

**\$89,340,000**  
**NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY REVENUE BONDS,**  
**HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM ISSUE,**  
**SERIES 2014**

consisting of

<p><b>\$82,235,000</b>  <b>REVENUE BONDS, HIGHER EDUCATION</b>  <b>EQUIPMENT LEASING FUND PROGRAM ISSUE,</b>  <b>SERIES 2014A</b></p>	<p><b>\$7,105,000</b>  <b>REVENUE BONDS, HIGHER EDUCATION</b>  <b>EQUIPMENT LEASING FUND PROGRAM ISSUE,</b>  <b>SERIES 2014B</b></p>
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Dated: Date of Delivery

Due: As Shown on the Inside Front Cover

This Official Statement has been prepared by the New Jersey Educational Facilities Authority (the "Authority") to provide information on its \$89,340,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014 consisting of \$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014A (the "Series 2014A Bonds") and \$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014B (the "Series 2014B Bonds" and, collectively with the Series 2014A Bonds, the "Series 2014 Bonds"). Selected information is presented on this cover page for the convenience of the user. **To make an informed investment decision regarding the Series 2014 Bonds, a prospective investor should review this Official Statement, including all Appendices attached hereto, in its entirety.** The Authority's Revenue Bonds, Higher Education Technology Infrastructure Fund Issue, Series 2014 (the "HETI Bonds"), which are being sold by the Authority within fourteen days of the Series 2014 Bonds, are being offered pursuant to a separate official statement.

## Tax Matters:

In the opinion of Bond Counsel, interest on the Series 2014 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "TAX MATTERS" herein and interest on the Series 2014 Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Series 2014 Bonds. Interest on the Series 2014 Bonds and any gain on the sale thereof is not includable as gross income under the New Jersey Gross Income Tax Act. For a more complete discussion of the treatment of the Series 2014A Bonds and the Series 2014B Bonds as separate issues for certain purposes of the Code, and the treatment of the Series 2014 Bonds and the HETI Bonds as one issue for certain purposes of the Code, see "TAX MATTERS" herein. Failure to comply with certain of the requirements of the Code applicable to the HETI Bonds could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds.

## Redemption:

The Series 2014 Bonds are not subject to redemption prior to maturity.

## Security:

The Series 2014 Bonds are being issued by the Authority under the provisions of the New Jersey Educational Facilities Authority Law, N.J.S.A. 18A:72A-1 et seq., the Higher Education Equipment Leasing Fund Act, N.J.S.A. 18A:72A-40 et seq. and the Higher Education Equipment Leasing Fund Program General Bond Resolution adopted by the Authority on August 10, 1994, as amended and supplemented, including by the Fourth Supplemental Higher Education Equipment Leasing Fund Program Resolution adopted by the Authority on December 12, 2013 and a Series Certificate dated the date of the sale of the Series 2014 Bonds (collectively, the "Resolution"). The Series 2014 Bonds are payable solely from funds received by the Authority from the State of New Jersey (the "State") pursuant to a State Contract dated as of August 17, 1994, as amended and restated by the Amended and Restated Contract dated as of September 1, 2001 (the "State Contract"), by and between the Treasurer of the State (the "State Treasurer") and the Authority, and amounts held under the Resolution. **THE OBLIGATION OF THE STATE TO MAKE PAYMENTS UNDER THE STATE CONTRACT IS SUBJECT TO AND DEPENDENT UPON APPROPRIATIONS BEING MADE FROM TIME TO TIME BY THE NEW JERSEY STATE LEGISLATURE (THE "STATE LEGISLATURE") FOR SUCH PURPOSE. THE STATE LEGISLATURE HAS NO LEGAL OBLIGATION TO MAKE ANY SUCH APPROPRIATIONS.** See "SECURITY FOR THE SERIES 2014 BONDS" herein.

**THE AUTHORITY IS OBLIGATED TO PAY THE PRINCIPAL OF AND THE INTEREST ON THE SERIES 2014 BONDS ONLY FROM THE REVENUES AND THE FUNDS HELD UNDER THE RESOLUTION, AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AUTHORITY TO THE LIMITED EXTENT SET FORTH IN THE RESOLUTION) IS OBLIGATED TO PAY THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AUTHORITY TO THE LIMITED EXTENT SET FORTH IN THE RESOLUTION) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2014 BONDS. THE AUTHORITY HAS NO TAXING POWER.**

## Purpose:

The Series 2014A Bonds are being issued to finance the cost of acquiring and installing Higher Education Equipment (as such term is defined herein) at public institutions of higher education within the State and to pay the costs of issuance of the Series 2014A Bonds. The Series 2014B Bonds are being issued to finance the cost of acquiring and installing Higher Education Equipment at private institutions of higher education within the State and to pay the costs of issuance of the Series 2014B Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Interest Rates and Yields: As shown on the inside front cover.

Interest Payment Dates: Interest on the Series 2014 Bonds is payable on June 1 and December 1, payable initially on December 1, 2014.

Denominations: The Series 2014 Bonds will be issued in denominations of \$5,000 or any integral multiple in excess thereof.

Issuer Contact: New Jersey Educational Facilities Authority, 103 College Road East, Princeton, New Jersey, 08540, (609) 987-0880.

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

The Series 2014 Bonds are offered when, as and if delivered and subject to the receipt of the approving legal opinion of Saul Ewing LLP, Princeton, New Jersey, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by the Attorney General of the State, General Counsel to the Authority. The Series 2014 Bonds in definitive form are expected to be available for delivery through DTC in New York, New York on or about January 30, 2014.

Official Statement dated: January 23, 2014

**NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY**

**MATURITY SCHEDULE**

**\$82,235,000**

**HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM ISSUE, SERIES 2014A**

<u>Maturity Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2015	\$ 9,915,000	5.00%	0.31%	6460658A3
2016	11,790,000	5.00%	0.53%	6460658B1
2017	12,380,000	5.00%	0.83%	6460658C9
2018	12,770,000	5.00%	1.29%	6460658D7
2019	11,675,000	5.00%	1.65%	6460658E5
2020	6,040,000	5.00%	2.12%	6460658F2
2021	5,860,000	5.00%	2.45%	6460658G0
2022	6,155,000	5.00%	2.79%	6460658H8
2023	5,650,000	5.00%	2.99%	6460658J4

**\$7,105,000**

**HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM ISSUE, SERIES 2014B**

<u>Maturity Date (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2015	\$690,000	5.00%	0.31%	6460658A3
2016	845,000	5.00%	0.53%	6460658B1
2017	880,000	5.00%	0.83%	6460658C9
2018	930,000	5.00%	1.29%	6460658D7
2019	800,000	5.00%	1.65%	6460658E5
2020	840,000	5.00%	2.12%	6460658F2
2021	780,000	5.00%	2.45%	6460658G0
2022	825,000	5.00%	2.79%	6460658H8
2023	515,000	5.00%	2.99%	6460658J4

\* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2014 Bonds and the Authority does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2014 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2014 Bonds.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE SERIES 2014 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement in connection with the offering of the Series 2014 Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of the Series 2014 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from the State and other sources which are believed to be reliable. However, it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation of the Authority. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sales made hereunder shall, under any circumstances, create any implication that there has been no change in such information since the date thereof. The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from DTC, and the Authority takes no responsibility for the accuracy thereof. Such information has not been independently verified by the Authority and the Authority makes no representation as to the accuracy or completeness of such information.

There follows in this Official Statement certain information concerning the Authority, together with descriptions of the terms of the Series 2014 Bonds, the principal documents related to the security for the Series 2014 Bonds and certain applicable laws. All references herein to laws and documents are qualified in their entirety by reference to such laws, as in effect, and to each such document as such document has been or will be executed and delivered on or prior to the date of issuance of the Series 2014 Bonds, and all references to the Series 2014 Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto contained in the Resolution (as defined herein).

The Series 2014 Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions contained in such Federal laws. In making an investment decision, investors must rely upon their own examination of the Series 2014 Bonds and the security therefor, including an analysis of the risks involved. The Series 2014 Bonds have not been recommended by any federal or state securities commission or regulatory authority. The registration, qualification or exemption of the Series 2014 Bonds in accordance with applicable provisions of securities laws of the various jurisdictions in which the Series 2014 Bonds have been registered, qualified or exempted cannot be regarded as a recommendation thereof. Neither such jurisdictions nor any of their agencies have passed upon the merits of the Series 2014 Bonds or the adequacy, accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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**PRELIMINARY OFFICIAL STATEMENT**  
relating to

**\$89,340,000**

**NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY**  
**REVENUE BONDS, HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM ISSUE,**  
**SERIES 2014**

consisting of

**\$82,235,000**

**REVENUE BONDS, HIGHER EDUCATION**  
**EQUIPMENT LEASING FUND PROGRAM**  
**ISSUE, SERIES 2014A**

**\$7,105,000**

**REVENUE BONDS, HIGHER EDUCATION**  
**EQUIPMENT LEASING FUND PROGRAM**  
**ISSUE, SERIES 2014B**

**INTRODUCTION**

**General**

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish information concerning the New Jersey Educational Facilities Authority (the "Authority") and its \$89,340,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014 consisting of \$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014A (the "Series 2014A Bonds") and \$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014B (the "Series 2014B Bonds" and, together with the Series 2014A Bonds, the "Series 2014 Bonds"). The Series 2014 Bonds are issued pursuant to the Higher Education Equipment Leasing Fund Program General Bond Resolution, adopted by the Authority on August 10, 1994 (the "General Resolution"), as amended and supplemented, including by the Fourth Supplemental Higher Education Equipment Leasing Fund Program Resolution, adopted by the Authority on December 12, 2013 authorizing the issuance of the Series 2014 Bonds and a Series Certificate of the Authority dated the date of the sale of the Series 2014 Bonds (collectively, the "Resolution"). The Bank of New York Mellon, Woodland Park, New Jersey, is acting as trustee (the "Trustee") under the Resolution. Certain capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Resolution. For definitions of certain capitalized words and terms used in this Official Statement and not otherwise defined herein, see APPENDIX II hereto.

The information contained in this Official Statement has been prepared under the direction of the Authority for use in connection with the sale and delivery of the Series 2014 Bonds.

**Authority for Issuance**

The Series 2014 Bonds are being issued pursuant to the Higher Education Equipment Leasing Fund Act, Chapter 136 of the Laws of 1993, as amended and supplemented (the "Equipment Leasing Fund Act"). The Equipment Leasing Fund Act amended and supplemented the New Jersey Educational Facilities Authority Law, being Chapter 72A of Title 18A of the New Jersey Statutes as enacted by Chapter 271 of the Public Laws of 1967, as amended and supplemented (the "Act"). The Act, among other things, empowers the Authority to issue its revenue bonds and notes to obtain funds to finance and refinance an eligible educational facility as such may be required or convenient for the purpose of a public or private participating institution of higher education located in the State of New Jersey (the "State"). The Equipment Leasing Fund Act, among other things, empowers the Authority to issue its obligations to obtain funds to finance the purchase of higher education equipment (as defined in the

Equipment Leasing Fund Act) (the “Higher Education Equipment”) at public and private institutions of higher education located in the State, provided that the total outstanding principal amount of the bonds issued for such purpose, excluding refunding bonds, shall not exceed \$100,000,000 and the term of any bond shall not exceed ten (10) years.

### **Purpose and Use of Proceeds**

The Series 2014A Bonds are being issued for the purpose of providing funds which will be used to (i) finance the cost of acquiring and installing the Higher Education Equipment for public institutions of higher education located in the State, and (ii) pay the costs of issuance of the Series 2014A Bonds. The Series 2014B Bonds are being issued for the purpose of providing funds which will be used to (i) finance the cost of acquiring and installing the Higher Education Equipment for private institutions of higher education located in the State, and (ii) pay the costs of issuance of the Series 2014B Bonds.

### **Security**

The Series 2014 Bonds are special and limited obligations of the Authority payable solely from payments received by the Authority from the Treasurer of the State (the “State Treasurer”) pursuant to the State Contract, dated as of August 17, 1994, by and between the State Treasurer and the Authority, as amended and restated by the Amended and Restated Contract, dated as of September 1, 2001 (as so amended and restated, the “State Contract”), and amounts held under the Resolution. The payment of all such funds to the Authority is subject to and dependent upon appropriations being made from time to time by the New Jersey State Legislature (the “State Legislature”). The State Legislature has no legal obligation to make any such appropriations.

There are no remedies available to the Bondholders in the event that the State Legislature does not appropriate sufficient funds or any funds to make payments when due under the State Contract nor is there any other significant source of monies from which payment on the Series 2014 Bonds could be made. While the State Legislature has the legal authority to make appropriations, it has no obligation to do so.

The Treasurer has agreed in the State Contract to make a request to the Governor, in each State fiscal year, in time to be included in the Governor’s budget message to the State Legislature for the ensuing State fiscal year, to include in such budget message an appropriation of all amounts necessary for payment of Debt Service on the Series 2014 Bonds. If such amount is not included in the enacted General Appropriations Act of the State for such ensuing State fiscal year, the Treasurer shall request the Governor to ask the State Legislature for a supplemental appropriation of such amount. The Treasurer has agreed to give the Trustee and the Authority prompt written notice of (i) any failure of the State to include an appropriation for such Debt Service in any General Appropriations Act and (ii) the enactment of any such supplemental appropriation.

All references herein to the Equipment Leasing Fund Act, the Act, the Resolution and the State Contract are qualified in their entirety by reference to the complete text of the Equipment Leasing Fund Act, the Act, the Resolution and the State Contract, copies of which are available from the Authority, and all references to the Series 2014 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution and the State Contract. See “APPENDIX II – SUMMARY OF THE RESOLUTION” and “APPENDIX III – COPY OF THE STATE CONTRACT” hereto.



## **No Pledge of Higher Education Equipment**

Although the proceeds of the Series 2014 Bonds will be used to fund all or a portion of the costs of Higher Education Equipment to be undertaken by public and private institutions of higher education under the Equipment Leasing Fund Act, the Higher Education Equipment will not secure or be available to pay the Series 2014 Bonds. See “SECURITY FOR THE SERIES 2014 BONDS” herein.

## **No Pledge of State’s Credit**

THE STATE IS NOT OBLIGATED TO PAY, AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF, THE PRINCIPAL OF OR INTEREST ON THE SERIES 2014 BONDS. THE SERIES 2014 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY OUT OF THE REVENUES OF THE AUTHORITY PLEDGED UNDER THE RESOLUTION AND FROM ANY AMOUNTS OTHERWISE AVAILABLE UNDER THE RESOLUTION FOR PAYMENT OF THE SERIES 2014 BONDS. THE SERIES 2014 BONDS DO NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY. THE AUTHORITY HAS NO TAXING POWER.

## **Additional Series of Bonds**

Additional Bonds may be issued under the Resolution, with the prior written consent of the State Treasurer, for the purpose of financing the purchase of additional Higher Education Equipment, in a principal amount up to the maximum principal amount authorized under the Equipment Leasing Fund Act. The Additional Bonds will be secured equally and ratably, without preference or priority, with the Series 2014 Bonds. See “SECURITY FOR THE SERIES 2014 BONDS” herein.

## **THE AUTHORITY**

### **Powers of the Authority**

The Authority was duly created under the Act as a public body corporate and politic constituting an instrumentality exercising public and essential governmental functions of the State. The Act empowers the Authority, among other things, to make loans to public or private colleges and universities for the construction, improvement, acquisition, and refinancing of eligible projects in accordance with a lease agreement, a loan agreement or a mortgage and pursuant to plans and specifications approved by the Authority. The Authority is also authorized to provide financing for capital improvements at qualified public libraries.

The Act provides that the Authority shall not be required to pay taxes or assessments upon any of the property acquired or used by it or under its jurisdiction, control, possession or supervision, or upon its activities in the operation and maintenance of the facilities acquired or constructed for any participating college or university or upon any moneys, revenues or other income received therefrom by the Authority.

### **Authority Organization and Membership**

Under the Act and pursuant to Reorganization Plan 005-2011, the Authority membership consists of the Treasurer of the State, the Secretary of Higher Education, both *ex officio*, and five citizen members appointed by the Governor of the State (the “Governor”) with the advice and consent of the Senate for terms of five years each. The Act provides that deputies of the *ex officio* members may be designated to act on their behalf. Members of the Authority whose terms have expired continue to serve on the

Authority until their successors are appointed and qualified. The members of the Authority serve without compensation but are entitled to reimbursement of actual and necessary expenses incurred in the discharge of their official duties.

The present members and officers of the Authority, the dates of expiration of their terms as members, their business affiliations and places of residence are as follows:

Roger B. Jacobs, Esq., Chair; term as member expires April 30, 2017; Partner, Jacobs Rosenberg, LLC; West Orange.

Ridgeley Hutchinson; Vice-Chair; term as member expires April 30, 2015; New Jersey Council of Carpenters; Lambertville.

Joshua E. Hodes; Treasurer; term as member expires April 30, 2014; Public Strategies Impact; Trenton.

Katherine Munson Ungar; term as member expires April 30, 2018; Atlantic Health System; Mendham.

Louis Rodriguez; term as member expires April 30, 2016; Professional Engineer; Marlboro.

The Honorable Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey, *ex officio*.

Rochelle R. Hendricks, Secretary of Higher Education, *ex officio*.

Derek S. Hansel, Executive Director, serves as Secretary to the Authority.

Katherine A. Newell, Director of Risk Management, serves as an Assistant Secretary to the Authority.

Sheryl A. Stitt, Director of Legislative Strategy and Public Communications, serves as an Assistant Secretary to the Authority.

Jennifer Soyka, Project Manager, serves as an Assistant Secretary to the Authority.

Marie P. Mueller, Controller, serves as the Assistant Treasurer to the Authority.

### **Outstanding Obligations of the Authority**

As of September 30, 2013, the Authority has heretofore authorized and issued its obligations in a total outstanding amount of \$5,019,368,701 to finance eligible projects at certain of the participating public and private colleges and universities and public libraries located in the State.

The Authority has never defaulted in payment of the maturing principal of or interest on any of its obligations.

None of the outstanding obligations of the Authority are issued under the Resolution or share in the pledge of the Revenues (as hereinafter defined) that secure the Series 2014 Bonds.

## **Equipment Leasing Fund Program**

The Equipment Leasing Fund Act establishes a higher education equipment leasing fund in the Authority and authorizes the Authority to issue bonds in a total outstanding principal amount of \$100,000,000, exclusive of refunding bonds, to finance the purchase of any property consisting of, or relating to, scientific, engineering, technical, computer, communications, and instructional equipment for lease to public and private institutions of higher education in the State (the "Program"). The term of any bond issued for the Program shall not exceed ten (10) years and the Authority may not issue any bonds pursuant to the provisions of the Equipment Leasing Fund Act without the prior approval of the State Treasurer. The Equipment Leasing Fund Act provides that the State Treasurer, pursuant to the State Contract and subject to available appropriations from time to time by the State Legislature, shall pay the amount necessary to pay the principal of and interest on bonds and notes of the Authority issued for the Program.

The Authority has entered or will enter into lease agreements, as lessor (each, a "Lease" and collectively, the "Leases"), with the public or private institutions of higher education in the State (each a "Participant" and collectively, the "Participants") that finance the acquisition of Higher Education Equipment pursuant to the Program. During the period of each Lease, the Authority shall hold title to the Higher Education Equipment. At such time as the liabilities of the Authority incurred for the purchase of the Higher Education Equipment have been met and the principal of and interest on the Series 2014 Bonds have been paid, the Authority will transfer title of the Higher Education Equipment to the Participants. The Participants participating in the Program with respect to the Series 2014 Bonds are as follows: Rutgers University, New Jersey Institute of Technology, Rowan University, Kean University, Montclair State University, New Jersey City University, Ramapo College of New Jersey, The Richard Stockton College of New Jersey, The College of New Jersey, Thomas Edison State College, William Paterson University, Centenary College, Drew University, Felician College, Georgian Court University, Seton Hall University, Stevens Institute of Technology, Atlantic Cape Community College, Bergen Community College, Brookdale Community College, Burlington County College, Camden County College, County College of Morris, Cumberland County College, Essex County College, Hudson County Community College, Mercer County Community College, Middlesex County College, Ocean County College, Passaic County Community College, Sussex County Community College and Warren County Community College.

Each of the Leases includes a provision which requires the Participant to pay an amount equal to 25% of the amount necessary to pay the principal and interest on the portion of the Series 2014 Bonds issued to finance the purchase of Higher Education Equipment by that Participant. Upon receipt of the moneys from each Participant, the Authority will remit the moneys immediately to the State Treasurer.

If a Participant is unable to meet its payment obligation to the Authority under its Lease, an amount sufficient to satisfy the deficiency may be retained by the State Treasurer from State aid or any appropriation payable to the Participant.

**THE LEASES AND ANY PAYMENTS RECEIVED BY THE AUTHORITY OR THE STATE THEREUNDER ARE NOT PLEDGED TO THE SERIES 2014 BONDHOLDERS AND DO NOT IN ANY WAY SECURE THE SERIES 2014 BONDS. SEE "SECURITY FOR THE SERIES 2014 BONDS" HEREIN.**

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2014 Bonds, together with other available moneys and reinvestment earnings on Trustee-held funds, will be applied approximately as follows:

### Sources of Funds

	<u>Series 2014A Bonds</u>	<u>Series 2014B Bonds</u>	<u>Total</u>
Principal Amount	\$82,235,000.00	\$7,105,000.00	\$89,340,000.00
Original Issue Premium	<u>11,465,013.60</u>	<u>1,026,496.75</u>	<u>12,491,510.35</u>
Total	<u>\$93,700,013.60</u>	<u>\$8,131,496.75</u>	<u>\$101,831,510.35</u>

### Uses of Funds

	<u>Series 2014A Bonds</u>	<u>Series 2014B Bonds</u>	<u>Total</u>
Project Costs	\$93,190,168.00	\$8,076,725.00	\$101,266,893.00
Underwriter's Discount	147,447.37	12,739.25	160,186.62
Costs of Issuance*	<u>362,398.23</u>	<u>42,032.50</u>	<u>404,430.73</u>
Total	<u>\$93,700,013.60</u>	<u>\$8,131,496.75</u>	<u>\$101,831,510.35</u>

\*Includes fees and expenses of Bond Counsel and the Trustee, and other issuance costs.

