantially the form attached as Exhibit A hereto as the times and in the manner set forth in paragraph (c) of this Section 3.

Section 4. Contents of Annual Report.

- (a) Annual Report means (i) financial information and operating data of the Corporation of the type included in the Official Statement of the Corporation circulated in connection with the issuance of the Bonds (the “**Official Statement**”) under the following captions: “ANNUAL DEBT SERVICE REQUIREMENTS OF THE CORPORATION - Currently Outstanding”, “SECURITY FOR THE SERIES 2012 Q BONDS – Maintenance of the Debt Reserve Fund”, “OPERATIONS AND FACILITIES – Shipping Activity” and “Port Revenues - Revenues and Expenses” and “LITIGATION” and (ii) audited financial statements of the Corporation for each year, in substantially the form appearing in Appendix II attached to the Official Statement described above, all such financial information and operating data included in (i) and (ii) above being prepared using the accounting standards set forth in subsection (b) of this Section 4.
- (b) The Corporation currently prepares its financial statements on an accrual basis of accounting and in accordance with generally accepted accounting principles.

Section 5. Provisions of Treasurer’s Annual Reports.

- (a) The Treasurer shall, no later than March 15, 2013 and March 15 of each year during which any of the Series 2012 Q Bonds remain outstanding, provide to the Dissemination Agent the Treasurer’s Annual Report prepared for the fiscal year of the State ending the immediately preceding June 30 (or if the fiscal year of the State shall end on any date other than June 30, the Treasurer shall provide the Treasurer’s Annual Report to the Dissemination Agent not later than the fifteenth day of the ninth month next following the end of such other fiscal year); provided, however, that the audited financial statements of the State may be submitted separately from the Treasurer’s Annual Report and later than the date required herein for the filing of the Treasurer’s Annual Report if such audited financial statements are not available by such date, but only if the unaudited financial statements are included in such respective Treasurer’s Annual Report. Each Treasurer’s Annual Report provided to the Dissemination Agent by the Treasurer shall comply with the requirements of Section 6 of this Disclosure Agreement but may be submitted as a single document or as separate documents comprising a package. Each Treasurer’s Annual Report may cross-reference other information which is available to the public on EMMA or which has been filed with the SEC and, if the document incorporated by reference is a final

official statement, it must be available from the MSRB. Unless otherwise required by law, any Continuing Disclosure Information filed with the MSRB in accordance with this Disclosure Agreement shall be in an electronic format as shall be prescribed by MSRB Rule G-32, and shall be accompanied by such identifying information as shall be prescribed by MSRB Rule G-32.

- (b) The Dissemination Agent, promptly on receiving the Treasurer's Annual Report, and, in any event, not later than April 1 in each year (or if the fiscal year of the State shall end on any date other than June 30, not later than the first day of the tenth month next following the end of such other fiscal year), shall submit such Treasurer's Annual Report received by it to the MSRB in accordance with the Rule.
- (c) If the Treasurer fails to submit the Treasurer's Annual Report to the Dissemination Agent by the date required in subsection (a) of this Section 5, the Dissemination Agent shall send a notice to the Treasurer and the Corporation advising of such failure. Whether or not such notice is given or received, if the Treasurer thereafter fails to submit the Treasurer's Annual Report to the Dissemination Agent by the last Business Day of the month in which such Treasurer's Annual Report was due, the Dissemination Agent shall promptly send a notice to the MSRB in substantially the form attached as Exhibit B hereto.
- (d) (i) Notwithstanding anything to the contrary contained in this Disclosure Agreement, in order to expedite the transmission of the Treasurer's Annual Report to the MSRB, as set forth in subsections (a), (b) and (c) of this Section 5, the Treasurer shall have the option, but shall not be obligated, to submit the Treasurer's Annual Report directly to the MSRB no later than March 15 in each year (or if the fiscal year of the State shall end on any date other than June 30, not later than the fifteenth day of the ninth month next following the end of such other fiscal year). In the event that the Treasurer elects to submit the Treasurer's Annual Report directly to the MSRB, the Treasurer shall, at the same time, submit the Treasurer's Annual Report to the Dissemination Agent together with evidence that such Treasurer's Annual Report has been forwarded by the Treasurer to the MSRB, upon which evidence the Dissemination Agent may rely. In the event that the Treasurer elects not to submit the Treasurer's Annual Report directly to the MSRB, the Treasurer shall provide the Treasurer's Annual Report to the Dissemination Agent within the time period specified in subsection (a) of this Section 5.

(ii) If the Dissemination Agent does not receive notice that the Treasurer has submitted the Treasurer's Annual Report directly to the MSRB as provided in subsection (d)(i) of this Section 5 by the last Business Day of the month in which such Treasurer's Annual Report was due, the Dissemination Agent shall promptly send a notice to the MSRB, in substantially the form attached as Exhibit B hereto.

Section 6. Contents of Treasurer's Annual Report.

- (a) Treasurer's Annual Report means (i) information pertaining to the finances and operating data of the State substantially of the type captioned as follows in Appendix I to the Official Statement of the Corporation circulated in connection with the issuance of the Bonds: "STATE FINANCES", "FINANCIAL RESULTS AND ESTIMATES", "OUTSTANDING BONDED INDEBTEDNESS OF THE STATE", "TAX AND REVENUE ANTICIPATION NOTES", "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION", "MORAL OBLIGATION FINANCING", "STATE EMPLOYEES", "FUNDING PENSION PLANS", "FUNDING POST-RETIREMENT MEDICAL BENEFITS" and "LITIGATION" and (ii) "COMPREHENSIVE ANNUAL FINANCIAL REPORT", being the audit report prepared annually by the Office of the State Auditor with respect to the State's general purpose financial statements for each year, as set forth in Appendix A attached to such Appendix I described above, all such financial information included in clause (ii) above being prepared using the accounting standards set forth in subsection (b) of this Section 6.
- (b) The State prepares its financial statements in accordance with the provisions of Statements No. 34 and No. 35 of the Governmental Accounting Standards Board.

Section 7. Reporting of Significant Events.

- (a) This Section 7 shall govern the giving of notices of the occurrence of any of the following listed events ("**Listed Events**"):
- (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults, if material;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers or their failure to perform;
 - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
 - (7) modifications to the rights of Bondholders, if material;
 - (8) Bond calls, if material, or tender offers;
 - (9) defeasances of the Bonds;
 - (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
 - (11) rating changes related to the Bonds;
 - (12) bankruptcy, insolvency, receivership or similar event of the Corporation;
 - (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (14) appointment of a successor or additional trustee or the change of name of a trustee for the Bonds, if material.
- (b) The Corporation and/or the Treasurer shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events which are material, notify the Dissemination Agent in writing to report the event pursuant to subsection (c) of this Section 7. In determining the materiality of any of the Listed Events specified in subsection (a) of this Section 7, the Corporation and/or the Treasurer may, but shall not be required to, rely conclusively on an Opinion of Counsel. The Dissemination Agent shall have no obligation under this Disclosure Agreement to provide, or to monitor the obligation of the Corporation or the Treasurer to provide notification of the occurrence of any of the Listed Events which are material.

- (c) If the Dissemination Agent has been instructed by the Corporation and/or the Treasurer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA within five (5) Business Days of the receipt of such instruction, with a copy of such notice provided by the Dissemination Agent to the Corporation, the Treasurer, and the Trustee.

Section 8. Termination of Reporting Obligation. The obligations of the Corporation and the Treasurer under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series 2012 Q Bonds.

Section 9. Amendment; Waiver. Notwithstanding any other provisions of this Disclosure Agreement, the Corporation and the Treasurer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an Opinion of Counsel addressed to the Corporation, the Dissemination Agent and Treasurer to the effect that such amendment or waiver will not, in and of itself, cause the undertakings herein to violate the Rule. No amendment to this Disclosure Agreement shall change or modify the rights or obligations of the Dissemination Agent without its written assent thereto.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation or the Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, Treasurer's Annual Report or notice of occurrence of a Listed Event, as the case may be, in addition to that which is required by this Disclosure Agreement. If the Corporation or the Treasurer chooses to include any information in an Annual Report, Treasurer's Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, it shall not have any obligation under this Agreement to update or continue to provide such information or include it in any future Annual Report, Treasurer's Annual Report or notice of occurrence of a Listed Event.

Section 11. Default.

- (a) In the event of a failure of the Corporation or the Treasurer to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the written request of the Holders of at least 25% in aggregate principal amount of Outstanding Bonds affected by such failure, shall), or any Bondholder may take such actions as may be necessary and appropriate to cause the Treasurer or the Corporation to comply with its obligations under this Disclosure Agreement; provided, however, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Not

withstanding the foregoing, the right of any Series 2012 Q Bondholder, to challenge the adequacy of information provided pursuant to this Agreement shall be limited in the same manner as enforcement rights are limited under the Resolution. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Treasurer to comply with this Disclosure Agreement shall be an action to compel performance.

- (b) For purposes of this Disclosure Agreement, in making determinations under applicable securities law, the Corporation or the Treasurer may, but shall not be required to, rely on an Opinion of Counsel with respect to matters of a legal nature.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Dissemination Agent and the Series 2012 Q Bondholders, and each Series 2012 Q Bondholder is hereby declared to be a third party beneficiary of this Disclosure Agreement. Except as provided in the immediately preceding sentence, this Disclosure Agreement shall create no rights in any other person or entity.

Section 13. Indemnification of the Dissemination Agent. The provisions of Section 906 of the General Bond Resolution relating to indemnification of the Dissemination Agent shall apply to the performance by the Dissemination Agent of its obligations under this Disclosure Agreement.