## DEBT SERVICE SCHEDULE

The following table presents the debt service schedule (in whole numbers) for the Series 2014 Bonds based on the maturity dates and interest rates set forth on the inside cover of this Official Statement.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Series 2014A Bonds</u>		<u>Series 2014B Bonds</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 9,915,000	\$5,493,755	\$690,000	\$474,653	\$16,573,408
2016	11,790,000	3,616,000	845,000	320,750	16,571,750
2017	12,380,000	3,026,500	880,000	278,500	16,565,000
2018	12,770,000	2,407,500	930,000	234,500	16,342,000
2019	11,675,000	1,769,000	800,000	188,000	14,432,000
2020	6,040,000	1,185,250	840,000	148,000	8,213,250
2021	5,860,000	883,250	780,000	106,000	7,629,250
2022	6,155,000	590,250	825,000	67,000	7,637,250
2023	<u>5,650,000</u>	<u>282,500</u>	<u>515,000</u>	<u>25,750</u>	<u>6,473,250</u>
<b>Total</b>	<u>\$82,235,000</u>	<u>\$19,254,005</u>	<u>\$7,105,000</u>	<u>\$1,843,153</u>	<u>\$110,437,158</u>

## **SECURITY FOR THE SERIES 2014 BONDS**

### **General**

The Resolution for the Series 2014 Bonds provides, among other things, that: (i) such Resolution shall be deemed to be and shall constitute a contract between the Authority, the Trustee and the holders, from time to time, of such Series 2014 Bonds; (ii) all bonds and bondholders shall be entitled to the benefit of the continuing pledge and lien created by the Resolution to secure the full and final payment of the principal of and interest on the Series 2014 Bonds; (iii) the pledge made by the Resolution is valid and binding from and after the date of the first delivery by the Trustee of the first bond which is authenticated and delivered under the terms of the Resolution and all amounts pledged shall immediately be subject to the lien of the pledge without any physical delivery or further act; and (iv) the lien of the pledge made under the Resolution shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. For a further description of the Resolution, see APPENDIX II hereto.

THE SERIES 2014 BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY NOR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OR ANY OTHER POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY TO THE LIMITED EXTENT SET FORTH IN THE RESOLUTION. THE AUTHORITY HAS NO TAXING POWER.

### **Pledge Securing Series 2014 Bonds**

Pursuant to the Resolution, the pledge securing the payment of the principal of and interest on the Series 2014 Bonds consists of the Revenues (except such Revenues consisting of investment earnings that are required to be rebated to the Federal Government) and all moneys, securities and funds which are held or set aside or which are to be held or set aside pursuant to the terms of the Resolution or which are held in any funds (except the Rebate Fund) established and created under the Resolution.

Under the Resolution, "Revenues" means (i) all amounts appropriated and paid to the Authority by the State pursuant to the terms of the State Contract, (ii) any other amounts appropriated and paid by the State to the Authority or received by the Authority from any other source and pledged by the Authority as security for the payment of Bonds, and (iii) any investment income which is derived from the investment of any moneys or securities held by the Trustee pursuant to the Resolution and which are deposited into the Revenue Fund.

### **Event of Non-Appropriation**

An "Event of Non-Appropriation" shall mean the failure by the New Jersey Legislature to appropriate funds to the Authority for any Fiscal Year in an amount sufficient to pay when due the Debt Service on the Series 2014 Bonds coming due in such Fiscal Year.

The Resolution provides that, notwithstanding anything contained therein to the contrary, a failure by the Authority to pay when due any principal or redemption price of or interest on any Series 2014 Bonds or any other Bonds required to be made under the Resolution, or a failure by the Authority to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Resolution or any Bonds, resulting from the occurrence of an Event of Non-Appropriation shall not constitute an Event of Default under the Resolution.

Upon the occurrence of an Event of Non-Appropriation (or the failure by the Authority to pay the principal of and interest on the Series 2014 Bonds resulting from such Event of Non-Appropriation), the Trustee on behalf of the Holders of the Series 2014 Bonds has no remedies. The Trustee may not accelerate the Series 2014 Bonds. The Authority has no obligation to pay any principal of or interest on any Series 2014 Bonds with respect to which an Event of Non-Appropriation has occurred. However, the Authority would remain obligated to pay such principal of or interest on Series 2014 Bonds to the extent State appropriations are subsequently made for such purposes.

From and after the occurrence of an Event of Non-Appropriation, and provided that there shall not have occurred and then be continuing any Event of Default, all moneys which are received by the Trustee pursuant to any right which is given or any action which is taken under the provisions of the Resolution shall be deposited into the Debt Service Fund after payment of the costs and the expenses of the proceedings resulting in the collection of such moneys and after payment of the fees and expenses which have been incurred or made by the Trustee, including legal fees, and all moneys which are on deposit in the various funds (except the Rebate Fund) established under the terms of the Resolution after payment of all costs and expenses of the Trustee, including counsel fees, shall be applied as follows:

(i) To the payment of the interest and principal amount or Redemption Price then due on the Bonds as follows:

*First:* To the payment of interest then due on the Bonds in the order of the maturity of the installments thereof then due, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each Bond, without priority or preference of any Bond over any other; and

*Second:* To the payment of the unpaid principal amount or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for mandatory sinking fund redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all Bonds due on any date, then to the payment thereof ratably, according to the amounts due in respect of each Bond, without priority or preference of any Bond over any other.

(ii) If any amounts remain after all payments under paragraph (i) above have been made, the balance shall be deposited into the General Fund under the Resolution and thereafter paid to the State Treasurer.

## **State Contract**

Pursuant to the State Contract, the State Treasurer is required to pay the amount necessary to pay the principal of and interest on the Series 2014 Bonds. However, all payments by the State Treasurer to the Authority, pursuant to the terms of the State Contract, shall be subject to and dependent upon appropriations being made from time to time by the State Legislature.

The Authority shall collect and forthwith cause to be deposited with the Trustee all amounts, if any, payable to it pursuant to the State Contract. The Authority shall enforce the provisions of the State Contract and agreements thereunder. The State Contract may be amended or supplemented, from time to time, to implement further the provisions of the Equipment Leasing Fund Act, without the approval of the Bondholders; provided, however, that no such amendment or supplement to the State Contract shall adversely affect the interests of the Bondholders.

See “APPENDIX I-2 – SUPPLEMENT DATED JANUARY 17, 2014, TO APPENDIX I,” “APPENDIX I-1 – SUPPLEMENT DATED NOVEMBER 8, 2013, TO APPENDIX I,” “APPENDIX I – FINANCIAL AND OTHER INFORMATION RELATING TO THE STATE OF NEW JERSEY” and “APPENDIX III-COPY OF THE STATE CONTRACT” hereto.

### **State General Taxing Power Not Pledged**

Pursuant to the Equipment Leasing Fund Act and the Resolution, the Series 2014 Bonds are special and limited obligations of the Authority and are not in any way a debt of the State or any political subdivision thereof (other than the Authority to the limited extent set forth in the Resolution) and shall not be or constitute a pledge of the faith and credit of the State or of any political subdivision thereof. The Authority has no taxing power. All bonds or notes of the Authority issued under the Resolution, unless funded or refunded by bonds, notes or other obligations of the Authority, shall be payable from the Revenues of the Authority.

### **Certain Covenants of the State and the Authority**

Pursuant to the Equipment Leasing Fund Act, the State has covenanted that it will not limit or alter the rights or powers of the Authority vested thereby to perform and fulfill the terms of any agreement made with the holders of the bonds or notes, or to fix, establish, charge and collect such rents, fees, rates, payments or other charges as may be convenient or necessary to produce sufficient revenues to meet all expenses of the Authority and to fulfill the terms of any agreement made with the holders of the bonds and notes, together with interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of the holders, until the bonds and notes, together with interest thereon, are fully met and discharged or provided for.

Under the Resolution, the Authority has covenanted with the bondholders not to amend the State Contract in a manner which would adversely affect the obligations of the State to make payments thereunder, and to take all reasonable measures to enforce prompt payment to it of all amounts to be paid thereunder.

### **Statutory Debt Limitation**

The Equipment Leasing Fund Act currently provides that the aggregate outstanding principal amount of bonds, notes or other obligations outstanding at any one time of the Authority under the Program may not exceed \$100,000,000 (the “Statutory Debt Issuance Limit”). As of the date hereof, no obligations are outstanding under the Equipment Leasing Fund Act. All bonds, notes or other obligations of the Authority issued for refunding purposes shall be excluded from the calculation against the Statutory Debt Issuance Limit, provided that the refunding shall be determined by the Authority to result in a debt service savings.

### **Additional Bonds**

After authentication and delivery of the Series 2014 Bonds, one or more series of Additional Bonds may be issued by the Authority, with the prior written consent of the State Treasurer, at any time or from time to time for the purpose of financing the costs of Higher Education Equipment for public and private institutions of higher education under the Program. The Resolution provides that such Additional Bonds shall be equally and ratably secured with the Series 2014 Bonds and any other bonds issued or to be issued under the Resolution. The issuance of Additional Bonds is subject to the Statutory Debt Issuance Limit.

## **Refunding Bonds**

One or more series of Refunding Bonds may be issued at any time, with the prior written consent of the State Treasurer, to refund outstanding bonds of one or more series or one or more maturities within a series of any bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the funds and accounts under the Resolution required by the provisions of the supplemental resolution authorizing such Refunding Bonds.

## **DESCRIPTION OF THE SERIES 2014 BONDS**

### **General**

The Series 2014 Bonds are to be dated and bear interest from the date of delivery and will mature on the dates and in the principal amounts set forth on the inside front cover hereof. So long as The Depository Trust Company, New York, New York (“DTC”), or its nominee is the registered owner of the Series 2014 Bonds, payments of the principal of and interest on the Series 2014 Bonds will be made by the Paying Agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Series 2014 Bonds. See “Book-Entry Only System” herein.

The Series 2014 Bonds will be issued in fully registered book-entry only form, without certificates. One certificate shall be issued for the aggregate principal amount of Series 2014 Bonds for each interest rate within a stated maturity for each series, and when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as Securities Depository for the Series 2014 Bonds. The certificates will be on deposit with DTC. DTC will be responsible for maintaining a book-entry system for recording the interests of its participants and transfers of the interests among its participants. The participants will be responsible for maintaining records regarding the beneficial ownership interests in the Series 2014 Bonds on behalf of the individual purchasers. Individual purchases may be made in denominations of \$5,000, or any integral multiple thereof, through book entries made on the books and the records of DTC and its participants. Individual purchasers of the Series 2014 Bonds will not receive certificates representing their beneficial ownership interests in the Series 2014 Bonds, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial transaction statement stating the details of the Series 2014 Bonds purchased. In the event the Series 2014 Bonds are no longer subject to the DTC Book-Entry Only System, the principal of Series 2014 Bonds will be payable upon surrender of the respective Series 2014 Bonds at a designated corporate trust office of the Paying Agent. See “DESCRIPTION OF THE SERIES 2014 BONDS- Book-Entry Only System” herein.

The Series 2014 Bonds will be dated their date of delivery, will be issued in denominations of \$5,000 or any integral multiple thereof (an “Authorized Denomination”) and will bear interest at the rates shown on the inside cover of this Official Statement, payable initially on December 1, 2014 and semiannually thereafter on June 1 and December 1 in each year, until maturity. Interest will be payable by the Trustee to those registered owners of the applicable Series 2014 Bonds whose names appear on the Series 2014 Bond register as of the fifteenth (15th) day (whether or not a business day) of the calendar month next preceding an interest payment date (the “Record Date”); provided, that if there is a default in the payment of interest due on the Series 2014 Bonds, such defaulted interest will instead be payable to the person in whose name the Series 2014 Bond is registered as of the close of business on a Special Record Date fixed by the Trustee in accordance with the provisions of the Resolution. Interest on the Series 2014 Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.



## **Redemption Provisions**

The Series 2014 Bonds are not subject to redemption prior to maturity.

## **Book-Entry Only System**

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable. However, the Authority takes no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners (as defined below) should rely on the following information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Ownership interests in the Series 2014 Bonds will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by DTC, New York, New York, which will act as securities depository for the Series 2014 Bonds. The Series 2014 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. Initially, one fully registered Bond certificate will be issued for each maturity of each series of the Series 2014 Bonds, in the aggregate principal amount of such series and maturity of the Series 2014 Bonds, and will be deposited with DTC. The following discussion will not apply to any Series 2014 Bonds issued in certificate form due to the discontinuance of DTC's Book-Entry System, as described below.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of section 17A of the Securities Exchange Act of 1934. 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 is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2014 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 transactions, 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 2014 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 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 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 2014 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 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 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 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions, defaults, and proposed amendments to the documents relating to the Series 2014 Bonds. For example, Beneficial Owners of Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014 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 Authority or the Trustee on the 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 accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal and interest on the Series 2014 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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 securities depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates for the Series 2014 Bonds are required to be printed and delivered. The use of the system of book-entry transfers through DTC (or a successor depository) may be discontinued as described in the Resolution. In that event, bond certificates for the Series 2014 Bonds will be printed and delivered.

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

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO THE DIRECT PARTICIPANTS OR THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2014 BONDS (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE SERIES 2014 BONDS, (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN SERIES 2014 BONDS OR (III) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE HOLDER OF THE SERIES 2014 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANTS, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 2014 BONDS UNDER OR THROUGH DTC OR ANY DIRECT PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE AUTHORITY KEPT BY THE TRUSTEE AS BEING A BONDHOLDER. THE AUTHORITY AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2014 BONDS UNDER THE RESOLUTION; (III) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE SERIES 2014 BONDS; (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF SERIES 2014 BONDS; OR (V) ANY OTHER MATTER.

SO LONG AS CEDE & CO. IS THE HOLDER OF THE SERIES 2014 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE SERIES 2014 BOND OWNERS OR HOLDERS OF THE SERIES 2014 BONDS, OTHER THAN UNDER THE CAPTION "TAX MATTERS," SHALL MEAN CEDE & CO. OR DTC AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2014 BONDS.

## **TAX MATTERS**

### **Tax Exemption Opinion of Bond Counsel**

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations which apply to the Series 2014 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Series 2014 Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Authority and the Participants subsequent to the issuance and delivery of the Series 2014 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Authority expects and intends to comply, and to the extent permitted by law, will comply, and the Participants have made covenants to comply, with such requirements. Under Treasury Regulation Section 1.150-1(c)(3), the Authority has the ability to treat bonds that would otherwise be treated as one issue as separate issues for certain purposes of the Code if each series could otherwise qualify as a tax-exempt bond issue. The Series 2014A Bonds and the Series 2014B Bonds are being treated as separate issues for certain purposes of the Code; that is, the Series 2014A Bonds are being treated as traditional

governmental bonds and the Series 2014B Bonds are being treated as qualified 501(c)(3) bonds. Under Treasury Regulation Section 1.150-1(c)(3), however, the Series 2014A Bonds and the Series 2014B Bonds may not be treated as separate issues for certain provisions of the Code, including those provisions relating to arbitrage and arbitrage rebate.

On or around January 24, 2014, the Authority is also issuing its Revenue Bonds, Higher Education Technology Infrastructure Fund Issue, Series 2014 (the “HETI Bonds”). The HETI Bonds will be used to finance grants to be made to public and private institutions of higher education for technology infrastructure pursuant to the Higher Education Technology Infrastructure Fund Act, N.J.S.A. 18A:72A-59 *et seq.* The HETI Bonds are issued under a separate bond resolution from the Series 2014 Bonds, are secured by a separate contract with the State Treasurer and are being sold pursuant to a separate official statement from the Series 2014 Bonds. Under the federal income tax regulations, generally, if two or more bond issues are sold at substantially the same time, pursuant to a common plan of finance and are reasonably expected to be paid from the same source of funds for federal income tax purposes, then for federal income tax purposes, such bond issues will be treated as one issue. The effect of being treated as one issue for federal income tax purposes is that the failure to comply with the federal income tax law requirements for one issue that must be satisfied by one issue could cause the interest on the other issue to be includable in gross income of the holders of the other issue retroactive to the date of issuance of such issue. **The Series 2014 Bonds and the HETI Bonds are being treated as one issue for federal income tax purposes. As such, the failure to comply with certain of such requirements relating to the HETI Bonds could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds.**

In the opinion of Bond Counsel, interest on the Series 2014 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the Authority and the Participants comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Series 2014 Bonds to be so includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. Additionally, as discussed in the preceding paragraph, failure to comply with certain of such requirements applicable to the HETI Bonds could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. The Authority expects and intends to comply, and to the extent permitted by law, will comply, and the Participants have made covenants to comply, with such requirements. With respect to the Series 2014B Bonds, failure to comply with certain of the provisions relating to qualified 501(c)(3) bonds by the Series 2014B Bonds Participants could cause the interest on the Series 2014B Bonds to be includable in gross income of the Series 2014B Bondholders retroactive to the date of issuance of the Series 2014B Bonds, but may not cause the interest on the Series 2014A Bonds or the HETI Bonds to be so includable in the gross income of those Bondholders as a result of the treatment of the Series 2014B Bonds as a separate issue under Treasury Regulation Section 1.150-1(c)(3).

Interest on the Series 2014 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Series 2014 Bonds is a component of a corporate holder’s “adjusted current earnings,” a portion of that interest may be subject to the corporate alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences relating to the Series 2014 Bonds or the receipt of interest thereon. See discussion of “Alternative Minimum Tax,” “Branch Profits Tax,” “S Corporations with Passive Investment Income,” “Social Security and Railroad Retirement Benefits,” “Deduction for Interest Paid by Financial Institutions to Purchase or Carry

Tax-Exempt Obligations,” “Property or Casualty Insurance Company,” “Reportable Payments and Back-up Withholding” and “Accounting Treatment of Amortizable Bond Premium” below.

In the opinion of Bond Counsel, under the laws of the State as enacted and construed on the date hereof, interest on the Series 2014 Bonds and any gain from the sale of the Series 2014 Bonds are exempt from taxation by the State under the New Jersey Gross Income Tax Act.

### **Alternative Minimum Tax**

The Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, seventy-five percent (75%) of the excess of a corporation’s “adjusted current earnings” over its “alternative minimum taxable income” (computed without regard to this particular preference item and the alternative tax net operating loss deduction). Thus, to the extent that tax-exempt interest (including interest on the Series 2014 Bonds) is a component of a corporate holder’s “adjusted current earnings,” a portion of that interest may be subject to the alternative minimum tax.

### **Branch Profits Tax**

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a “branch profits tax” equal to thirty percent (30%) of the corporation’s “dividend equivalent amount” for the taxable year. The term “dividend equivalent amount” includes interest on tax-exempt obligations.

### **S Corporations with Passive Investment Income**

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have “passive investment income.” For purposes of Section 1375 of the Code, the term “passive investment income” includes interest on the Series 2014 Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are “passive investment income.” Thus, interest on the Series 2014 Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

### **Social Security and Railroad Retirement Benefits**

Under Section 86 of the Code, certain Social Security and Railroad Retirement Benefits (the “Benefits”) may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the Series 2014 Bonds) is included in the calculation of “modified adjusted gross income” in determining whether a portion of the Benefits received are to be includable in gross income of individuals.

### **Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations**

The Code, subject to limited exceptions, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Series 2014 Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is one hundred percent (100%) for interest paid on funds allocable to the Series 2014 Bonds.

## **Property or Casualty Insurance Company**

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

## **Reportable Payments and Backup Withholding**

Under the 2006 amendments to the Internal Revenue Code, payments of interest on the Series 2014 Bonds will be reported to the Internal Revenue Service by the payor on Form 1099 unless the Bondholder is an “exempt person” under Section 6049 of the Code. A Bondholder who is not an exempt person may be subject to “backup withholding” at a specified rate prescribed in the Code if the Bondholder does not file Form W-9 with the payor advising the payor of the Bondholder’s taxpayer identification number. Bondholders should consult with their brokers regarding this matter.

The payor will report to the Bondholders and to the Internal Revenue Service for each calendar year the amount of any “reportable payments” during such year and the amount of tax, if any, with respect to payments made on the Series 2014 Bonds.

## **Accounting Treatment of Amortizable Bond Premium**

The Series 2014 Bonds are hereinafter in this subsection referred to as the “Premium Bonds.” An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the inside cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the purchaser’s basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning Premium Bonds.

## **LITIGATION**

There is no litigation of any nature now pending, or, to the knowledge of the Authority, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 2014 Bonds, or the contemplated uses of the proceeds of the Series 2014 Bonds, or in any way contesting or affecting the validity of the Series 2014 Bonds, the State Contract, the Act or any proceedings of the Authority or the State taken with respect to the issuance, sale, execution or delivery thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2014 Bonds or the existence or powers of the Authority or the State Contract or the title of any officers or members of the Authority to their respective positions.

## **CERTAIN LEGAL MATTERS**

Legal matters related to the authorization, execution, issuance and delivery of the Series 2014 Bonds are subject to the approval of Saul Ewing LLP, Princeton, New Jersey, Bond Counsel. The opinion of Bond Counsel will be delivered with the Series 2014 Bonds in substantially the form included in this Official Statement as APPENDIX V. Certain legal matters in connection with the Series 2014

Bonds will be passed upon for the Authority by the Attorney General of the State, General Counsel to the Authority.

### **LEGALITY FOR INVESTMENT**

Pursuant to the Act, all bonds, notes and other obligations issued by the Authority under the provisions of the Act, including the Series 2014 Bonds, are securities in which the State and all political subdivisions of the State, their officers, boards, commissions, departments or other agencies, all banks, bankers, savings banks, trust companies, savings and loan associations, investment companies and other persons carrying on a banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever who now or hereafter may be authorized to invest in bonds or other obligations of the State, may properly and legally invest any funds, including capital belonging to them or within their control. Bonds, notes or other securities or obligations of the Authority are also securities that may properly and legally be deposited with and received by any State or municipal officer or agency of the State for any purpose for which the deposit of bonds or other obligations of the State are authorized by law.

### **UNDERWRITING**

J.P. Morgan Securities LLC submitted the successful bid at the public sale of the Series 2014 Bonds on January 23, 2014, and has agreed, pursuant to the terms of the Notice of Sale relating to the Series 2014 Bonds, to purchase the Series 2014 Bonds from the Authority at an aggregate price of \$101,671,323.73 (representing the par amount of the Series 2014 Bonds, plus original issue premium of \$12,491,510.35, less underwriter's discount of \$160,186.62) and to make a bona fide public offering of the Series 2014 Bonds at the initial public offering prices set forth on the inside cover page of this Official Statement.

### **RATINGS**

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") have assigned municipal bond ratings of "A+," "A1" and "A+," respectively, to the Series 2014 Bonds. Such ratings reflect the views of Fitch, Moody's and S&P, respectively, at the time such ratings were given and the Authority makes no representation as to the appropriateness of the ratings. Any explanation of the significance of the ratings may be obtained from Fitch, Moody's and S&P. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Fitch, Moody's or S&P, if in the judgment of Fitch, Moody's or S&P, circumstances so warrant. Any such downward revision, qualification or withdrawal of the ratings can be expected to have an adverse effect on the market price of the Series 2014 Bonds.

### **CONTINUING DISCLOSURE AGREEMENT**

Upon the issuance and delivery of the Series 2014 Bonds, the Authority and the State Treasurer will enter into an agreement (the "Continuing Disclosure Agreement") with the Trustee, as dissemination agent, for the benefit of the holders of the Series 2014 Bonds, to comply with the secondary market disclosure requirements of the United States Securities and Exchange Commission's Rule 15(c)(2)-12. Pursuant to the Continuing Disclosure Agreement, the State Treasurer will covenant to provide certain financial information and operating data relating to the State to the Municipal Securities Rulemaking Board ("MSRB"). Further, the Authority will covenant to provide notices of the occurrence of certain enumerated events. The Trustee shall file such information on behalf of the Treasurer and such notices on

behalf of the Authority with the MSRB. The Trustee may meet the continuing disclosure filing requirements described above by providing such information to the MSRB or by complying with any other procedure that may be authorized by the United States Securities and Exchange Commission. The form of the Continuing Disclosure Agreement is set forth in APPENDIX IV hereto.

For the Fiscal Year ended June 30, 2007, the Treasurer of the State failed to timely 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 failed to timely 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, due March 15, 2011, was filed on February 1, 2011. The annual report for Fiscal Year ended June 30, 2011, due March 15, 2012, was filed on February 10, 2012. The annual report for the Fiscal Year ended June 30, 2012, due March 15, 2013, was filed on February 12, 2013.

The annual report for the Fiscal Year ended June 30, 2013 is required to be filed by March 15, 2014.

#### **MISCELLANEOUS**

Copies of the Resolution may be obtained upon request from the Authority, 103 College Road East, Princeton, New Jersey 08540.

This Official Statement is distributed in connection with the sale and issuance of the Series 2014 Bonds and may not be reproduced or used as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the Authority and duly executed and delivered on its behalf by the official signing below.



Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Authority are fully set forth in the Resolution in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any Series 2014 Bonds.

**NEW JERSEY EDUCATIONAL FACILITIES  
AUTHORITY**

By: /s/ Derek S. Hansel  
Derek S. Hansel, Executive Director

Dated: January 23, 2014

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**APPENDIX I-2**

**SUPPLEMENT DATED JANUARY 17, 2014, TO APPENDIX I**

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**Supplement dated January 17, 2014 to Appendix I, dated August 13, 2013**

*Please insert the following two paragraphs after the second paragraph under the subsection entitled “Recent Developments” in the section entitled “FINANCIAL RESULTS AND ESTIMATES” on page I-8:*

Over the first six months of Fiscal Year 2014 cash collections from the State’s sixteen major revenue sources monitored monthly totaled \$10.601 billion, 5.7 percent above the \$10.028 billion collected during the first six months of Fiscal Year 2013. Year-to-date collections are \$332 million, or 3.0% below the targeted amount of \$10.933 billion. The largest shortfalls in the sixteen major revenue sources monitored monthly were collections in the Gross Income Tax, which was \$105 million, or 2.2%, under target, and the Corporate Business Tax, which was \$104 million, or 10.1%, under target.

Based upon trends in Fiscal Year 2014 Gross Income Tax collections through the first half of January 2014, the State expects to recover a substantial portion of the shortfall in this tax. The State anticipates that the shortfall in this tax will diminish over the remainder of Fiscal Year 2014. The State continues to monitor closely revenue estimates for Fiscal Year 2014 and as a result of budget actions anticipated to occur in Fiscal Year 2014, including reduced expenditures and lapses, continues to expect the Fiscal Year 2014 ending undesignated fund balance to be not less than \$300 million. The Governor’s Fiscal Year 2015 Budget Message, which is expected to be delivered on February 25, 2014, will include updated revenue estimates for Fiscal Year 2014.

*Please replace the third paragraph under the subsection entitled “Recent Developments” in the section entitled “FINANCIAL RESULTS AND ESTIMATES” on page I-8 with the following paragraph:*

The State expects to release the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013 (the “2013 CAFR”) during February 2014. As soon as practicable thereafter, the 2013 CAFR will be filed with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board.

*Please replace the second paragraph on Page I-17 under the section entitled FINANCIAL RESULTS AND ESTIMATES – Appropriations – Appropriations of Federal Aid” with the following paragraph:*

In addition, Medicaid disallowances may be issued in federal fiscal year 2013 (which ends September 30, 2013) or 2014 (which ends September 30, 2014) 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. Fourteen audits totaling approximately \$414.6 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 \$59.8 million in federal revenues and \$8.4 million of State revenues to offset these potential disallowances. See also “LITIGATION – Medicaid, Tort, Contract, Workers’ Compensation and Other Claims”.

*Please replace the last sentence in the fourth paragraph under the section entitled “TAX AND REVENUE ANTICIPATION NOTES” on page I-36 with the following sentence:*

On December 3, 2013, the State issued its TRANs Series Fiscal 2014C in the amount of \$2,600,000,000, a portion of which refunded all of the TRANs Series Fiscal 2014A and 2014B Notes. The State reserves the right to issue additional TRANs in Fiscal Year 2014.

*Please replace the last two sentences in the paragraph entitled “Escobar v. DYFS et al.” in the section entitled “LITIGATION” on page I-77 with the following sentences:*

After the completion of the trial, the jury awarded the Plaintiff \$166 million, of which approximately \$57 million was for pain and suffering, approximately \$4 million was for the child’s past medical needs and \$105 million is to cover the child’s future medical needs. The State has filed a motion for a new trial and, in the alternative, for remitter on the awards for pain and suffering and the child’s future medical needs. Oral argument on the motion is scheduled for January 17, 2014. The State is vigorously defending this matter.

State of New Jersey

**APPENDIX I-1**

**SUPPLEMENT DATED NOVEMBER 8, 2013, TO APPENDIX I**

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**Supplement dated November 8, 2013 to Appendix I, dated August 13, 2013**

*Please insert the following subsection on page I-8 below the last paragraph in the subsection entitled “Changes in Fund Balances” in the section entitled “FINANCIAL RESULTS AND ESTIMATES”:*

**Recent Developments**

The Fiscal Year 2014 Appropriations Act anticipated that \$165 million from municipal affordable housing trust funds to be received in the New Jersey Affordable Housing Trust Fund (“Trust Fund”) would be transferred into the General Fund and treated as State revenue, contributing to an ending fund balance for Fiscal Year 2013 of \$466.7 million. However, this money was not deposited into the Trust Fund for Fiscal Year 2013. As a result, the Fiscal Year 2013 ending fund balance is now anticipated to be not less than \$300 million. To the extent these municipal affordable housing trust funds are received in Fiscal Year 2014, they will be deposited into the Trust Fund and not the General Fund. (See “FINANCIAL RESULTS AND ESTIMATES – *Potential Impacts on Fiscal Year 2013 and Fiscal Year 2014 Revenues*” and “LITIGATION” – *In re Failure of Council on Affordable Housing to Adopt Trust Fund Commitment Regulations.*”). As a result of budgetary actions anticipated to occur in Fiscal Year 2014, including reduced expenditures and lapses, the State does not anticipate any significant change in the ending undesignated fund balance for Fiscal Year 2014.

The foregoing discussion is based upon information currently available to the State Treasurer and estimates and assumptions deemed reasonable at this time, but is subject to revision. Because such discussion includes elements based on expectations about future events, no assurance can be given that actual results may not differ materially from those anticipated in the above discussion.

The State expects to release the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013 (the “2013 CAFR”) during December 2013. As soon as practicable thereafter, the 2013 CAFR will be filed with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board.

*Please replace the last sentence in the fourth paragraph under the section entitled “TAX AND REVENUE ANTICIPATION NOTES” on page I-36 with the following sentence:*

The State expects to refund the TRANs Series Fiscal 2014A and 2014B Notes prior to their maturity with publicly offered TRANs and to issue additional TRANs in Fiscal Year 2014.

*Please insert the following paragraphs on page I-77 before the beginning of the paragraph entitled “Medicaid, Tort, Contract, Workers’ Compensation and Other Claims” in the section entitled “LITIGATION”:*

*In Re Challenge of Contract Award Solicitation #13-X-22694.* On April 12, 2013, the Division of Purchase and Property in the Department of the Treasury (“DPP”) issued a Notice of Intent to Award the Lottery Growth Management Services Contract to Northstar NJ, a joint venture between GTech Corporation, Scientific Games International, Inc. and OMERS Administration Corporation. On April 17, 2013, Communication Workers of America (“CWA”) filed a protest of the notice of intent to award the contract. The Director of DPP denied the protest and proceeded to award the contract. CWA filed an appeal on June 4, 2013 and sought an emergent stay of the contract closing alleging that the State did not have the authority to contract with a vendor for the Lottery Growth Management Services. After being fully briefed by the parties, on June 11, 2013, the Appellate Division denied CWA’s application for stay, accelerated the appeal, and allowed the State to proceed with the award of the contract. At contract close on June 20, 2013, Northstar NJ paid the State of New Jersey, Division of Lottery \$120,000,000 as an accelerated guarantee payment (“AGP”) and began a formal transition period prior to beginning to provide the contracted services. On October 1, 2013, Northstar NJ began providing the contracted services for the 15 year and 9 month contract term. CWA’s appeal remains pending in the Appellate Division, is fully briefed and awaits either oral argument or decision. If this case is decided adversely to the State, the State could be required to return all or a portion of the AGP. The State is vigorously defending this matter.

*Escobar v. DYFS et al.* On July 17, 2009, Plaintiff's child was allegedly shaken by his biological father. As a result, the child is severely disabled and requires life care by professionals. The biological father is currently incarcerated for aggravated assault. The Division of Youth and Family Services ("DYFS") (now known as the Division of Child Protection and Permanency in the Department of Children and Families) allegedly had knowledge that the biological father had a history of drug use, domestic violence, mental health disorders and other issues. DYFS also was allegedly aware that the child showed prior evidence of abuse. Plaintiff alleges that DYFS failed to adequately investigate the reports of alleged abuse. Discovery in this matter is complete and a trial date of December 2, 2013 has been set. The State is vigorously defending this matter.

State of New Jersey

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

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DATED AUGUST 13, 2013

**FINANCIAL AND OTHER INFORMATION RELATING  
TO THE STATE OF NEW JERSEY**

This Appendix I speaks only as of its date and contains information supplied by the State that a prospective investor might consider in reaching a decision to invest in securities of the State or securities issued by governmental authorities that are secured by amounts subject to appropriations by the State Legislature. Nothing contained in this Appendix I shall create any implication that there has been no change in the affairs of the State since the date hereof. This Appendix I replaces Appendix I dated March 27, 2013 and supplements thereto. The principal changes reflected in this Appendix I are the updates of information to reflect the enactment of the Fiscal Year 2014 Appropriations Act and certain financial and other activity which occurred during Fiscal Year 2013. 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 most recent past and current 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, 2012, including Management's Discussion and Analysis (the "2012 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 2012 CAFR on the following website at [www.state.nj.us/treasury/omb](http://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 8,864,590 in 2012. 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.

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**

New Jersey's level of payroll employment as of June 2013 was 3.970 million, which was 1.9% (+74,800) higher than the level of payroll employment as of June 2012. New Jersey's percentage increase in payroll employment growth during this period was 0.2 percentage points higher than the national rate of increase, ranked

eleventh in the nation, and was higher than all but one other state east of the Mississippi River. During the twelve month period ending in June 2013, jobs were created in education and health (+24,100), professional and business services (+14,800), trade, transportation and utilities (+10,000), the public sector (+10,000), construction (+6,700), leisure and hospitality services (+6,700), financial activities (+3,300) and manufacturing (+200), while jobs were lost in information services (-3,600). The employment gains in the first half of 2013 were stronger than those seen during 2012. According to information released by the New Jersey Department of Labor and Workforce Development on March 18, 2013, payroll employment in 2012 averaged 1.3% higher than in 2011, which was the largest percentage gain since 2000. The 2012 increase in payroll employment in the State was 0.3 of a percentage point less than the national increase in payroll employment. The State's increase ranked thirty-first among the fifty states, and third for the eleven states (the Northeast States plus Maryland and Delaware) lying north of the Potomac River.

The State's unemployment rate declined from 9.6% in June 2012 to 8.7% in June 2013. New Jersey's unemployment rate had risen relative to the national rate over the course of 2011 through the late summer of 2012, as New Jersey's labor force participation rate rose while the national labor force participation rate fell, resulting in labor force growth in New Jersey that was unusually rapid relative to the growth of the State's working age population. Growth in New Jersey's labor force has moderated since the summer of 2012 and that slower growth, coupled with ongoing increases in jobs and employment, has resulted in a decline in the unemployment rate.

According to the United States Commerce Department, Bureau of Economic Analysis, in a report dated June 7, 2013, New Jersey's gross state product rose 1.3% from 2011 to 2012, adjusted for inflation. This increase ranked thirty-sixth among the states, and trailed the national gain of 2.5%. However, New Jersey's growth was comparable to aggregate gains for New England (1.2%) and the Mideast (1.5%) regions. Calendar Year 2012 was the third consecutive year to see an increase in New Jersey's inflation-adjusted gross state product. The initial estimate for 2011, reported in 2012 by the Bureau of Economic Analysis, of a 0.5% decline, was revised to indicate a 0.2% increase in gross state product. Prior to the inflation adjustment, New Jersey's gross state product in 2012 totaled \$508.0 billion, ranking eighth among the fifty states.

According to the United States Commerce Department, Bureau of Economic Analysis, in a release dated June 28, 2013, personal income of New Jersey residents rose 1.2% over the twelve month period ending in the first quarter of 2013. This increase in personal income was smaller than the 2.8% increase reported for the nation as a whole over the same period. Personal income earned by New Jersey residents in the first quarter of 2013 was lower than the fourth quarter of 2012 because large payments of dividends and bonus payments to finance industry workers that would normally be paid in the first quarter of 2013 were disbursed in the fourth quarter of 2012. According to the June 2013 New Jersey economic forecasts from IHS Global Insight and Moody's Economy.com, growth in personal income for New Jersey residents is expected to continue through the balance of 2013 and through 2014 at rates higher than those seen in 2012.

New Jersey's housing sector is recovering. Nearly 18,000 building permits were granted in 2012. While this is a low number by historic standards, it represented an increase of approximately 39% from 2011. Permits granted in the first six months of 2013 were 32.2% higher than in the same period of 2012. The New Jersey Association of Realtors reports that home resales in the State in 2012 were 11.7% higher than in 2011, and that the number of resales in the first quarter of 2013 was 11.0% higher than in the first quarter of 2012. Growth in housing activity is anticipated to continue, as reduced prices, low mortgage rates, and higher rental costs have increased the attractiveness of home ownership. However, the significant number of housing properties still in the judicial foreclosure process may temper the recovery in the housing sector.

The auto sector continues to improve. The first six months of 2013 saw more new motor vehicles sold than in the first half of any year since 2007, and sales were 5.3% higher than in the same period of 2012.

Super Storm Sandy made landfall in New Jersey on October 29, 2012, resulting in widespread power outages and a temporary cessation in normal business activity throughout much of the State. The United States Commerce Department, Bureau of Economic Analysis, reported that Super Storm Sandy is estimated to have

resulted in \$44.9 billion in damage to public and private property in the affected areas of the nation; other reports suggest that the overwhelming majority of this damage was in New York and New Jersey. This estimate does not include damage to personal possessions, any incremental cost of rebuilding, immediate losses to businesses from interruptions to activity, or costs incurred in the course of cleanup and restoration of activity. The United States Commerce Department, Bureau of Economic Analysis, in its March 27, 2013 personal income release, also estimates that interruptions to activity caused by Super Storm Sandy depressed wages paid in New Jersey in the fourth quarter of 2012 by 0.7%, or approximately \$400 million (aggregate wages paid in the State for all of 2012 amounted to \$227.1 billion). It is anticipated that rebuilding activity will largely offset any longer term negative economic impacts on the State as a whole. It is clear, however, that Super Storm Sandy will have a significant long-term effect on individual regions and industries in the State, most notably those along the Jersey Shore.

Economic conditions in New Jersey and the nation have continued to improve from the low levels reached in the 2008-2009 recession. This improvement has been manifested in the expansion of consumer and capital spending, and has resulted in increased employment. Aggregate household wealth has reached new highs, largely reflecting the recovery of the stock market, but home values have also begun to increase. Household debt balances have declined. More recently, the housing market has started to improve. In the current domestic U.S. economic environment, there is the potential for spending growth to further improve, leading to declines in unemployment and further gains in employment, income and wealth. However, ongoing problems in European economies have led to a renewed recession in continental Europe and have created risks for U.S. exporters, financial markets and institutions. Economic growth in China has recently slowed, in part reflecting internal financial concerns in that nation. Recent cuts in federal spending, and hikes in federal taxes, along with continuing conflict over federal tax and spending policy have not only drained some spending power but have also likely elevated household and business uncertainty, further inhibiting economic expansion. Finally, tensions with Iran have the potential to boost energy prices and dampen household spending power.

The June 2013 projections of the Federal Reserve System's Federal Open Market Committee members and participants anticipate national economic growth over the course of 2013 and 2014 to gradually improve relative to the rates of growth seen in 2012. New Jersey's economy is expected to expand in 2013 and 2014 at a rate approximately in line with national trends, with employment levels projected to continue to rise, and unemployment to move down gradually, though the unemployment rate is anticipated to remain above the national average, in reflection of the recent strong rebound in the size of the State's workforce. Inflation rates have continued to be low, reflecting continuing high rates of unemployment. 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. Recent statements of the Federal Open Market Committee noting that most members and participants will not start to contemplate increases in interest rates until the national unemployment rate falls under 6.5%, unless inflation rates are substantially higher than currently anticipated, reinforce the Federal Reserve's commitment to supporting national economic growth. More recently, Federal Reserve Board Governors and Reserve Bank Presidents have reiterated that the start of any tightening of monetary policy will depend upon the health of the economy, not upon any preset schedule.

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 implementation of any actions directed at near-term cuts in federal spending or increases in taxes, 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.

## 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 Year 2014, 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, 2012," and the notes referred to therein (the "2012 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 2012 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 2012 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 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 2014” refers to the State’s fiscal year beginning July 1, 2013 and ending June 30, 2014.

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 on a date on or before the fourth Tuesday in February in each year. The Governor's Budget Message must include the proposed complete financial program of the State government for the next ensuing fiscal year and must set forth in detail each source of anticipated revenue and the purposes of recommended expenditures for each spending agency (N.J.S.A. 52:27B-20). 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 in May of each year 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. Upon such submission, 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-32.

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 the 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 money 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 of the New Jersey Supreme Court. 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 (N.J.S.A. 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 2012 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, 2010 through 2014, covering budgeted funds. 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 2010 through 2012 are actual and final. Amounts shown for Fiscal Year 2013 in the following tables and charts are based upon revised estimates for revenues and lapses and include supplemental appropriations and de-appropriations as of June 30, 2013 (which are subject to adjustment pending completion of the annual audit). Amounts shown for Fiscal Year 2014 are estimates as contained in the Fiscal Year 2014 Appropriations Act.

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, but exclude federal funds and other non-budgeted funds. 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 is received and permits the corresponding increase of appropriation balances from which expenditures can be made. See “STATE FINANCES — New Jersey’s Accounting System” above and “SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS” herein.