Section 14. Notices. All notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mail, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

- (i) If to the Corporation:

South Jersey Port Corporation
2nd Street and Joseph A. Balzano Boulevard
P.O. Box 129
Camden, New Jersey 08103
Attn: Executive Director, CEO

- (ii) If to the Treasurer:

New Jersey Department of the Treasury
c/o Office of Public Finance
50 West State Street
5th Floor
P.O. Box 005
Trenton, New Jersey 08625
Attn: Director, Office of Public Finance

- (iii) If to the Dissemination Agent:

U.S. Bank National Association
Corporate Trust Services
21 South Street, 3rd Floor
Morristown, New Jersey 07960

Any party may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provisions of this Section 14 for the giving of notice.

Section 15. Successors and Assigns. All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the Corporation, the Treasurer or the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 16. Headings for Convenience Only. The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions thereof.

Section 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Severability. If any provision of this Disclosure Agreement, or the application of any such provision in any jurisdiction or to any person or circumstance, shall be held invalid or unenforceable, the remaining provisions of this Disclosure Agreement, or the application of such provision as is held invalid or unenforceable in jurisdictions or to persons or circumstances other than those in or as to which it is held invalid or unenforceable, shall not be affected thereby.

Section 19. Governing Law and Venue. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey. The parties hereto agree that the Corporation or the Treasurer may be sued, pursuant to Section 11 hereof, only in a State court in the County of Mercer in the State of New Jersey.

Section 20. Compliance with L. 2005, c. 271. The Dissemination Agent hereby acknowledges that it has been advised of its responsibility to file an annual disclosure statement on political contributions with the New Jersey Election Law Enforcement Commission (“**ELEC**”) pursuant to N.J.S.A. 19:44A-20.13 (L. 2005, c. 271, section 3) if the Dissemination Agent enters into agreements or contracts, such as this Disclosure Agreement, with a public entity, such as the Corporation, and receives compensation or fees in excess of \$50,000 or more in the aggregate from public entities, such as the Corporation, in a calendar year. It is the Dissemination Agent’s responsibility to determine if filing is necessary. Failure to do so can result in the imposition of financial penalties by ELEC. Additional information about this requirement is available from ELEC at 888-313-3532 or at www.elec.state.nj.us.

Section 21. Compliance with L. 2005, c. 92. In accordance with L. 2005, c. 92, the Dissemination Agent agrees that all services performed under this Disclosure Agreement or any subcontract awarded under this Disclosure Agreement shall be performed within the United States of America.

(Remainder of page intentionally left blank. Signature page follows.)

IN WITNESS WHEREOF, the parties hereto have caused this Continuing Disclosure Agreement to be executed and delivered by their proper and duly authorized officers as of the day and year first above written.

SOUTH JERSEY PORT CORPORATION

By: _____
Richard A. Alaimo, Chairman

TREASURER, STATE OF NEW JERSEY

By: _____
Andrew P. Sidamon-Eristoff

U.S. BANK NATIONAL ASSOCIATION,
AS DISSEMINATION AGENT

By: _____

EXHIBIT A

**NOTICE TO REPOSITORIES OF FAILURE TO FILE AN
ANNUAL REPORT**

Name of Issuer: South Jersey Port Corporation

Name of Bond Issue: \$_____ Marine Terminal Revenue Refunding Bonds
2012 Series Q

NOTICE IS HEREBY GIVEN that the South Jersey Port Corporation has not provided an Annual Report with respect to the above named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of _____, 2012 between the Corporation, the Treasurer and the Dissemination Agent. [TO BE INCLUDED ONLY IF THE DISSEMINATION AGENT HAS BEEN ADVISED OF THE EXPECTED FILING DATE-The Corporation anticipates that the specified Annual Report will be filed by _____.]

Dated:_____

US Bank National Association,
as Dissemination Agent

cc: Treasurer
Corporation

EXHIBIT B

**NOTICE TO REPOSITORIES OF FAILURE TO FILE AN
ANNUAL REPORT**

Name of Issuer: South Jersey Port Corporation

Name of Bond Issue: \$_____ Marine Terminal Revenue Refunding Bonds
2012 Series Q

NOTICE IS HEREBY GIVEN that the Treasurer of the State of New Jersey has not provided an Annual Report with respect to the above named Bonds as required by Section 5 of the Continuing Disclosure Agreement, dated as of _____, 2012 between the Corporation, the Treasurer and the Dissemination Agent. [TO BE INCLUDED ONLY IF THE DISSEMINATION AGENT HAS BEEN ADVISED OF THE EXPECTED FILING DATE-The Treasurer anticipates that the specified Annual Report will be filed by _____.]

Dated:_____

US Bank National Association,
as Dissemination Agent

cc: Treasurer
Corporation