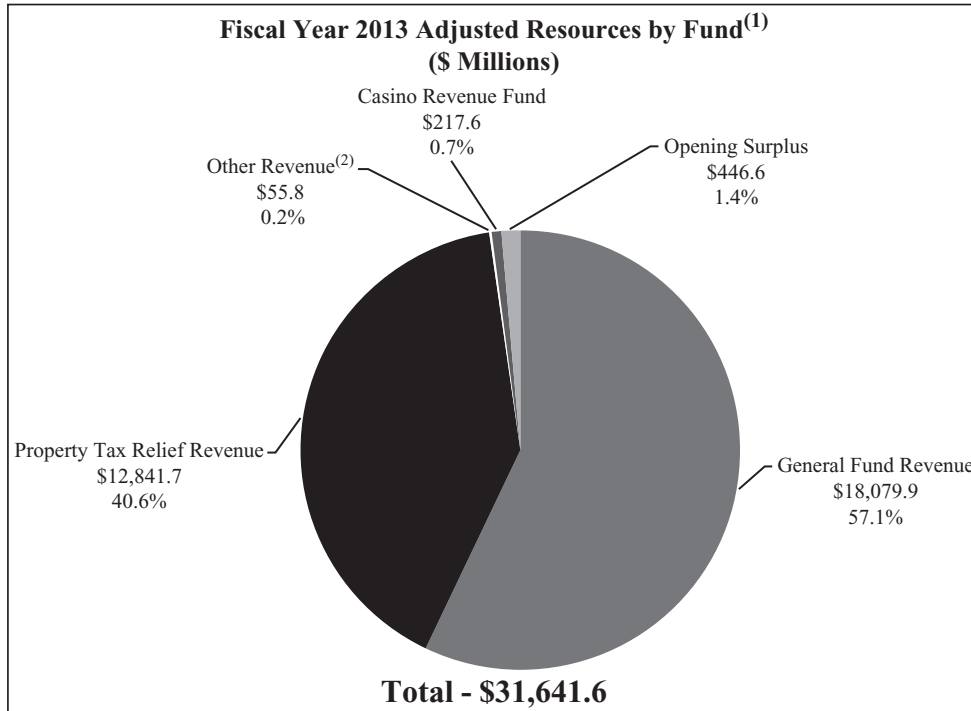


**SUMMARY OF REVENUES, APPROPRIATIONS AND  
UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS<sup>(1)</sup>**  
(\$ Millions)

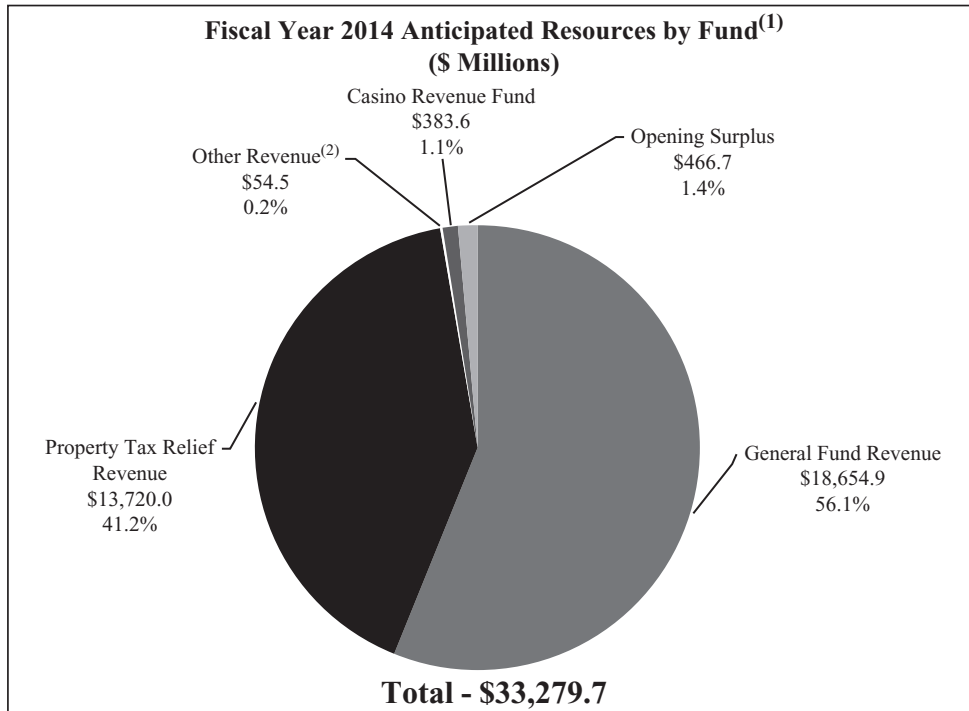
	<u>2014</u> <u>Estimated</u>	<u>2013</u> <u>Estimated</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
<b>July 1st Beginning Balances</b>					
General Fund	\$ 465.1	\$ 441.4	\$ 864.1	\$ 794.2	\$ 614.2
Property Tax Relief Fund	—	2.4	5.8	10.0	—
Gubernatorial Elections Fund	—	1.0	0.5	—	—
Casino Control Fund	1.6	1.8	2.8	—	(0.4)
Casino Revenue Fund	—	—	—	—	—
<b>Total Beginning Balances</b>	<u>466.7</u>	<u>446.6</u>	<u>873.2</u>	<u>804.2</u>	<u>613.8</u>
<b>Anticipated Revenue</b>					
General Fund	18,654.9	18,079.9	17,043.6	17,098.4	16,601.5
Property Tax Relief Fund(2)	13,720.0	12,841.7	11,751.7	11,233.7	10,917.8
Gubernatorial Elections Fund	0.7	0.7	0.5	0.5	0.4
Casino Control Fund	53.8	55.1	51.4	60.8	64.1
Casino Revenue Fund	383.6	217.6	239.3	266.2	296.1
<b>Total Revenues</b>	<u>32,813.0</u>	<u>31,195.0</u>	<u>29,086.5</u>	<u>28,659.6</u>	<u>27,879.9</u>
<b>Total Resources</b>	<u>33,279.7</u>	<u>31,641.6</u>	<u>29,959.7</u>	<u>29,463.8</u>	<u>28,493.7</u>
<b>Other Adjustments</b>					
General Fund					
Balances lapsed(3)	—	117.3	626.6	708.3	1,040.4
From (To) reserved fund balance	—	—	18.2	—	—
From (To) Property Tax Relief Fund	—	1,078.3	(266.8)	(336.5)	(285.3)
Budget vs GAAP Adjustment	—	—	78.1	(9.6)	53.2
From (To) Casino Revenue Fund	—	(17.4)	(5.0)	(3.4)	(38.3)
From (To) Gubernatorial Elections Fund	(9.3)	(4.5)	—	—	(9.0)
Corporation Business Tax - 4% Dedication	—	—	—	4.8	(3.2)
Property Tax Relief Fund					
Balances lapsed(3)	—	397.3	89.3	143.9	63.5
From (To) General Fund	—	(1,078.3)	266.8	336.5	285.3
Budget vs GAAP Adjustment	—	—	—	0.2	(8.2)
Gubernatorial Elections Fund					
From (To) General Fund	9.3	4.5	—	—	9.0
Budget vs GAAP Adjustment	—	—	—	—	(0.6)
Casino Control Fund					
Balances lapsed(3)	—	—	3.5	6.8	8.8
Budget vs GAAP Adjustment	—	—	—	1.9	(1.9)
Casino Revenue Fund					
From (To) General Fund	—	17.4	5.0	3.4	38.3
Balances lapsed(3)	—	0.4	3.8	0.2	1.0
Budget vs GAAP Adjustment	—	—	—	0.1	—
<b>Total Other Adjustments</b>	<u>—</u>	<u>515.0</u>	<u>819.5</u>	<u>856.6</u>	<u>1,153.0</u>
<b>Total Available</b>	<u>33,279.7</u>	<u>32,156.6</u>	<u>30,779.2</u>	<u>30,320.4</u>	<u>29,646.7</u>
<b>Appropriations</b>					
General Fund	18,808.0	19,229.9	17,917.4	17,392.1	17,179.3
Property Tax Relief Fund	13,720.0	12,163.1	12,111.2	11,718.5	11,248.4
Gubernatorial Elections Fund	10.0	6.2	—	—	8.8
Casino Control Fund	55.3	55.3	55.9	66.7	70.6
Casino Revenue Fund	383.6	235.4	248.1	269.9	335.4
<b>Total Appropriations</b>	<u>32,976.9</u>	<u>31,689.9</u>	<u>30,332.6</u>	<u>29,447.2</u>	<u>28,842.5</u>
<b>June 30th Ending Balances</b>					
General Fund	302.7	465.1	441.4	864.1	794.2
Property Tax Relief Fund	—	—	2.4	5.8	10.0
Gubernatorial Elections Fund	—	—	1.0	0.5	—
Casino Control Fund	0.1	1.6	1.8	2.8	—
Casino Revenue Fund	—	—	—	—	—
<b>Total Ending Balances(4)</b>	<u>\$ 302.8</u>	<u>\$ 466.7</u>	<u>\$ 446.6</u>	<u>\$ 873.2</u>	<u>\$ 804.2</u>

**Notes:**

- (1) The Surplus Revenue Fund and the Long Term Obligation and Capital Expenditure Fund previously included in this table have been excluded since no amounts have been available in such funds since 2009.
- (2) 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.
- (3) 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. Almost all of the Fiscal Year 2013 lapse relating to the Property Tax Relief Fund represents the deferral of Homestead Benefits originally scheduled to be paid during Fiscal Year 2013 to Fiscal Year 2014. See "FINANCIAL RESULTS AND ESTIMATES – Programs Funded Under Appropriations in Fiscal Year 2014 – *Grants-in-Aid*" herein.
- (4) The ending undesignated fund balance for Fiscal Year 2013 and opening undesignated fund balance for Fiscal Year 2014 are subject to adjustment pending completion of the annual audit. During Fiscal Year 2014, the ending undesignated fund balance for Fiscal Year 2014 may be revised as a result of changes in spending and/or anticipated revenues. See "FINANCIAL RESULTS AND ESTIMATES – Appropriations" herein.



- (1) Fiscal Year 2013 Adjusted Resources represent the total amount of revenues for Fiscal Year 2013, subject to adjustment pending completion of the annual audit, plus the total amount of undesignated budgeted fund balances as of July 1, 2012.
- (2) Other Revenue includes Casino Control Fund and Gubernatorial Elections Fund revenues.



(1) Fiscal Year 2014 Anticipated Resources represent the total amount of estimated revenues for Fiscal Year 2014, as set forth in the Fiscal Year 2014 Appropriations Act, plus the total amount of estimated undesignated budgeted fund balances as of July 1, 2013.

(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, 2010 through 2012, and estimated revenues for Fiscal Years 2013 and 2014 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 Year 2013 estimates are as of June 30, 2013 and are subject to adjustment pending completion of the annual audit. The Fiscal Year 2014 estimates are as presented in the Fiscal Year 2014 Appropriations Act.

**REVENUES**  
**(\$ Millions)**

	2014 Estimated	2013 Estimated	2012 Actual	2011 Actual	2010 Actual
General Fund:					
Sales and Use Tax .....	\$ 8,680.0	\$ 8,241.0	\$ 7,935.8	\$ 7,765.1	\$ 7,523.2
Less: Property Tax Dedication .....	(662.0)	(630.0)	(603.8)	(598.4)	(576.6)
Net Sales and Use Tax .....	8,018.0	7,611.0	7,332.0	7,166.7	6,946.6
Motor Fuels Tax .....	547.0	540.0	539.7	524.2	535.3
Corporation Taxes .....	2,416.0	2,257.0	2,032.4	2,226.9	1,998.7
Motor Vehicle Fees .....	437.1	454.7	463.9	407.8	378.6
Cigarette Tax .....	237.0	263.0	288.4	227.2	204.9
Other Major Taxes .....	2,478.9	2,198.4	1,974.3	2,221.4	2,215.5
Medicaid Uncompensated Care .....	404.1	425.2	430.2	499.6	514.8
Other Miscellaneous Taxes, Fees and Revenues .....	2,377.4	2,403.8	2,125.8	2,133.5	2,033.4
Lottery Funds .....	1,020.0	1,095.0	950.1	930.0	924.0
Tobacco Litigation Settlement(1) .....	49.2	94.0	82.5	53.9	56.9
Other Transfers .....	670.2	737.8	824.3	707.2	792.8
Total General Fund(2) .....	18,654.9	18,079.9	17,043.6	17,098.4	16,601.5
Property Tax Relief Fund:					
Gross Income Tax .....	13,039.0	12,193.0	11,128.4	10,617.0	10,322.9
Plus: Property Tax Dedication .....	681.0	648.7	623.3	616.7	594.9
Gross Property Tax Relief Fund .....	13,720.0	12,841.7	11,751.7	11,233.7	10,917.8
Gubernatorial Elections Fund .....	0.7	0.7	0.5	0.5	0.4
Casino Control Fund .....	53.8	55.1	51.4	60.8	64.1
Casino Revenue Fund .....	383.6	217.6	239.3	266.2	296.1
Total .....	<u>\$32,813.0</u>	<u>\$31,195.0</u>	<u>\$29,086.5</u>	<u>\$28,659.6</u>	<u>\$27,879.9</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 multi-state Master Settlement Agreement ("MSA") which settled 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 2010, 2011 and 2012 reflect actual payments and Fiscal Year 2013 and 2014 reflect estimated payments received or to be received by the State from Unpledged TSRs.

In each of the years 2006 through and including 2012 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, and approximately \$32 million of a scheduled approximate \$263 million annual payment in 2012). That withholding was primarily based on claims, under the MSA, that the companies were entitled to a Non Participating Manufacturer ("NPM") Adjustment from the settling states, of which the State is one, because the states did not diligently enforce their statutes 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 entire calendar year, three years prior to the date of payment (e.g. the 2006 withholding was related to enforcement efforts in calendar year 2003). The dispute for 2003 has been the subject of arbitration since July 2010. Arbitration of similar disputes for every year from 2004 through 2012 has awaited the conclusion of the arbitration for 2003. Because the MSA provides that states that are unsuccessful in the arbitration are responsible for the successful states' share of the NPM Adjustment, New Jersey was theoretically exposed to losing its entire MSA payment for each year it was unsuccessful in the arbitrations.

On November 5, 2011, the tobacco companies announced they were no longer claiming that New Jersey did not diligently enforce its statute in 2003. However, because New Jersey could not receive the benefit of that 2003 decision until all States had completed the multi-state arbitration and because the tobacco companies have continued to withhold their claimed NPM Adjustment for later years, it was unclear when New Jersey would recover any of the sums withheld.

On December 14, 2012, New Jersey joined 18 other states in a settlement of the dispute for 2003 through 2012, as well as potential disputes for 2013 and 2014. The settlement included both 2013 payments to New Jersey from a Disputed Payments account and credits to the Participating Manufacturers for MSA payments due in each April, from 2013 through 2017.

The Settlement was challenged by other States before the arbitration panel. On March 12, 2013, the arbitration panel entered a Stipulated Partial Settlement and Award ("Stipulated Award") implementing the settlement. Some of the Objecting States moved to have the Stipulated Award vacated prior to the distribution of settlement funds in April 2013. However, those actions were not successful and, in April, pursuant to the settlement, New Jersey received roughly \$170 million more in 2013 MSA payments than it would have otherwise received, but will receive a total of roughly \$75,000,000 less from 2014 through 2017. Some modest decreased payments can be expected in later years, but, as is always the case with long term projections of MSA payments, such payments are subject to too many variables to estimate the impact.

- (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)

	<u>2014</u> <u>Estimated</u>	<u>2013</u> <u>Estimated</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
General Fund:					
Sales and Use Tax .....	26.5%	26.4%	27.3%	27.1%	27.0%
Less: Property Tax Dedication .....	<u>(2.0)</u>	<u>(2.0)</u>	<u>(2.1)</u>	<u>(2.1)</u>	<u>(2.1)</u>
Net Sales and Use Tax .....	24.5	24.4	25.2	25.0	24.9
Motor Fuels Tax .....	1.7	1.7	1.9	1.8	2.0
Corporation Taxes .....	7.4	7.2	7.1	7.9	7.2
Motor Vehicle Fees .....	1.3	1.5	1.6	1.4	1.4
Cigarette Tax .....	0.7	0.8	1.0	0.8	0.7
Other Major Taxes .....	7.6	7.0	6.8	7.8	8.0
Medicaid Uncompensated Care .....	1.2	1.4	1.5	1.7	1.8
Other Miscellaneous Taxes, Fees and Revenues .....	7.2	7.8	7.3	7.4	7.3
Lottery Funds .....	3.1	3.5	3.3	3.2	3.3
Tobacco Litigation Settlement .....	0.1	0.3	0.3	0.2	0.2
Other Transfers .....	<u>2.0</u>	<u>2.4</u>	<u>2.8</u>	<u>2.5</u>	<u>2.8</u>
Total General Fund .....	56.8	58.0	58.8	59.7	59.6
Property Tax Relief Fund:					
Gross Income Tax .....	39.7	39.1	38.1	37.0	37.0
Plus: Property Tax Dedication .....	<u>2.1</u>	<u>2.1</u>	<u>2.1</u>	<u>2.2</u>	<u>2.1</u>
Gross Property Tax Relief Fund .....	41.8	41.2	40.2	39.2	39.1
Gubernatorial Elections Fund .....	—	—	—	—	—
Casino Control Fund .....	0.2	0.2	0.2	0.2	0.2
Casino Revenue Fund .....	<u>1.2</u>	<u>0.6</u>	<u>0.8</u>	<u>0.9</u>	<u>1.1</u>
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Fiscal Year 2013 and Fiscal Year 2014 Estimated Resources**

*Sales and Use Tax* — The Sales and Use Tax collections for Fiscal Year 2013 are estimated to increase 3.8% from Fiscal Year 2012. Sales and Use Tax collections for Fiscal Year 2014 are estimated to increase 5.3% from Fiscal Year 2013. This growth in Sales and Use Tax collections primarily reflects ongoing growth in consumer spending as employment and incomes recover, but also reflects revenues stemming from purchases of products connected to the recovery from Super Storm Sandy as well as from the turnaround in homebuilding. Furthermore, it is also anticipated that there will be a step-up in the level of collections resulting from Amazon.com, Inc.'s agreement to begin collecting Sales and Use Tax on State residents' purchases beginning July 1, 2013.

*Gross Income Tax* — The Gross Income Tax collections for Fiscal Year 2013 are estimated to increase 9.6% from Fiscal Year 2012. Gross Income Tax collections for Fiscal Year 2014 are estimated to increase 6.9% from Fiscal Year 2013. Fiscal Year 2013 collections are elevated, in part, by payments of calendar year 2012 liabilities on the realizations of dividend and capital gains in late 2012 in advance of the January 1, 2013 increase in federal tax rates for high income individuals. The increase in Gross Income Tax collections since Fiscal Year 2010 reflects not only the general recovery in household income, but also the pronounced increases in Gross Income Tax payments from individuals in higher income groups. New Jersey's progressive income tax structure makes the State's Gross Income Tax collections sensitive to losses and gains at higher income levels.

*Corporation Business Tax* — The Corporation Business Tax collections for Fiscal Year 2013 are estimated to increase 11.1% from Fiscal Year 2012. The Corporation Business Tax collections for Fiscal Year 2014 are estimated to increase 7.0% from Fiscal Year 2013. Corporate tax collections were sluggish prior to Fiscal Year 2013 despite the broad recovery in reported earnings, possibly in part due to the continuing carry forward of

losses experienced during the national economic recession. The projected Fiscal Year 2014 increase in Corporation Business Tax collections assumes that the underlying strength in corporate earnings will continue to show through in Corporation Business Tax collections, though the increase is tempered by the impact of the Fiscal Year 2012 business tax reforms and redemptions of previously awarded tax credits.

*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 2013 are estimated to decrease 9.1% from Fiscal Year 2012. Collections for Fiscal Year 2014 are estimated to increase by \$166 million from Fiscal Year 2013. Much of the anticipated rebound in revenues reflects the introduction of Internet gaming.

*Other Resources* — The State's reliance on non-recurring resources continues to decline in Fiscal Year 2014, representing only 3.6% of appropriations compared to 13% in Fiscal Year 2010. Of the \$1.17 billion of non-recurring resources, \$163.9 million represents the use of opening undesignated fund balance, and \$77.0 million is due to the continued phase in of the Fiscal Year 2012 business tax reforms. Another \$288.8 million reflects revenue initiatives, including a \$152.2 million transfer from the Clean Energy Fund to the General Fund and \$100.0 million in expected legal settlements. The remainder of the non-recurring resources provide for offsets to appropriations in the amount of \$644.5 million, comprised mainly of two items: debt service savings of \$296.5 million and the utilization of \$324.0 million of resources from the New Jersey Turnpike Authority to offset appropriations for New Jersey Transit and maintenance costs.

### **Potential Impacts on Fiscal Year 2013 and Fiscal Year 2014 Revenues**

State revenue collections for Fiscal Year 2013 estimated as of June 30, 2013 are expected to be lower by \$538 million than the original Fiscal Year 2013 estimate made at the time of the enactment of the Fiscal Year 2013 Appropriations Act. For Fiscal Year 2013, \$165 million from municipal affordable housing trust funds received in the New Jersey Affordable Housing Trust Fund was to be deposited in the State's General Fund as State revenue. (See "LITIGATION — *In re Failure of Council on Affordable Housing to Adopt Trust Fund Commitment Regulations.*") It is possible that a portion of the anticipated revenue will not be realized. Municipalities were required to submit by August 2, 2013, their reasons for disagreement with the Council On Affordable Housing (COAH) staff's determination of how much of the municipalities' affordable housing trust fund is uncommitted and therefore subject to transfer to the State. COAH is currently analyzing the municipalities' submissions.

The Fiscal Year 2014 Appropriations Act anticipates a \$166 million increase in casino revenues from Fiscal Year 2013. This estimate does not include any potential revenue from sports betting. Almost all of the anticipated increase reflects the introduction of Internet gaming, which is expected to commence during or about the fourth quarter of calendar year 2013.

Revenues for Fiscal Year 2014 also rely upon estimates of national economic conditions that incorporate the impact of the sequester on the macroeconomy, but it is recognized that the impact of the federal budget on the U.S. economy as a whole, and any spillovers to the New Jersey's economy and revenues, are uncertain and will remain unknown until the federal fiscal year 2014 budget process is completed. The sequester of federal funds is estimated to have a direct impact on State revenues of up to \$25 million for Fiscal Year 2014 resulting from reductions in federal spending in New Jersey.

### **Federal Aid**

Actual federal aid receipts in the General Fund and Special Transportation Fund for Fiscal Years 2010 through 2012, which are non-budgeted revenues, amounted to \$12,364.8 million, \$11,195.3 million and \$10,665.0 million, respectively. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2013 are estimated as of June 30, 2013 to be \$11,757.0 million. Such estimate is subject to adjustment pending completion of the annual audit. Federal receipts in the General Fund and the Special Transportation Fund for Fiscal Year 2014 as contained in the Fiscal Year 2014 Appropriations Act are estimated

to be \$12,959.7 million. Such federal aid receipts for Fiscal Year 2014 are composed of \$5,611.4 million for medical payments, \$49.6 million for social services block grants, \$852.3 million for welfare, \$2,037.6 million for other human services, \$835.3 million for Title I and other education, \$493.5 million for labor, \$1,133.3 million for transportation, and the remainder for all other federal aid programs.

The Disaster Relief Appropriations Act of 2013 (“Federal Relief Act”), which was signed into law on January 29, 2013, provides approximately \$50.38 billion to assist states impacted by Super Storm Sandy and other federally declared disasters. The money is allocated primarily among eight (8) federal agencies. The largest recipients of funds include the U.S. Department of Housing and Urban Development (\$16 billion), the U.S. Department of Transportation (\$13 billion), the U.S. Department of Homeland Security (\$12 billion) and the Army Corps of Engineers (\$5 billion). These federal agencies have been instituting allocation methodologies and program rules governing the distribution of funds among impacted areas. In some cases this funding will be provided directly to the states to manage and implement recovery efforts, or to provide direct funding to individuals. In other cases, the states will not be involved in administering and disbursing this funding. Other funds from the Federal Relief Act will be spent directly by federal agencies on projects that will benefit the State and its residents.

On February 6, 2013, the U.S. Department of Housing and Urban Development (“HUD”) announced a first tranche of these funds and stated that of the approximately \$16 billion in Community Development Block Grant-Disaster Relief (“CDBG-DR”) funding, New Jersey will receive approximately \$1.83 billion of this first tranche. On April 29, 2013, HUD approved the State’s Action Plan outlining how the State will utilize these CDBG-DR grant monies. Local or State matching is not required for this program.

Funds available under the Federal Relief Act often require matching dollars from the applicant (including the State). The State has established strategies to identify and cover the varying cost-share requirements. In many cases, the State has identified federal recovery funds which can be used to satisfy the required cost-share. The State has also identified and tracked in-kind, volunteer and other “soft match” opportunities to offset cost-share requirements where available. In nearly all cases, the local matching requirement is a limited portion of the federal monies being made available to assist with recovery efforts. On June 25, 2013, the Federal Emergency Management Agency (“FEMA”) notified the State that it would reimburse all categories of Public Assistance at 90% of total eligible costs, except for Public Assistance categories previously authorized to be reimbursed at 100% of total eligible costs. Items not categorized as Public Assistance, such as Other Needs Assistance and Hazard Mitigation remain reimbursable at 75% of total eligible costs. As the recovery from Super Storm Sandy continues, the State will maintain these efforts to ensure that all matching requirements are identified and budgeted. The State continues to work closely with local communities, stakeholders and the federal government to identify local needs and priorities for rebuilding and to ensure that all available resources are used appropriately and efficiently in the rebuilding effort.

## **Appropriations**

### *Appropriations—Fiscal Year 2010 through Fiscal Year 2014*

The following table sets forth the composition of annual appropriations, including supplemental appropriations and de-appropriations (except for Fiscal Year 2014) in Fiscal Years 2010 through 2014, if any, 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 2010 through 2012 are actual and final. The amounts for Fiscal Year 2013 are based on appropriations contained in the Fiscal Year 2013 Appropriations Act, plus net supplemental appropriations of \$35 million as of June 30, 2013 (including supplemental appropriations of \$400 million and de-appropriations of \$365 million), and are subject to adjustment pending completion of the annual audit. The amounts appropriated for Fiscal Year 2014 reflect the amounts shown in the Fiscal Year 2014 Appropriations Act.

The State has made appropriations for principal and interest payments for general obligation bonds for Fiscal Years 2010 through 2013 in the amounts of \$261.1 million, \$204.7 million, \$276.9 million and

\$410.6 million, respectively. The Fiscal Year 2014 Appropriations Act includes an appropriation in the amount of \$319.7 million, representing principal and interest payments for general obligation bonds. This appropriation reflects anticipated savings from utilizing available, uncommitted amounts and residual project balances held in general obligation bond funds, available bond premium from the sale of general obligation bonds in May 2013, and normal reductions in scheduled payments for existing general obligation bond debt service.

The Fiscal Year 2014 Appropriations Act also appropriates \$2,646.4 million for debt service on obligations supported by State revenue subject to annual appropriation. This amount differs from the amounts shown on pages I-38 and I-39 due to appropriation offsets from reductions resulting from the refunding of debt service, taking into account projected increases in debt service due to planned future issuances of bonds and notes, utilizing available, uncommitted amounts and residual project balances held in bond funds, available bond premium from the sale of obligations supported by State revenue subject to annual appropriation, the termination of interest rate swap agreements and letters of credit and normal reductions in scheduled payments for existing debt service on such obligations.

The total Fiscal Year 2014 general obligation bonds and obligations supported by State revenue subject to annual appropriation debt service appropriations is \$2,966.1 million or approximately 9.0% of total State appropriations for Fiscal Year 2014. For more information, see “OUTSTANDING BONDED INDEBTEDNESS OF THE STATE” and “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION”.

In Fiscal Year 2014, \$1,675.7 million is appropriated to make pension contributions to the defined benefit pension plans for State (\$570.0 million), PreK-12 education (\$986.0 million), local government (\$74.0 million), and higher education (\$45.7 million) employees, whose benefits are funded by the State. The Fiscal Year 2014 payment is the largest pension contribution in State history and represents an increase of \$646.4 million over the Fiscal Year 2013 appropriation of \$1,029.3 million.

The Fiscal Year 2014 Appropriations Act includes anticipated total savings of \$234 million due to an increase in employee health contributions. This amount represents an additional savings of \$84.4 million from the prior year. The 2011 pension and health benefits reform (L.2011, c.78) (“Chapter 78”) changed employee contributions from a percentage of salary (1.5%) to a percentage of medical and prescription drug premium costs, whichever is greater. The premium-based contributions are being phased-in over a four year period. In Fiscal Year 2014, the third year of the phase-in, those percentages will range from 2.3% to 26.3%.

The Fiscal Year 2014 Appropriations Act provides \$8,574.0 million in PreK-12 formula aid, an increase of \$111.4 million from Fiscal Year 2013. The level of funding provided to districts in their Fiscal Year 2014 aid notices was calculated based on a methodology similar to that used in Fiscal Year 2013. Fiscal Year 2014 also includes a new aid category for districts spending significantly below the State-defined adequacy level and aid to ensure that no district receives less total K-12 formula aid than in Fiscal Year 2013. The methodologies used to calculate aid in both Fiscal Years 2013 and 2014 are different than the statutory funding formula.

Fiscal Year 2014 appropriations are based on an estimate of costs. There are various factors that could result in expenditures significantly higher or lower than current forecasts. For example, medical costs for Medicaid and for State employee health care costs could fluctuate based on actual utilization rates and varying prescription drug prices and rebates. In addition, New Jersey contracts with managed care organizations (MCOs) to provide services to most Medicaid clients at an annual state cost of approximately \$2 billion. MCO rates for the six month period between January 1, 2014 and June 30, 2014 are still being developed by the State’s actuaries and are subject to federal adequacy rules. Finally, Medicaid resources assume recoveries from fraud, national settlements, and other sources that have been historically difficult to predict. Projected costs in these areas are closely monitored and constantly updated.



### *Appropriations of Federal Aid*

The Fiscal Year 2014 Appropriations Act implements the health care expansion of the federal Patient Protection and Affordable Care Act (“PPACA”). This will expand Medicaid coverage by an estimated 104,000 individuals effective January 1, 2014. Since the State already has a very extensive Medicaid program, this expansion has the benefit of 100% federal funding for certain populations, such as FamilyCare adults and those on General Assistance, that the State had already been funding on a 50/50 basis with the federal government. It is estimated that this will reduce the State’s Fiscal Year 2014 costs by \$227.4 million. At the same time, however, PPACA will increase State costs in other areas. For example, the individual mandate and associated tax penalties may encourage additional enrollment in the regular Medicaid program, which will maintain its 50/50 State/federal cost share. It is estimated that this possibility and other facets of PPACA will increase State Medicaid costs by \$42.3 million. Due to the unprecedented nature of the individual mandate, actual costs related to enrollment could be significantly higher or lower than those estimated in the Fiscal Year 2014 Appropriations Act. The State reserves the right to file a State plan amendment to withdraw from the program expansion which expanded medical coverage.

In addition, Medicaid disallowances may be issued in federal fiscal year 2013 (which ends September 30, 2013) or 2014 (which ends September 30, 2014) 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. Fifteen audits totaling approximately \$337.8 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 \$33.7 million in federal revenues to offset these potential disallowances. See also “LITIGATION – *Medicaid, Tort, Contract, Workers’ Compensation and Other Claims*”.

The Fiscal Year 2014 Appropriations Act assumes federal approval of a new method of reimbursing hospitals previously receiving \$167 million annually from the Hospital Relief Subsidy Fund. The Fiscal Year 2014 Appropriations Act anticipates \$83.3 million in federal Medicaid matching funds to support hospital payments from a Delivery System Reform Incentive Payments (DSRIP) pool. Federal approval of this new funding mechanism, which replaces the Hospital Relief Subsidy Fund has been granted; however, \$41.6 million in matching dollars remain contingent upon finalization and federal approval of program rules and hospital specific project detail.

Also ongoing is the effort to evaluate the effects of the federal Budget Control Act of 2011. However, it is believed that most of the across-the-board reductions in federal fiscal year 2013, which ends September 30, 2013, will not have a material impact on the State or any State department programs. The impact of the federal fiscal year 2014 reductions and the programs impacted cannot be determined until the federal fiscal year 2014 budget process is completed. The Fiscal Year 2014 Appropriations Act includes \$3 million of contingency funding for flexibility to deal with any critical impacts of the federal sequester.

### *State Unemployment Insurance Trust Fund*

In Fiscal Year 2013, the Unemployment Insurance Trust Fund (the “Trust Fund”), which provides funding for unemployment benefits in the State, received approximately \$2.8 billion in contributions from employers and workers while paying out approximately \$2.5 billion in regular, annual State unemployment benefits (excluding benefits paid entirely by the federal government) on a cash basis. In Fiscal Year 2014, contributions from employers and workers are expected to approximate \$3.0 billion, while regular State unemployment benefits will approximate \$2.5 billion. The \$3.0 billion estimate of contributions assumes no increases in tax rates compared to Fiscal Year 2013 (as further discussed below). As of June 24, 2013, the State’s outstanding loan balance to the U.S. Department of Labor is \$324.3 million for cash advances to provide funding for unemployment insurance benefits. The State expects to fully repay these federal loans, which occurred annually from Fiscal Year 2009 through Fiscal Year 2013, during Fiscal Year 2014. Repayments of these advances are solely the obligation of the Trust Fund and are not obligations of the State’s General Fund.

Under current State law, the State unemployment tax rate imposed on employers during a fiscal year is determined by State 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 considered in deficit until the federal loans are repaid, such statutory formula provides for an increase in the employer tax rate. Subsequent legislation limited increases in employer taxes in Fiscal Years 2011 through Fiscal Year 2014 to less than that called for by such statutory formula. The federal government also imposes its own employer tax formula for states with an outstanding federal loan balance. The normal Federal Unemployment Tax Act (FUTA) rate is 0.6% of the first \$7,000 in wages per employee, up to \$42. The rate increases 0.3% each year a loan balance remains outstanding as of November 9<sup>th</sup>, with the increased rate in effect for the following calendar year. The rate paid in Calendar Year 2013 is 1.2% or up to \$84 per employee. This rate would increase to 1.5% or up to \$105 in Calendar Year 2014 pending the loan balance as of November 9<sup>th</sup>. The Fiscal Year 2014 contributions estimate above assumes no increase in the State employer tax rate and the minimal FUTA rate of 0.6%. No change in the employee rate has occurred.

**APPROPRIATIONS FOR BUDGETED STATE FUNDS<sup>(1)</sup>**  
**(\$ MILLIONS)**

	For the Fiscal Year Ended June 30,				
	2014 Estimated	2013 Estimated(2)	2012 Actual	2011 Actual	2010 Actual
<b>General Fund:</b>					
Legislative Branch .....	\$ 76.1	\$ 76.7	\$ 73.7	\$ 75.6	\$ 74.8
Chief Executive's Office .....	6.0	6.0	5.7	4.5	4.7
Department of:					
Agriculture .....	19.6	19.5	19.6	19.4	22.5
Banking and Insurance .....	63.4	63.4	63.0	59.7	67.5
Children and Families .....	1,050.0	1,081.6	1,058.4	1,045.9	1,066.4
Community Affairs .....	180.1	182.1	59.5	64.1	261.2
Corrections .....	1,084.5	1,077.8	1,090.4	1,080.7	1,147.1
Education .....	252.7	948.7	223.2	555.6	664.5
Environmental Protection .....	352.5	336.3	334.2	348.8	379.8
Health .....	370.4	333.7	1,222.3	1,213.3	1,067.9
Human Services .....	5,955.4	6,245.6	5,215.0	4,514.0	4,404.4
Labor and Workforce Development .....	157.1	157.0	154.5	156.7	144.8
Law and Public Safety .....	512.4	513.9	509.8	503.1	530.4
Military and Veterans Affairs .....	94.1	94.3	94.0	90.8	90.9
Public Advocate(3) .....	—	—	—	—	16.5
State .....	1,226.4	1,172.6	1,148.8	1,159.6	1,261.7
Transportation .....	1,278.5	1,136.0	1,311.5	1,252.8	1,277.2
Treasury .....	1,348.8	1,386.3	1,223.6	1,145.4	1,180.0
Miscellaneous Executive Commissions .....	0.8	1.0	1.0	1.3	1.5
Inter-Departmental Accounts — Employee Benefits and Miscellaneous .....	4,101.7	3,724.6	3,445.7	3,444.5	2,874.1
Judicial Branch .....	677.5	673.0	663.5	656.3	641.4
<b>Total General Fund .....</b>	<b>\$18,808.0</b>	<b>\$19,229.9</b>	<b>\$17,917.4</b>	<b>\$17,392.1</b>	<b>\$17,179.3</b>
<b>Property Tax Relief Fund:</b>					
Department of:					
Community Affairs .....	\$ 575.9	\$ 560.1	\$ 686.0	\$ 669.6	\$ 819.7
Education .....	12,229.1	10,816.4	10,407.5	10,298.3	8,954.9
Environmental Protection .....	—	—	—	—	10.0
Human Services .....	130.2	—	160.3	165.5	—
Treasury .....	784.8	786.6	857.4	585.1	1,463.8
<b>Total Property Tax Relief Fund .....</b>	<b>\$13,720.0</b>	<b>\$12,163.1</b>	<b>\$12,111.2</b>	<b>\$11,718.5</b>	<b>\$11,248.4</b>
<b>Gubernatorial Elections Fund .....</b>					
Department of:					
Law and Public Safety .....	\$ 10.0	\$ 6.2	\$ —	\$ —	\$ 8.8
<b>Total Gubernatorial Elections Fund .....</b>	<b>\$ 10.0</b>	<b>\$ 6.2</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8.8</b>
<b>Casino Control Fund .....</b>					
Department of:					
Law and Public Safety .....	\$ 47.1	\$ 46.7	\$ 46.8	\$ 42.3	\$ 44.0
Treasury .....	8.2	8.6	9.1	24.4	26.6
<b>Total Casino Control Fund .....</b>	<b>\$ 55.3</b>	<b>\$ 55.3</b>	<b>\$ 55.9</b>	<b>\$ 66.7</b>	<b>\$ 70.6</b>
<b>Casino Revenue Fund .....</b>					
Department of:					
Health .....	\$ 0.5	\$ 0.5	\$ 90.3	\$ 108.0	\$ 172.4
Human Services .....	360.4	207.9	130.4	130.5	130.5
Labor and Workforce Development .....	2.2	2.2	2.2	2.2	2.2
Law and Public Safety .....	0.1	0.1	0.1	0.1	0.1
Transportation .....	20.4	24.7	25.1	29.1	30.2
<b>Total Casino Revenue Fund .....</b>	<b>\$ 383.6</b>	<b>\$ 235.4</b>	<b>\$ 248.1</b>	<b>\$ 269.9</b>	<b>\$ 335.4</b>
<b>Total Appropriations .....</b>	<b>\$32,976.9</b>	<b>\$31,689.9</b>	<b>\$30,332.6</b>	<b>\$29,447.2</b>	<b>\$28,842.5</b>

- (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 reorganization of some functions among the Departments of Children and Families, Community Affairs, Education, Health, Human Services, Law and Public Safety, State and Treasury.
- (3) 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 2014 and 2013.

**APPROPRIATIONS FOR BUDGETED STATE FUNDS(1)  
FOR THE FISCAL YEAR ENDING JUNE 30, 2014  
(\$ 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>
Chief Executive .....	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture .....	7.2	6.8	5.6	—	—	19.6
Banking and Insurance .....	63.4	—	—	—	—	63.4
Children and Families .....	268.1	781.9	—	—	—	1,050.5
Community Affairs .....	38.4	41.6	676.0	—	—	756.0
Corrections .....	959.2	104.8	20.5	—	—	1,084.5
Education .....	67.9	3.4	12,410.5	—	—	12,481.8
Environmental Protection .....	211.0	20.3	8.8	90.9	21.5	352.5
Health .....	45.5	325.4	—	—	—	370.9
Human Services .....	631.6	5,313.3	501.1	—	—	6,446.0
Labor and Workforce Development .....	92.4	66.9	—	—	—	159.3
Law and Public Safety .....	542.7	26.9	—	—	—	569.6
Military and Veterans' Affairs .....	91.5	2.6	—	—	—	94.1
State .....	28.1	1,183.3	15.0	—	—	1,226.4
Transportation .....	44.8	73.2	20.3	1,160.6	—	1,298.9
Treasury .....	456.4	949.6	437.6	—	298.2	2,141.8
Miscellaneous Commissions .....	0.8	—	—	—	—	0.8
Interdepartmental .....	2,855.7	1,101.7	—	144.3	—	4,101.7
<b>Subtotal</b> .....	<u>6,410.7</u>	<u>10,001.7</u>	<u>14,095.4</u>	<u>1,395.8</u>	<u>319.7</u>	<u>32,223.3</u>
<b>Legislature</b> .....	76.1	—	—	—	—	76.1
<b>Judiciary</b> .....	677.5	—	—	—	—	677.5
<b>Grand Total</b> .....	<u>\$7,164.3</u>	<u>\$10,001.7</u>	<u>\$14,095.4</u>	<u>\$1,395.8</u>	<u>\$319.7</u>	<u>\$32,976.9</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 appropriations are as contained in the Fiscal Year 2014 Appropriations Act.

**ADJUSTED 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>
Chief Executive .....	\$ 6.0	\$ —	\$ —	\$ —	\$ —	\$ 6.0
Agriculture .....	7.1	6.8	5.6	—	—	19.5
Banking and Insurance .....	63.4	—	—	—	—	63.4
Children and Families .....	278.6	803.0	—	—	—	1,081.6
Community Affairs .....	35.6	38.1	668.5	—	—	742.2
Corrections .....	955.6	101.7	20.5	—	—	1,077.8
Education .....	73.4	2.4	11,689.3	—	—	11,765.1
Environmental Protection .....	207.4	16.7	7.1	85.8	19.3	336.3
Health .....	43.5	290.7	—	—	—	334.2
Human Services .....	630.0	5,306.9	516.6	—	—	6,453.5
Labor and Workforce Development .....	92.2	67.0	—	—	—	159.2
Law and Public Safety .....	544.5	22.4	—	—	—	566.9
Military and Veterans' Affairs .....	91.6	2.7	—	—	—	94.3
State .....	28.2	1,129.4	15.0	—	—	1,172.6
Transportation .....	83.9	68.2	24.6	984.0	—	1,160.7
Treasury .....	465.5	918.6	405.9	—	391.3	2,181.3
Miscellaneous Commissions .....	1.0	—	—	—	—	1.0
Interdepartmental .....	2,478.0	1,055.3	—	191.3	—	3,724.6
<b>Subtotal</b> .....	<u>6,085.5</u>	<u>9,829.9</u>	<u>13,353.1</u>	<u>1,261.1</u>	<u>410.6</u>	<u>30,940.2</u>
<b>Legislature</b> .....	76.7	—	—	—	—	76.7
<b>Judiciary</b> .....	673.0	—	—	—	—	673.0
<b>Grand Total</b> .....	<u>\$6,835.2</u>	<u>\$9,829.9</u>	<u>\$13,353.1</u>	<u>\$1,261.1</u>	<u>\$410.6</u>	<u>\$31,689.9</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. Lapses in appropriations are not included. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES — BUDGETED STATE FUNDS" herein.

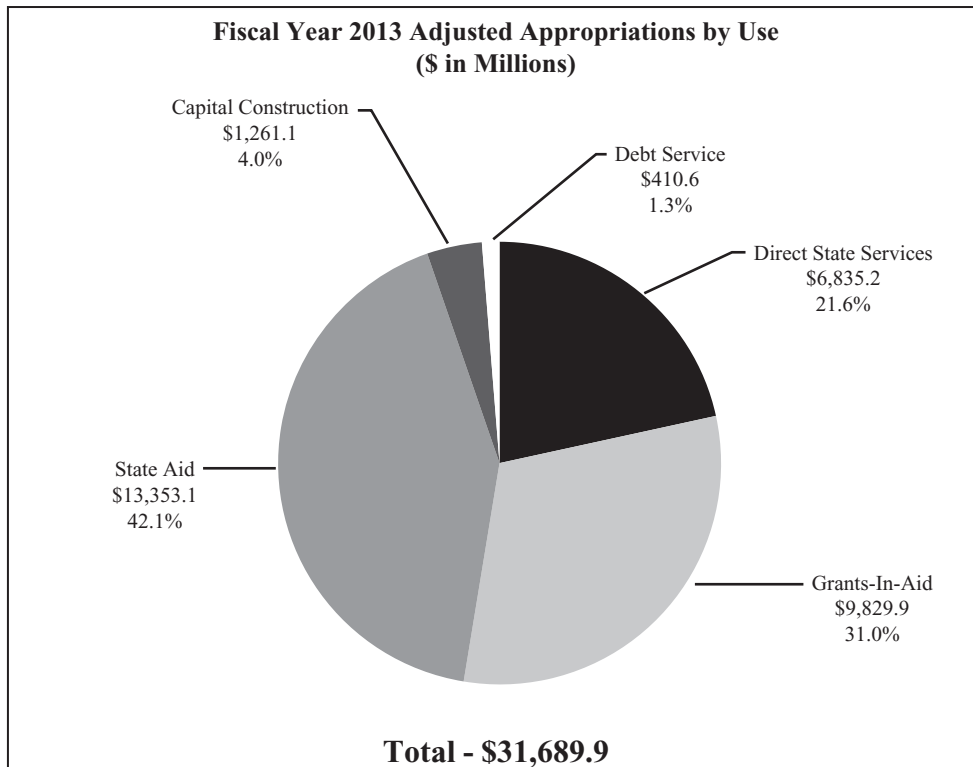
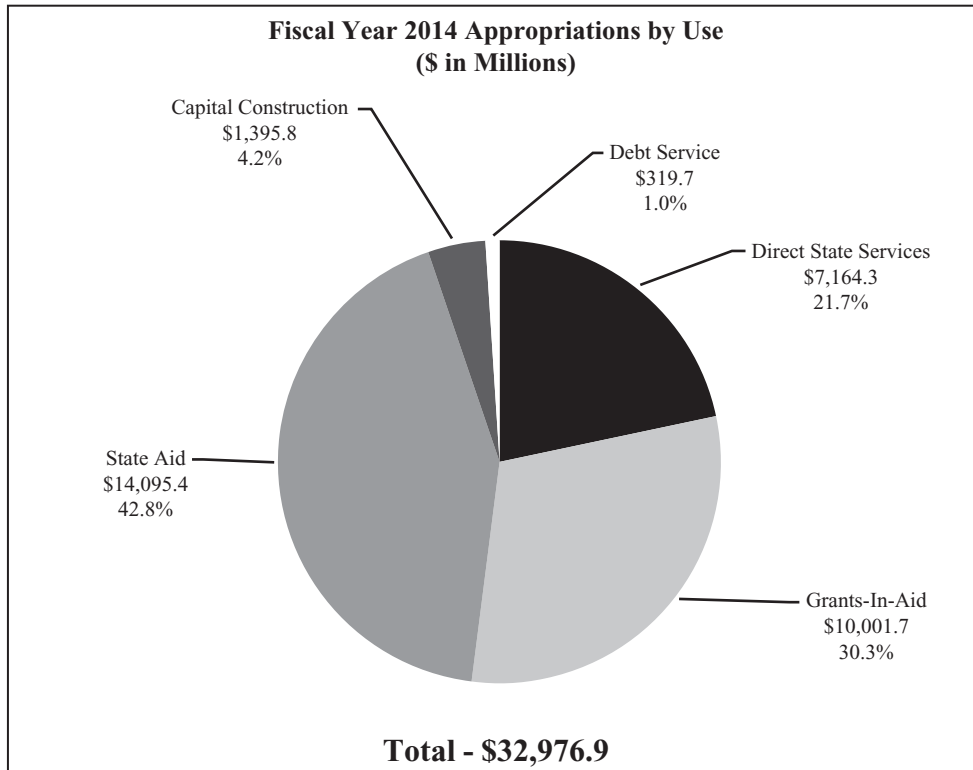
The following table sets forth, by major category, the original, supplemental appropriations and de-appropriations for Fiscal Year 2013 and the appropriations for Fiscal Year 2014 as contained in the Fiscal Year 2014 Appropriations Act.

**SUMMARY OF APPROPRIATIONS**  
**(\$ Millions)**

	<u>Fiscal Year 2014</u>	<u>Fiscal Year 2013<sup>(1)</sup></u>	<u>Dollar Change</u>	<u>Percentage Change</u>
State Aid . . . . .	\$14,095.4	\$13,353.1	\$ 742.3	5.6%
Grants-in-Aid . . . . .	10,001.7	9,829.9	171.8	1.7
Direct State Services . . . . .	7,164.3	6,835.2	329.1	4.8
Capital Construction . . . . .	1,395.8	1,261.1	134.7	10.7
Debt Service . . . . .	319.7	410.6	(90.9)	(22.1)
	<u>\$32,976.9</u>	<u>\$31,689.9</u>	<u>\$1,287.0</u>	<u>4.1%</u>

(1) Adjusted appropriations for Fiscal Year 2013 reflect the addition of net supplemental appropriations of \$35 million as of June 30, 2013 (including supplemental appropriations of \$400 million and de-appropriations of \$365 million) as made by the Legislature and approved by the Governor. Lapses in appropriations are not reflected in the table above. See "SUMMARY OF REVENUES, APPROPRIATIONS AND UNDESIGNATED FUND BALANCES – BUDGETED STATE FUNDS" herein.

Of the total Fiscal Year 2014 increase in appropriations of \$1,287.0 million, the majority, \$742.3 million, is reflected in State Aid. This 5.6% increase in State Aid is predominantly attributable to increases in aid to education programs, including related debt service and pensions and health benefits, offset by reductions to income maintenance programs as costs trend downward. The 22.1% reduction in Debt Service in Fiscal Year 2014 reflects anticipated savings from utilizing available, uncommitted amounts and residual project balances held in general obligation bond funds, available bond premium from the sale of general obligation bonds in May 2013, and normal reductions in scheduled payments for existing general obligation bond debt service.



## **Programs Funded Under Appropriations in Fiscal Year 2014**

Of the \$32,976.9 million appropriated for Fiscal Year 2014 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund and the Gubernatorial Elections Fund, \$14,095.4 million (42.8%) is appropriated for State Aid, \$10,001.7 million (30.3%) is appropriated for Grants-in-Aid, \$7,164.3 million (21.7%) is appropriated for Direct State Services, \$1,395.8 million (4.2%) is appropriated for Capital Construction and \$319.7 million (1.0%) is appropriated 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 2014 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 appropriation, in the amount of \$12,410.5 million, is appropriated for local preschool, elementary and secondary education programs. Of this amount, \$8,574.0 million in formula aid for PreK-12 education, including School Choice Aid, will be distributed. The level of funding provided to districts in their Fiscal Year 2014 aid notices was calculated based on a methodology similar to that used in Fiscal Year 2013. Fiscal Year 2014 also includes a new aid category for districts spending significantly below the State-defined adequacy level and aid to ensure that no district receives less total K-12 formula aid than in Fiscal Year 2013. The methodologies used to calculate aid in both Fiscal Year 2013 and 2014 are different than the statutory funding formula. In addition to formula aid for PreK-12 education, \$522.5 million is appropriated for debt service on School Construction Bonds issued by the New Jersey Economic Development Authority, \$67.4 million is appropriated in School Building Aid to school districts, and \$57.4 million is appropriated for School Construction Debt Service Aid to school districts. Also, \$2,911.0 million is appropriated 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.

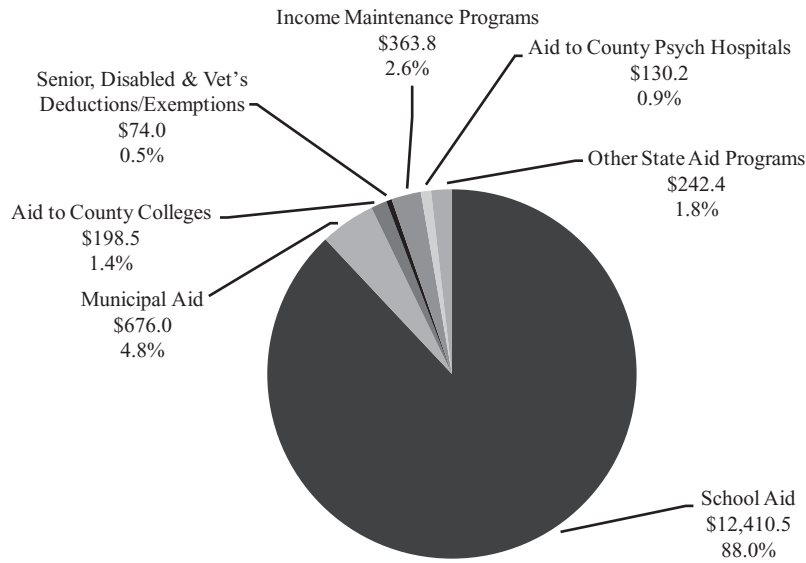
Appropriations to the Department of Community Affairs total \$676.0 million in State Aid for Fiscal Year 2014. Consolidated Municipal Property Tax Relief Aid is appropriated in the amount of \$575.9 million. These appropriations also include \$94.5 million for the Transitional Aid to Localities program. 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.

Appropriations for the Department of Human Services total \$501.1 million in State Aid for Fiscal Year 2014. The principal programs funded by these appropriations are \$363.8 million for various income maintenance programs for the economically disadvantaged and \$130.2 million for patients in county psychiatric hospitals.

Appropriations for the Department of the Treasury total \$437.6 million in State Aid for Fiscal Year 2014. The principal programs funded by these appropriations are aid to county colleges (\$198.5 million) and the cost of property tax deductions for seniors, citizens with disabilities, and veterans (\$74.0 million).

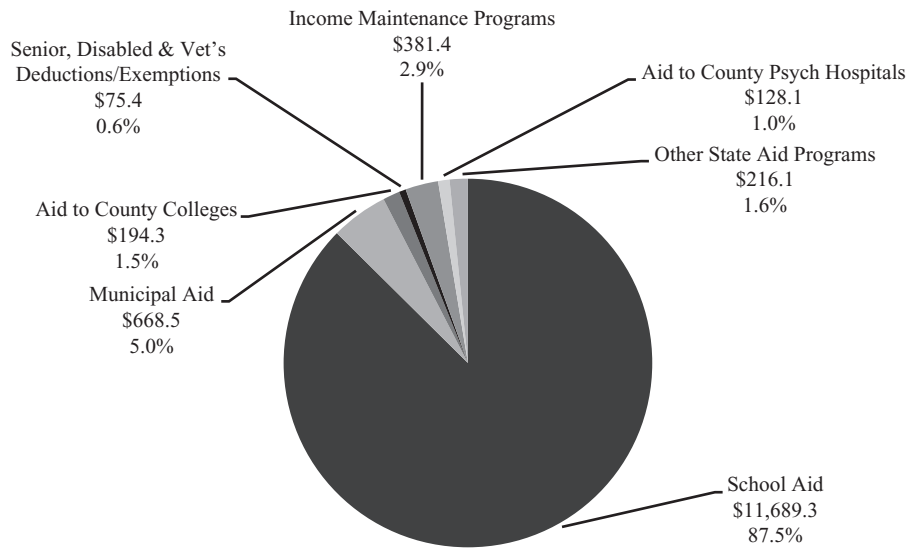


**Fiscal Year 2014 State Aid Appropriations  
(\$ in Millions)**



**Total - \$14,095.4**

**Fiscal Year 2013 State Aid Adjusted Appropriations  
(\$ in Millions)**



**Total - \$13,353.1**

### *Grants-in-Aid*

The second largest portion of the appropriations in Fiscal Year 2014 is for Grants-in-Aid. These represent payments to individuals or public or private agencies for benefits to which a recipient is entitled by law or for the provision of services on behalf of the State. The amount appropriated in Fiscal Year 2014 for Grants-in-Aid is \$10,001.7 million.

\$5,313.3 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$3,827.6 million is for medical services provided under the Medicaid program (excluding FamilyCare), \$600.7 million is for community programs for the developmentally disabled, \$371.7 million is for community programs for the mentally ill, \$172.2 million is for health insurance for adults and children through the FamilyCare program, \$157.5 million is for assistance programs for the economically disadvantaged and homeless, \$75.5 million is for Pharmaceutical Assistance to the Aged and Disabled, \$45.8 is for other programs for the aged, and \$34.9 million is for addiction services.

\$949.6 million is appropriated for the Department of the Treasury. Included in this amount is \$400.5 million for the Fiscal Year 2014 Homestead Benefit Program, which will provide credits directly on local property tax bills for eligible homeowners. Eligible seniors and disabled homeowners earning up to \$150,000 and all other eligible homeowners earning up to \$75,000 will receive benefits under the same formula as in Fiscal Year 2012. The Homestead Benefits for calendar year 2013 originally scheduled to be paid during Fiscal Year 2013 were deferred to Fiscal Year 2014 and were paid by August 1, 2013. Also included in the appropriation is \$214.2 million for the Senior and Disabled Citizens' Property Tax Freeze, which reimburses eligible senior and disabled homeowners earning up to \$70,000 for increases in property taxes paid compared to their first year of program eligibility. Fiscal Year 2014 will be the third consecutive year of the current program, following a one-year freeze on enrollment and benefit levels in Fiscal Year 2011. The appropriation for the Department of the Treasury also includes \$175.0 million for Business Employment Incentive Program grants, and \$63.8 million for energy assistance programs in the Board of Public Utilities.

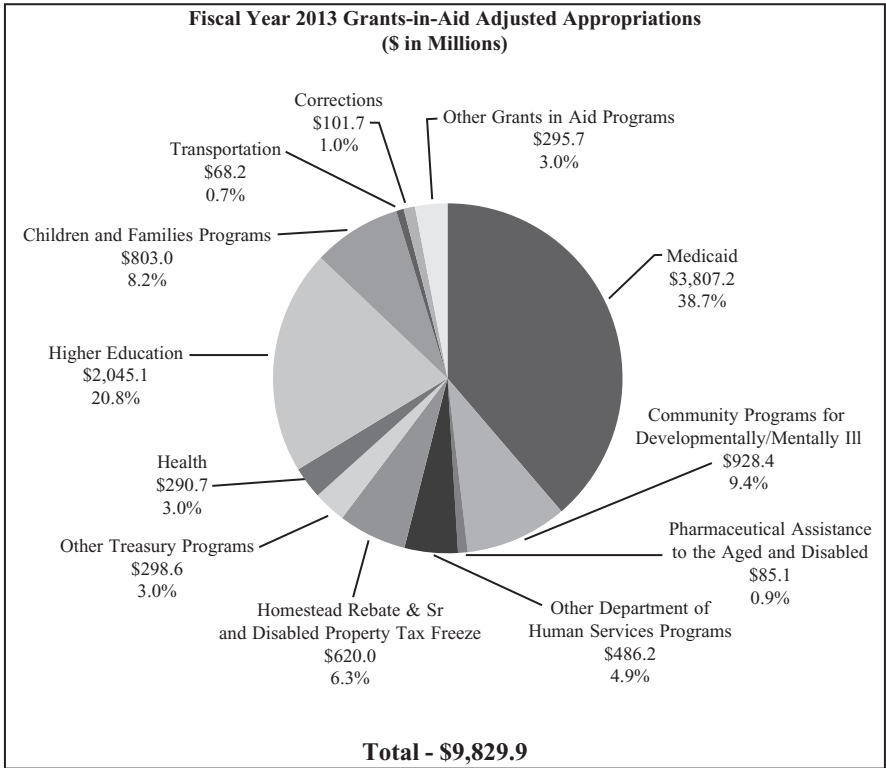
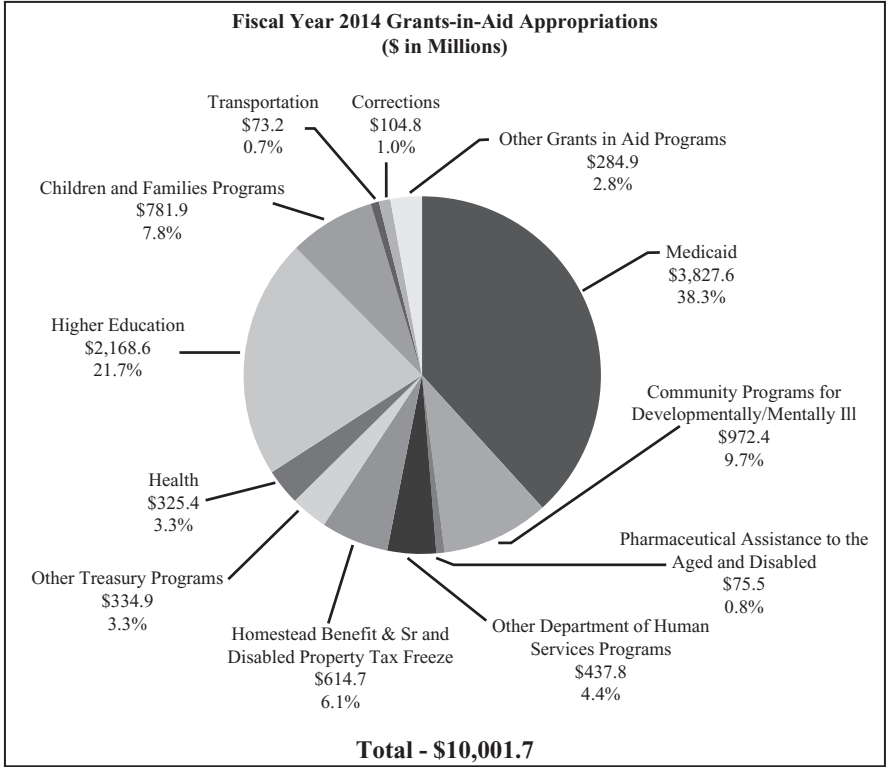
\$781.9 million is appropriated for programs administered by the Department of Children and Families. Of that amount, \$424.7 million is for child protective and permanency services, \$296.1 million is for children's system of care services, and \$61.2 million is for community programs intended to prevent child abuse and neglect.

\$734.8 million is appropriated for State colleges and universities. Other higher education appropriations are \$478.4 million for various grant programs including \$405.1 million for student financial assistance, \$43.9 million for debt service on the Higher Education Capital Improvement Program, \$18.8 million for University Hospital, and \$6.5 million for debt service for the Dormitory Safety Trust Fund. In addition, \$955.4 million is appropriated for fringe benefit costs of employees of State higher education institutions.

\$325.4 million is appropriated for programs administered by the Department of Health. Of that amount, \$134.6 million is for Health Care Systems Analysis, \$86.0 million is for the Early Childhood Intervention Program, \$53.3 million is for Public Health Protection Services, and \$21.7 million is for AIDS services.

\$104.8 million is appropriated 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.

\$73.2 million is appropriated for the Department of Transportation for bus and railroad subsidies.



### *Direct State Services*

The third largest portion of the appropriations in Fiscal Year 2014 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 2014, appropriations for Direct State Services aggregate to \$7,164.3 million. Some of the major appropriations for Direct State Services during Fiscal Year 2014 are described below.

\$2,480.4 million is appropriated in the Interdepartmental Accounts for fringe benefits for active and retired State employees, including health benefits (\$1,348.9 million), pensions and non-contributory insurance (\$613.2 million), employer taxes (\$393.5 million), and a portion of the debt service on State Pension Funding bonds (\$124.9 million) issued by the New Jersey Economic Development Authority. In addition, \$54.9 million is appropriated for Fiscal Year 2014 to fund across-the-board (ATB) salary increases and contractual employee increments for eligible employees. The Fiscal Year 2014 Appropriations Act funds a 1% ATB increase for most civilian employees. Civilian contracts also include a one-time \$450 bonus, not added to base salary, for employees ineligible for step increments. The contract for the Police Benevolent Association (PBA) provides employees at the top step of the salary guide a 1.75% salary increase in Fiscal Year 2014. Ratified agreements do not provide any other salary increases in Fiscal Year 2014. For more information, see "STATE EMPLOYEES – Contract Status" herein.

\$959.2 million is appropriated for the Department of Corrections (including the State Parole Board) and \$542.7 million is appropriated for the Department of Law and Public Safety (including the Juvenile Justice Commission). Among programs funded by these appropriations are the administration of the State's correctional facilities and parole activities, and the investigative and enforcement activities of the State Police.

\$631.6 million is appropriated for programs administered by the Department of Human Services. Of that amount, \$494.7 million is appropriated for mental health and developmentally disabled programs, including the operation of four psychiatric institutions (\$279.2 million), and seven developmental centers (\$159.0 million); \$40.1 million is appropriated for administration of the various income maintenance programs, including Work First New Jersey; and \$36.0 million is appropriated for administration of the Medicaid program.

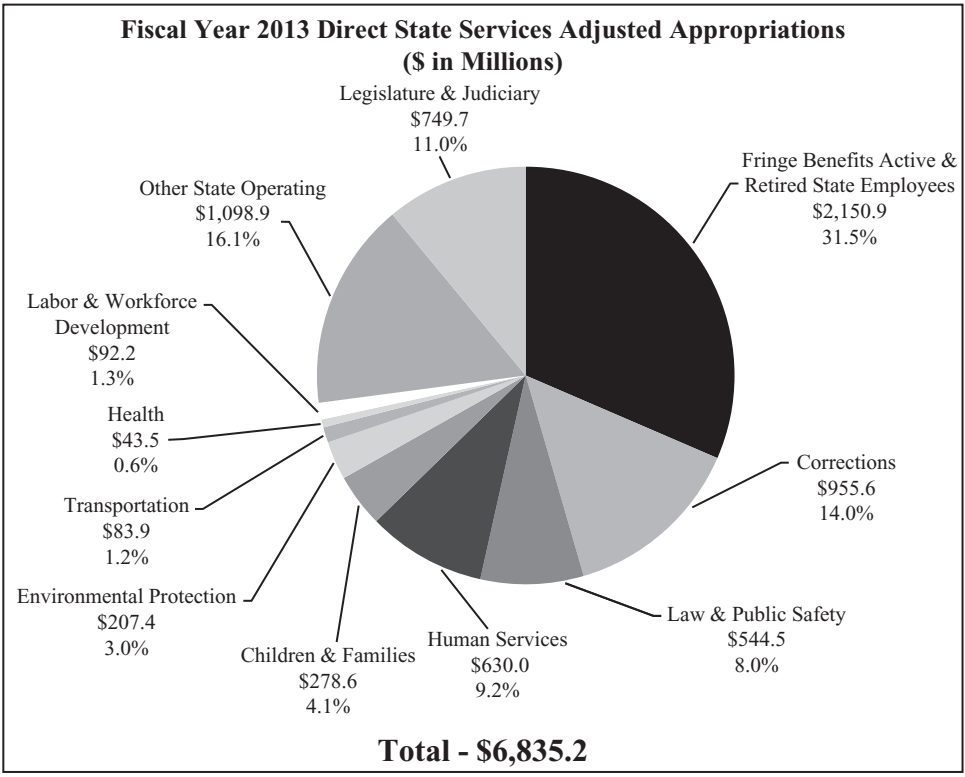
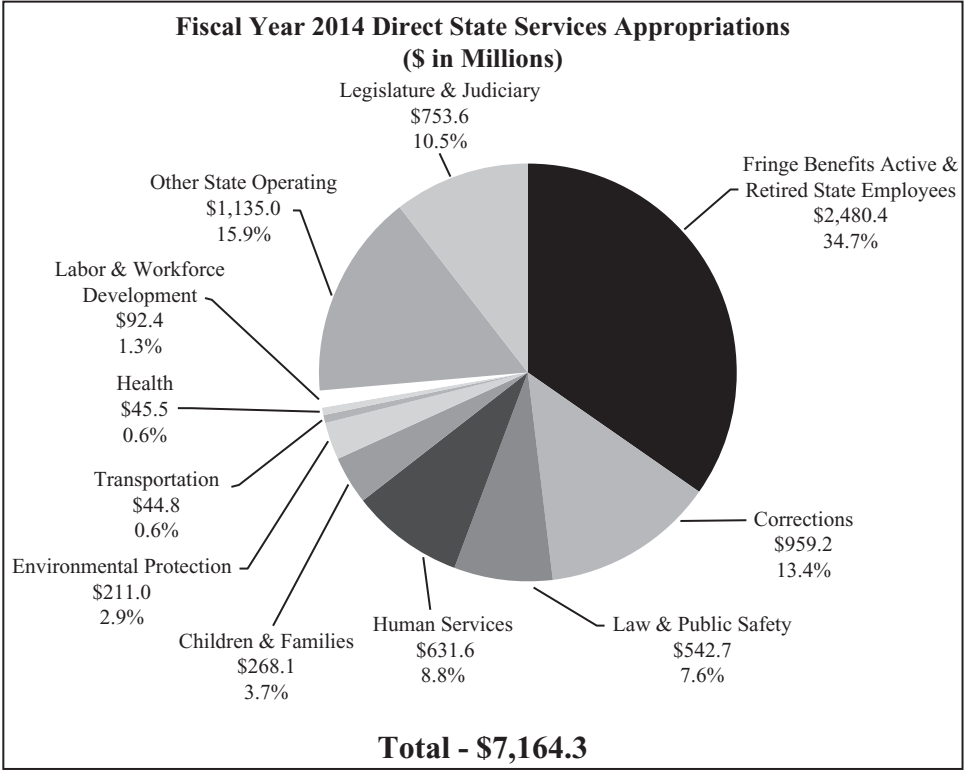
\$268.1 million is appropriated for programs administered by the Department of Children and Families for various children's services programs.

\$211.0 million is appropriated for the Department of Environmental Protection for the protection of air, land, water, forest, wildlife and shellfish resources and for the provision of outdoor recreational facilities.

\$92.4 million is appropriated for the Department of Labor and Workforce Development for the administration of programs for workers compensation, unemployment and temporary disability insurance, workforce development, health safety inspection, and the Civil Service Commission.

\$45.5 million is appropriated for the Department of Health for the prevention and treatment of diseases, regulation of health care facilities and the uncompensated care program.

\$44.8 million is appropriated for the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State highway system and winter operations.



### *Capital Construction*

Capital Construction is funded by a combination of “pay-as-you-go” appropriations and bond proceeds. The Fiscal Year 2014 Appropriations Act includes appropriations of \$1,395.8 million for capital construction pay-as-you-go and debt service on bonds issued to fund capital construction. This amount includes \$1,160.6 million for transportation debt service, which is being credited to the Transportation Trust Fund Subaccounts of the General Fund. Of the remainder, \$97.7 million is for payments 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, and \$36.6 million is for debt service on New Jersey Building Authority bonds. Pay-as-you-go appropriations include \$43.4 million for hazardous substance remediation and brownfields, \$31.5 million for shore protection and flood control projects, \$16.0 million for capital improvements for parks, forestry and wildlife management areas, and \$10.0 million for statewide life safety and emergency projects.

All appropriations for such capital projects are subject to the prior review and recommendation of the New Jersey Commission on Capital Budgeting and Planning (the “Commission”). 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 2014, requests for Capital Construction funding were substantially greater than the amount recommended by the Commission. The appropriations for Capital Construction contained in the Fiscal Year 2014 Appropriations Act are largely based on the recommendations of the Commission. There can be no assurance that the amounts appropriated are sufficient to maintain or improve the State’s capital facilities and infrastructure assets, 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, 2013, see “OUTSTANDING BONDED INDEBTEDNESS OF THE STATE” herein. The appropriation for debt service on the State’s general obligation bonds is \$319.7 million for Fiscal Year 2014 reflects anticipated savings from utilizing available, uncommitted amounts and residual project balances held in general obligation bond funds, available bond premium from the sale of general obligation bonds in May 2013, and normal reductions in scheduled payments for existing general obligation bond debt service. 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 2010 through 2012.

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)

	<b>For the Fiscal Year Ended June 30</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>General Fund:</b>			
Legislative Branch . . . . .	\$ 78.4	\$ 77.9	\$ 77.7
Chief Executive's Office . . . . .	7.3	6.8	6.1
<b>Department of:</b>			
Agriculture . . . . .	402.0	382.6	349.6
Banking and Insurance . . . . .	60.7	60.3	62.7
Children and Families . . . . .	1,519.7	1,529.8	1,482.5
Community Affairs . . . . .	554.6	678.1	818.6
Corrections . . . . .	1,143.3	1,180.5	1,270.1
Education . . . . .	1,191.2	1,845.6	2,827.7
Environmental Protection . . . . .	508.9	467.0	524.2
Health . . . . .	3,266.7	3,322.3	3,302.6
Human Services . . . . .	11,184.7	10,851.0	10,773.4
Labor and Workforce Development . . . . .	798.7	818.2	775.6
Law and Public Safety . . . . .	1,136.0	1,078.8	1,013.2
Military and Veterans' Affairs . . . . .	135.5	134.8	143.4
Public Advocate . . . . .	—	—	16.6
State . . . . .	1,189.7	1,192.6	1,378.2
Transportation . . . . .	1,834.2	1,588.7	1,643.9
Treasury . . . . .	2,760.7	2,568.3	2,683.6
Miscellaneous Executive Commissions . . . . .	1.0	1.3	1.5
Interdepartmental Accounts . . . . .	3,324.1	3,271.8	2,997.6
Judicial Branch . . . . .	817.2	799.4	765.8
<b>Total General Fund . . . . .</b>	<b>\$31,914.6</b>	<b>\$31,855.8</b>	<b>\$32,914.6</b>
<b>Property Tax Relief Fund:</b>			
<b>Department of:</b>			
Community Affairs . . . . .	\$ 424.7	\$ 428.8	\$ 572.1
Education . . . . .	10,791.0	9,638.5	8,873.6
Environmental Protection . . . . .	—	—	9.8
Human Services . . . . .	160.3	165.5	—
Treasury . . . . .	803.4	581.1	1,452.2
<b>Total Property Tax Relief Fund . . . . .</b>	<b>\$12,179.4</b>	<b>\$10,813.9</b>	<b>\$10,907.7</b>
<b>Gubernatorial Elections Fund . . . . .</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9.5</b>
<b>Casino Control Fund:</b>			
<b>Department of:</b>			
Law and Public Safety . . . . .	\$ 44.8	\$ 39.5	\$ 37.6
Treasury . . . . .	7.6	21.2	23.9
<b>Total Casino Control Fund . . . . .</b>	<b>\$ 52.4</b>	<b>\$ 60.7</b>	<b>\$ 61.5</b>
<b>Casino Revenue Fund:</b>			
<b>Department of:</b>			
Health . . . . .	\$ 170.4	\$ 150.5	\$ 212.0
Human Services . . . . .	130.5	130.5	130.5
Labor and Workforce Development . . . . .	2.2	2.2	2.2
Law and Public Safety . . . . .	0.1	0.1	0.1
Transportation . . . . .	25.1	29.1	30.2
<b>Total Casino Revenue Fund . . . . .</b>	<b>\$ 328.3</b>	<b>\$ 312.4</b>	<b>\$ 375.0</b>
<b>Total Expenditures . . . . .</b>	<b>\$44,474.7</b>	<b>\$43,042.8</b>	<b>\$44,268.3</b>



**Balance Sheets**

The comparative balance sheets for the General Fund as of June 30, 2011 and 2012 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, 2012 are set forth below:

**GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
(Audited)**

	As of June 30,	
	2012	2011*
<b>ASSETS</b>		
Cash and Cash Equivalents . . . . .	\$ 30,861,411	\$ 30,287,641
Investments . . . . .	594,553,915	1,657,854,518
Receivables, Net of Allowances for Uncollectibles . . . . .		
Federal Government . . . . .	458,583,519	671,217,496
Departmental Accounts . . . . .	1,985,912,853	1,617,295,791
Loans . . . . .	24,461,703	23,977,021
Other . . . . .	172,823,084	188,798,503
Due from Other Funds . . . . .	867,840,869	1,041,032,669
Other . . . . .	4,986,001	4,993,856
<b>Total Assets</b> . . . . .	<u>\$4,140,023,355</u>	<u>\$5,235,457,495</u>
<b>LIABILITIES</b>		
Accounts Payable and Accruals . . . . .	\$1,371,923,310	\$1,445,643,136
Deferred Revenue . . . . .	269,582,724	401,246,235
Due to Other Funds . . . . .	237,539,106	500,130,315
Other . . . . .	200,483,708	156,427,715
<b>Total Liabilities</b> . . . . .	<u>\$2,079,528,848</u>	<u>\$2,503,447,401</u>
<b>Fund Balances *</b>		
Restricted . . . . .	\$ 90,024,387	\$ 84,030,275
Committed . . . . .	1,529,098,445	1,783,854,952
Unassigned . . . . .	441,371,675	864,124,867
<b>Total Fund Balances</b> . . . . .	<u>\$2,060,494,507</u>	<u>\$2,732,010,094</u>
<b>Total Liabilities and Fund Balances</b> . . . . .	<u>\$4,140,023,355</u>	<u>\$5,235,457,495</u>

**Note:**

\* 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 2012 CAFR incorporated herein by reference, for the notes, including Note 2, 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, 2012  
(Audited)**

	<b>Casino Control Fund (1)</b>	<b>Casino Revenue Fund (2)</b>	<b>Gubernatorial Elections Fund (3)</b>	<b>Property Tax Relief Fund (4)</b>
<b>ASSETS</b>				
Cash and Cash Equivalents .....	\$ 50,350	\$ —	\$ —	\$ —
Receivables, Net of Allowances for Uncollectibles .....				
Department Accounts .....	8,866,439	44,824,396	420,480	535,627,253
Due from Other Funds .....	2,049,222	1,241,324	621,926	11,197,067
<b>Total Assets</b> .....	<b>\$10,966,011</b>	<b>\$46,065,720</b>	<b>\$1,042,406</b>	<b>\$546,824,320</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts Payable and Accruals .....	\$ 4,062,144	\$13,392,439	\$ —	\$ 48,564,993
Deferred Revenue .....	3,287,568	27,000	—	—
Due to Other Funds .....	—	—	—	349,301,368
Other .....	—	—	—	143,000,714
<b>Total Liabilities</b> .....	<b>\$ 7,349,712</b>	<b>\$13,419,439</b>	<b>\$ —</b>	<b>\$540,867,075</b>
<b>Fund Balances</b>				
Committed .....	3,616,299	32,646,281	1,042,406	5,957,245
<b>Total Fund Balances</b> .....	<b>\$ 3,616,299</b>	<b>\$32,646,281</b>	<b>\$1,042,406</b>	<b>\$ 5,957,245</b>
<b>Total Liabilities and Fund Balances</b> .....	<b>\$10,966,011</b>	<b>\$46,065,720</b>	<b>\$1,042,406</b>	<b>\$546,824,320</b>

- (1) The Casino Control Fund is used to account for fees from the issuance and annual renewal of casino licenses. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement. The Casino Control Fund was established by N.J.S.A. 54:12-143, approved June 2, 1977.
- (2) The Casino Revenue Fund is used to account for the tax on gross revenues generated by the casinos. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges and other expenses of eligible senior citizens and disabled residents. The Casino Revenue Fund was established by N.J.S.A. 54:12-25, approved June 2, 1977.
- (3) The Gubernatorial Elections Fund is used to account for receipts from the dollar designations on New Jersey Gross Income Tax returns. When indicated by the taxpayer, one dollar of the tax is reserved from Gross Income Tax revenues and credited to the Gubernatorial Elections Fund. These funds are available for appropriation pursuant to The New Jersey Campaign Contributions and Expenditures Reporting Act (P.L. 1973, c.83), as amended. The Gubernatorial Elections Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.
- (4) The Property Tax Relief Fund is used to account for revenues from the New Jersey Gross Income Tax and for revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax that is constitutionally dedicated toward property tax reform. Revenues realized from the Gross Income Tax and derived from a tax rate of 0.5% imposed under the Sales and Use Tax are dedicated by the State Constitution. All receipts from taxes levied pursuant to the New Jersey Gross Income Tax on personal income of individuals, estates, and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the Fund, pursuant to formulas established by the State Legislature, to counties, municipalities and school districts. The Property Tax Relief Fund was established by the New Jersey Gross Income Tax Act, N.J.S.A. 54A:9-25, approved July 8, 1976.

## OUTSTANDING BONDED INDEBTEDNESS OF THE STATE

The following table sets forth the authorized and outstanding general obligation bonded indebtedness of the State as of June 30, 2013. As of June 30, 2012, the total amount of such bonded indebtedness outstanding was \$2,384,665,000. See also “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION” and “MORAL OBLIGATION FINANCING” herein.

Bond Act	Year Authorized	Final Maturity	Amount Authorized	Amount Unissued	Amount Retired(1)	Amount Outstanding
Clean Waters .....	1976	2023	\$ 120,000,000	\$ 3,400,000	\$ 115,945,000	\$ 655,000
State Land Acquisition and Development .....	1978	2022	200,000,000	—	199,165,000	835,000
Natural Resources .....	1980	2023	145,000,000	9,600,000	130,800,000	4,600,000
Energy Conservation .....	1980	2023	50,000,000	1,600,000	48,340,000	60,000
Water Supply .....	1981	2023	350,000,000	73,150,000	268,275,000	8,575,000
Hazardous Discharge .....	1981	—	100,000,000	43,000,000	57,000,000	—
New Jersey Green Acres .....	1983	—	135,000,000	14,500,000	120,500,000	—
Pinelands Infrastructure Trust .....	1985	2023	30,000,000	6,750,000	22,715,000	535,000
Hazardous Discharge .....	1986	2033	200,000,000	38,000,000	152,000,000	10,000,000
Green Acres, Cultural Centers and Historic Preservation .....	1987	2022	100,000,000	1,000,000	95,200,000	3,800,000
Jobs, Education & Competitiveness .....	1988	2015	350,000,000	—	349,220,000	780,000
New Jersey Open Space Preservation .....	1989	2023	300,000,000	22,600,000	275,475,000	1,925,000
Public Purpose Buildings and Community-Based Facilities Construction .....	1989	2015	125,000,000	5,000,000	119,110,000	890,000
Stormwater Management and Combined Sewer Overflow Abatement .....	1989	2033	50,000,000	9,500,000	32,570,000	7,930,000
New Jersey Green Acres, Clean Water, Farmland & Historic Preservation .....	1992	2023	345,000,000	12,880,000	320,860,000	11,260,000
Developmental Disabilities Waiting List Reduction and Human Services Facilities Construction .....	1994	2023	160,000,000	—	154,090,000	5,910,000
Green Acres, Farmland and Historic Preservation, and Blue Acres .....	1995	2033	340,000,000	18,000,000	307,895,000	14,105,000
Port of New Jersey Revitalization, Dredging, Environmental Cleanup, Lake Restoration, and Delaware Bay Area Economic Development .....	1996	2033	300,000,000	87,500,000	138,035,000	74,465,000
Statewide Transportation and Local Bridge .....	1999	2023	500,000,000	—	464,540,000	35,460,000
Dam, Lake, Stream, Flood Control, Water Resources, and Wastewater Treatment Project .....	2003	2033	200,000,000	38,750,000	92,605,000	68,645,000
Green Acres, Farmland, Blue Acres, and Historic Preservation .....	2007	2033	200,000,000	27,500,000	81,320,000	91,180,000
Green Acres, Water Supply and Floodplain Protection, and Farmland and Historic Preservation .....	2009	2033	400,000,000	230,500,000	—	169,500,000
Building Our Future .....	2012	2033	750,000,000	650,000,000	—	100,000,000
Refunding (2) .....	1985	2023	6,134,329,598	—	4,344,529,598	1,789,800,000
Totals .....			<u>\$11,584,329,598</u>	<u>\$1,293,230,000</u>	<u>\$7,890,189,598</u>	<u>\$2,400,910,000</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, 2013.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014 .....	\$ 243,445,000	\$111,822,468	\$ 355,267,468
2015 .....	309,770,000	98,826,888	408,596,888
2016 .....	363,025,000	82,809,831	445,834,831
2017 .....	235,120,000	67,242,963	302,362,963
2018 .....	218,040,000	55,697,341	273,737,341
2019 .....	216,555,000	44,653,197	261,208,197
2020 .....	247,605,000	32,795,013	280,400,013
2021 .....	185,700,000	21,917,863	207,617,863
2022 .....	112,080,000	14,976,294	127,056,294
2023 .....	57,100,000	10,589,656	67,689,656
2024 .....	17,840,000	8,313,300	26,153,300
2025 .....	18,550,000	7,599,700	26,149,700
2026 .....	19,110,000	7,043,200	26,153,200
2027 .....	19,875,000	6,278,800	26,153,800
2028 .....	20,670,000	5,483,800	26,153,800
2029 .....	21,495,000	4,657,000	26,152,000
2030 .....	22,355,000	3,797,200	26,152,200
2031 .....	23,250,000	2,903,000	26,153,000
2032 .....	24,180,000	1,973,000	26,153,000
2033 .....	25,145,000	1,005,800	26,150,800
Totals .....	<u>\$2,400,910,000</u>	<u>\$590,386,312</u>	<u>\$2,991,296,312</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, 2013, the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2014. Pursuant thereto, on July 1, 2013, the State Treasurer entered into a Note Purchase Contract with Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) under which TRANs may be issued to and purchased by Merrill Lynch, in one or more series, from time to time, in an amount not to exceed \$2,500,000,000. The resolution also authorizes the State Treasurer to issue additional TRANs beyond those issued to Merrill Lynch, with no limitation on such amount.

Pursuant to the terms of the Note Purchase Contract, the State issued its TRANs Series Fiscal 2014A to and which were purchased by Merrill Lynch on July 2, 2013 in the amount of \$1,500,000,000. The State issued its TRANs Series Fiscal 2014B to and which were purchased by Merrill Lynch on July 31, 2013 in the amount of \$600,000,000. The State expects to issue additional TRANs in Fiscal Year 2014.

**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 2014. 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 inhibit the enactment of legislation authorizing 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, 2013 and the estimated Fiscal Year 2014 debt service on such obligations. The second table depicts the aggregate estimated future debt service as of June 30, 2013 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) for 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 2012 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, 2013**

<u>Issuer</u>	<u>Type of Agreement</u>	<u>Principal Amount Outstanding(1)</u>	<u>Fiscal Year 2014 Debt Service(2)</u>
Garden State Preservation Trust .....	Contract	\$ 992,664,410	\$ 97,637,861
New Jersey Building Authority .....	Lease	518,525,000	108,583,359
New Jersey Economic Development Authority			
Economic Recovery Fund .....	Contract	139,937,727	25,604,763
Liberty State Park — Park Projects .....	Lease	11,105,000	1,447,183
Liberty State Park — Science Center Projects .....	Lease	79,265,000	7,348,169
New Jersey Performing Arts Center .....	Lease	15,455,000	5,562,940
State Pension Funding .....	Contract	2,378,939,686	316,709,677
Department of Human Services Programs .....	Service Contract	16,030,000	2,649,123
New Jersey Transit Light Rail System .....	Lease	253,225,000	52,370,205
State Office Buildings Projects .....	Lease	30,405,000	5,259,350
School Facilities Construction .....	Contract	8,696,564,000	480,745,242
Municipal Rehabilitation .....	Contract	143,140,000	14,111,243
Motor Vehicle Commission .....	Contract	106,497,988	73,325,000
Business Employment Incentive Program .....	Contract	70,355,000	27,915,526
Designated Industries Economic Growth and Development .....	Contract	2,745,000	2,887,740
Motor Vehicle Surcharges Revenue .....	Contract	779,772,356	36,589,056
Motor Vehicle Surcharges Revenue — Special Needs Housing .....	Contract	206,508,197	5,546,175
Cigarette Tax Revenue .....	Contract	938,205,000	91,994,750
Lafayette Yard Hotel Project .....	Lease	13,250,000	2,012,978
State Police Barracks Project .....	Lease	7,470,000	953,219
New Jersey Educational Facilities Authority			
Capital Improvement Fund .....	Contract	358,095,000	43,882,738
Dormitory Safety Trust Fund .....	Contract	17,605,000	6,488,966
Public Library Project Grant Program .....	Contract	29,220,000	3,763,200
New Jersey Health Care Facilities Financing Authority			
Greystone Park Psychiatric Hospital Project .....	Contract	210,840,000	8,988,310
Hospital Asset Transformation Program .....	Contract	427,855,000	31,036,120
Marlboro Psychiatric Hospital Project .....	Contract	73,530,000	2,725,431
New Jersey Sports and Exposition Authority (3) .....	Contract	486,830,000	70,849,235
New Jersey Transportation Trust Fund Authority			
Transportation System Bonds .....	Contract	13,429,810,716	967,385,439
Transportation Program Bonds .....	Contract	920,745,000	64,460,325
State of New Jersey Certificates of Participation			
James J. Howard Marine Science Laboratory .....	Lease	1,085,000	1,133,825
New Jersey Transit, Transportation Equipment .....	Lease	738,630,000	104,707,381
State-Supported County College Bonds .....	Statutory	207,785,516	34,249,997
State Equipment Line of Credit .....	Lease	91,821,009	30,731,806
<b>TOTALS</b> .....		<u>\$32,393,911,605</u>	<u>\$2,729,656,330</u>

- (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, 2013. (See “OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds” herein).
- (3) 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, 2013**

<u>Fiscal Year</u>	<u>Principal(1)</u>	<u>Estimated Interest(1)(2)</u>	<u>Total</u>
2014(3) .....	\$ 1,096,340,823	\$ 1,633,315,507	\$ 2,729,656,330
2015(4) .....	1,532,894,069	1,587,779,118	3,120,673,188
2016(5) .....	1,731,838,338	1,514,447,631	3,246,285,970
2017(6) .....	1,775,258,023	1,488,722,819	3,263,980,842
2018(7) .....	2,000,822,482	1,444,777,018	3,445,599,500
2019 .....	1,697,347,856	1,416,554,956	3,113,902,812
2020 .....	1,540,320,681	1,381,090,819	2,921,411,500
2021 .....	1,540,320,033	1,297,526,315	2,837,846,348
2022 .....	1,508,838,064	1,256,093,307	2,764,931,371
2023 .....	1,551,503,695	1,188,907,685	2,740,411,380
2024 .....	1,501,208,097	1,126,445,359	2,627,653,456
2025 .....	1,412,285,701	1,198,337,816	2,610,623,518
2026(8) .....	1,632,408,264	975,012,386	2,607,420,651
2027 .....	1,673,219,055	845,302,714	2,518,521,768
2028(9) .....	1,915,206,994	759,425,200	2,674,632,193
2029 .....	1,430,530,214	712,395,019	2,142,925,232
2030 .....	718,734,162	584,147,707	1,302,881,869
2031 .....	569,329,239	565,193,270	1,134,522,509
2032 .....	559,489,382	552,591,464	1,112,080,846
2033 .....	584,174,086	514,221,048	1,098,395,134
2034 .....	659,061,831	491,551,688	1,150,613,519
2035 .....	646,259,809	466,722,300	1,112,982,109
2036 .....	493,944,570	560,193,176	1,054,137,747
2037 .....	466,109,324	520,187,482	986,296,806
2038 .....	413,306,526	528,549,468	941,855,994
2039 .....	342,708,420	599,551,092	942,259,513
2040 .....	525,850,782	479,069,830	1,004,920,613
2041 .....	714,886,082	167,336,593	882,222,675
2042 .....	159,715,000	7,985,750	167,700,750
	<u>\$32,393,911,605</u>	<u>\$25,863,434,536</u>	<u>\$58,257,346,141</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, 2013. (See "OBLIGATIONS SUPPORTED BY STATE REVENUE SUBJECT TO ANNUAL APPROPRIATION — Variable Rate Bonds" herein).
- (3) The principal amount includes \$20,000,000 State Building Revenue Bond Anticipation Notes, 2012 Series that mature December 18, 2013. It is anticipated that these Notes will be refunded prior to their maturity. Interest on the Notes is included in this table.
- (4) The principal amount includes \$119,060,000 School Facilities Construction Notes, 2012 Series G that mature February 1, 2015. 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 \$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.
- (6) The principal amount includes \$119,060,000 School Facilities Construction Notes, 2012 Series H that mature February 1, 2017. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (7) 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.
- (8) The principal amount includes \$60,850,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2025. It is anticipated that these Notes will be refunded prior to their maturity. Estimated interest on the Notes is included in this table.
- (9) The principal amount includes \$89,580,000 School Facilities Construction Notes, 2013 Series I that mature September 1, 2027 and \$230,085,000 School Facilities Construction Notes, 2013 Series I that mature March 1, 2028. 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.

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

The Motor Vehicle Security and Customer Service Act, L. 2003, c. 13, authorizes the NJEDA to issue bonds to pay the costs of capital improvements for New Jersey Motor Vehicle Commission facilities. The legislation provides that bonds shall not be issued in an aggregate principal amount exceeding \$160 million without the prior approval of the Joint Budget Oversight Committee (“JBOC”) of the State Legislature. The bonds are secured by the monies in the Market Transition Facility Revenue Fund.

The Motor Vehicle Surcharges Securitization Act of 2004, 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 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 L. 2005, c. 163, 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, 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.

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 (the “Equipment Leasing Fund”); (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 (the “Facilities Trust Fund”); (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 (the “Technology Infrastructure Fund”); (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 (the “Capital Improvement Fund”); (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 (the “Public Library Project Grant Program”); 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 “Dormitory Safety Trust Fund”). 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 L. 2000, c. 98 and as amended by L. 2007, c. 110, and 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 2014. 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 \$73,307,206.98.

### **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 (“State 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 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. As of June 30, 2013, such unused statutory bond cap was exhausted.

On June 29, 2012, the TTFA Act was amended by L. 2012, c. 13 (the “Reauthorization Act”). Pursuant to the Reauthorization Act, the principal amount of the TTFA’s bonds, notes or other obligations which can be issued in any fiscal year generally cannot exceed: \$1,247,000,000 for the fiscal year beginning July 1, 2012, \$849,200,000 for the fiscal year beginning July 1, 2013, \$735,300,000 for the fiscal year beginning July 1, 2014, and \$626,800,000 for the fiscal year beginning July 1, 2015; except that if the permitted amount of debt, or any portion thereof, is not incurred in a fiscal year, it may be issued in a subsequent fiscal year. In addition, 30 percent of the permitted amount of Reauthorization Act bonds for a fiscal year may be issued in the fiscal year preceding such fiscal year, subject to certain restrictions. The payment of debt service on Reauthorization Act bonds, notes or other obligations must be paid solely from revenues dedicated for transportation purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution.

The issuance of bonds permitted by the Reauthorization Act, along with (i) contributions from the Port Authority of New York and New Jersey and (ii) future pay-as-you-go funding, will support the annual \$1.6 billion transportation capital plan required by the Reauthorization Act.

### **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 (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 June 30, 2013, the independent State authorities shown below had in aggregate \$447,875,000 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.

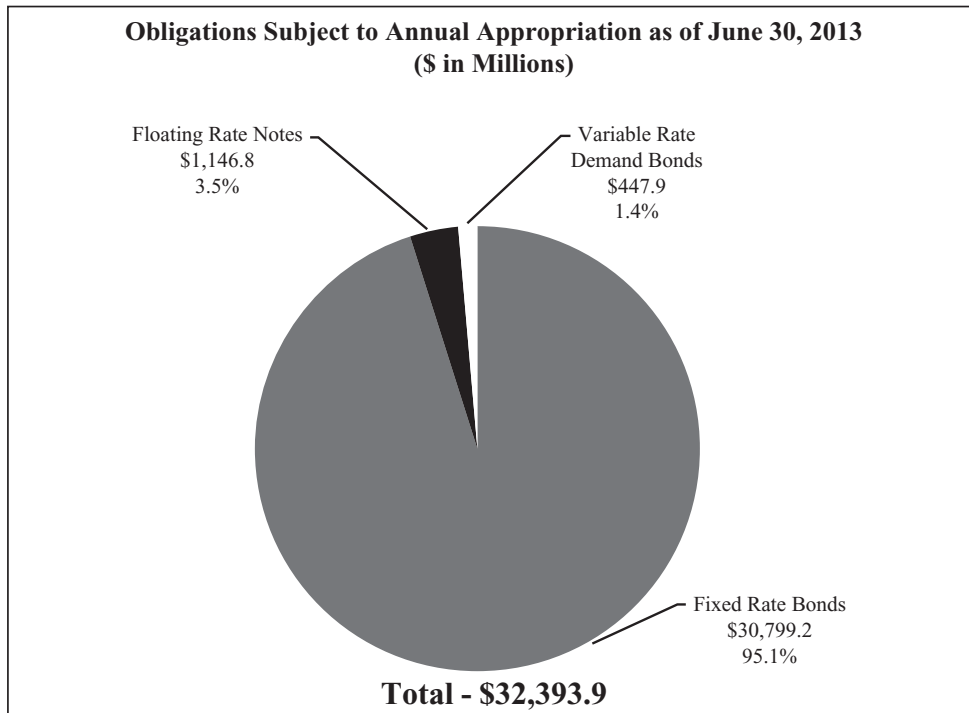
Additionally, as of June 30, 2013, the NJEDA had outstanding \$1,146,750,000 of floating rate notes, which bear interest at a rate that resets quarterly, monthly, or weekly based on either the London InterBank Offering Rate (“LIBOR”) plus a fixed spread or the Securities Industry and Financial Markets 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 June 30, 2013.

**SUMMARY OF VARIABLE RATE OBLIGATIONS  
AS OF JUNE 30, 2013**

<b>Issuer</b>	<b>Series</b>	<b>Type-Reset Period</b>	<b>Amount Outstanding (\$ as of 06/30/13)</b>	<b>Index Rate (if applicable)</b>	<b>Interest Rate (%) as of 06/30/13</b>	<b>Letter of Credit Bank</b>
NJBA	2003 Series A-1	VRDB-Weekly	\$ 45,025,000	n/a	0.05%	Barclays
	2003 Series A-2	VRDB-Weekly	45,150,000	n/a	0.05%	Barclays
	2003 Series A-3	VRDB-Weekly	30,100,000	n/a	0.05%	Barclays
	2003 Series A-4	VRDB-Weekly	30,100,000	n/a	0.05%	Barclays
NJEDA (School Facilities Construction Bonds)	2011 Series C	FRN-Weekly	65,620,000	SIFMA + 1.80%	1.860%	None
	2011 Series D	FRN-Monthly	150,000,000		70% 1-Month LIBOR + 1.80%	1.936%
	2011 Series E	FRN-Weekly	242,495,000	SIFMA + 1.70%	1.760%	None
	2011 Series E	FRN-Weekly	25,000,000	SIFMA + 1.90%	1.960%	None
	2011 Series F	FRN-Monthly	45,000,000	70% 1-Month LIBOR + 1.90%	2.036%	None
	2012 Series G	FRN-Weekly	119,060,000	SIFMA + 0.58%	0.640%	None
	2012 Series H	FRN-Weekly	119,060,000	SIFMA + 0.90%	0.960%	None
	2013 Series I	FRN-Weekly	60,850,000	SIFMA + 1.25%	1.310%	None
	2013 Series I	FRN-Weekly	89,580,000	SIFMA + 1.55%	1.610%	None
	2013 Series I	FRN-Weekly	230,085,000	SIFMA + 1.60%	1.660%	None
TTFA	2009 Series C	VRDB-Weekly	150,000,000	n/a	0.05%	Wells Fargo
	2009 Series D	VRDB-Weekly	147,500,000	n/a	0.06%	Wells Fargo
<b>Total</b>			<b>\$1,594,625,000</b>			

The following table provides a summary, by type, of the State’s subject to appropriation bonds and notes as of June 30, 2013.



### 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 nine 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 June 30, 2013.

**State of New Jersey  
Interest Rate Swap Agreement Summary  
As of June 30, 2013**

<u>Bond Issuer</u>	<u>Counterparty</u>	<u>Outstanding Notional Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Fixed Rate</u>	<u>Floating Index</u>
NJBA	Citibank, N.A., New York	\$ 63,160,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Citibank, N.A., New York	27,065,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	21,045,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	9,030,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	21,045,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
	Morgan Stanley Capital Services, Inc.	9,030,000	8/20/2003	6/15/2023	3.64000%	62% 1-Month LIBOR+20 bps
			<u>\$ 150,375,000</u>			

<u>Bond Issuer</u>	<u>Counterparty</u>	<u>Outstanding Notional Amount</u>	<u>Amended Effective Date</u>	<u>Amended Termination Date</u>	<u>Fixed Rate</u>	<u>Floating Index</u>	
NJEDA (School Facilities Construction Bonds)	Bank of America, N.A.	\$ 64,007,500	6/15/2013	9/1/2031	4.40740%	71.98% 1-Month LIBOR	
	Bank of Montreal	121,173,442	6/15/2013	9/1/2034	4.54850%	62% 1-Month LIBOR+40 bps	
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	49,147,500	6/15/2013	3/1/2031	4.29590%	70.8% 1-Month LIBOR	
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	78,167,500	6/15/2013	9/1/2031	4.40740%	71.98% 1-Month LIBOR	
	Goldman Sachs Mitsui Marine Derivative Products, L.P.	91,057,500	6/15/2013	9/1/2032	4.39900%	71.57% 1-Month LIBOR	
	Merrill Lynch Capital Services, Inc.	179,715,804	6/15/2013	3/1/2035	4.25100%	62% 1-Month LIBOR+40 bps	
	Natixis Financial Products, Inc.	95,420,217	6/15/2013	9/1/2033	4.48900%	62% 1-Month LIBOR+40 bps	
	Royal Bank of Canada	90,460,000	6/15/2013	3/1/2034	4.51240%	62% 1-Month LIBOR+40 bps	
	UBS AG, Stamford Branch	64,322,500	1/20/2011	9/1/2029	4.06250%	71.13% 1-Month LIBOR	
	UBS AG, Stamford Branch	64,790,000	1/20/2011	3/1/2030	4.17625%	74.24% 1-Month LIBOR	
	UBS AG, Stamford Branch	116,097,500	1/20/2011	9/1/2032	4.39900%	71.57% 1-Month LIBOR	
	Wells Fargo Bank, N.A.	49,332,500	6/15/2013	9/1/2029	4.06250%	71.13% 1-Month LIBOR	
	Wells Fargo Bank, N.A.	33,912,500	6/15/2013	3/1/2030	4.17625%	74.24% 1-Month LIBOR	
	Wells Fargo Bank, N.A.	49,147,500	6/15/2013	3/1/2031	4.29590%	70.8% 1-Month LIBOR	
			<u>\$1,146,751,963</u>				
			<u>Totals \$1,297,126,963</u>				

As of June 30, 2013, the aggregate mark-to-market value of the swap agreements is negative, indicating that the independent State authorities have no credit exposure to the swap counterparties. If the ratings of a counterparty were to be reduced below levels specified in the documentation relating to the swap agreements with the independent State authority and at such time the independent State authority did have in excess of a specified amount of credit exposure to such counterparty, the counterparty would be required to provide collateral to support all or a portion of the independent State authority's credit exposure. No assurance can be given that the ratings of the counterparties will be maintained at current levels or that the mark-to-market value of the swaps will not change to create credit exposure by the independent State authority to one or more counterparties.

The various independent State authorities are not required to post collateral under any of the swap agreements listed in the above table. If ratings on the bonds relating to the swaps generally fall below BBB or Baa2 by one or more rating agencies, then the counterparty may have the option to terminate the swaps. In some cases, the independent State authority may have the option to post collateral to prevent a termination. If a termination were to occur at a time where the swaps had a negative mark-to-market value, then the independent State authority would be required to make a termination payment in the amount of the negative mark to market. At June 30, 2013, the aggregate negative mark-to-market on the swaps listed in the above table was \$337.4 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, 2013.

	<b>Principal Amount Outstanding</b>	<b>Fiscal Year 2014 Debt Service</b>
New Jersey Housing and Mortgage Finance Agency .....	\$ 21,135,000	\$ 4,544,096
South Jersey Port Corporation .....	271,475,000	20,732,886
Higher Education Student Assistance Authority .....	2,486,155,000	280,860,000
	<b>\$2,778,765,000</b>	<b>\$306,136,982</b>

**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.

<b>Fiscal Year</b>	<b>Amounts paid for debt service</b>
2009 .....	\$ 7,459,997
2010 .....	11,534,236
2011 .....	7,013,289
2012 .....	19,847,053
2013 .....	18,972,976

**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 62,000 full-time Executive Branch employees are paid through the State payroll system. Of the 62,000 employees, approximately 57,400 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. There are twelve civilian units which presently represent more than 47,000 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 8,200 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 6,300 employees, 9,600 employees, 14,800 employees and 2,900 employees, respectively, for total of 33,600 employees. 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 4,700 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 850 employees, respectively. There are approximately 10,000 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 date of the Governor’s Budget Message, 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 10,000 State employees come under the binding interest arbitration process. Of the 10,000, approximately 2,600 are in the State Police.

### Contract Status

The State has entered into a four-year contract for Fiscal Years 2012-2015 with the IFPTE Local 195 and SEIU Local 518. The contract provides for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 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 employee 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.



The State has entered into four-year contracts for Fiscal Years 2012-2015 with the four CWA units. The contracts provide for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 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, which will not be included in such employees' base salary. Also, any employee making over \$100,000 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 CWA units agreed to delete other monetary items from the successor agreement in exchange for a higher limitation on clothing allowance and shift differential. Specifically, the CWA units agreed to a deletion of a bonus to employees at a lower salary level. In addition, with regard to the clothing allowance, the CWA units agreed that in each of the four years of the successor agreement the application of new criteria for eligibility of clothing allowance would result in at least a twenty (20%) percent reduction in the number of employees who received an allowance in the final year of the parties' Fiscal Years 2007-2011 agreement. The annual clothing allowance payment was decreased from \$700 to \$550.

The State has entered into a four-year contract for Fiscal Years 2012-2015 with AFSCME. The contract provides for across the board salary increases of 2.75% as follows: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1% in Fiscal Year 2014 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 employee 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. This contract also contains a provision that no step increments shall be paid after June 30, 2015.

The State entered into a four-year contract for Fiscal Years 2012-2015 with the New Jersey Policemen Benevolent Association Local 105 ("PBA 105"). The unit represents approximately 6,000 law enforcement officers and is the single largest State law enforcement unit. The salary guide is comprised of 10 steps. The contract provides the following across the board salary increases for employees at steps 1 through 9 of the salary guide: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013 and 0% in Fiscal Year 2014 and 1% in Fiscal Year 2015. Employees at the top step (step 10) of the contract shall receive the following across the board salary increases: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013, 1.75% in Fiscal Year 2014 and 1.5% in Fiscal Year 2015. There is a one-time payment of \$800 in Fiscal Year 2013, not added to base salary, to employees who were at the top step (step 10) as of May 31, 2012. These employees do not receive a step increment since they are at the top step (step 10) of the guide. There is a new salary scale for Corrections officers (Recruits) entering the academy on or after July 1, 2012. When such Corrections officers (Recruits) finish their one year probationary period they will be placed on step 1 of the new guide at \$44,039, which was decreased from \$55,842. Step 10, in the new scale, is the same as step 10 of the scale for Corrections officers entering the academy prior to July 1, 2012. However, there are significant savings achieved by spreading out the step increases over the nearly twelve years it takes to reach step 10. The Parole Officers, who are represented by PBA 105, will no longer receive the annual \$1,535 uniform allowance. This allowance is reduced to zero in the new agreement.

The State has reached a tentative agreement for a four-year contract for Fiscal Years 2012-2015 with the New Jersey State Fraternal Order of Police Lodge 174 ("FOP Lodge 174"). The unit represents approximately 100 law enforcement officers. The salary guide is comprised of 10 steps. The contract provides the following across the board salary increases: employees at steps 1 through 9 of the salary guide shall not receive an across the board salary increase for the life of the contract. Employees at the top step (step 10) of the contract shall receive the following across the board salary increases: 0% in Fiscal Year 2012, 0% in Fiscal Year 2013 and 1.0% in Fiscal Year 2014. Employees at the top step (step 10), with the exception of employees in the title of Principal Investigator, shall receive a 1.5% across the board salary increase in Fiscal Year 2015. Employees in the title of Principal Investigator who are at top step (step 10) shall receive a 0.75% across the board salary increase in Fiscal Year 2015. There is a one-time payment of \$800 in Fiscal Year 2015, not added to base salary, to employees in the title of Principal Investigator who are at the top step (step 10) of the salary guide as of June 30, 2014. These employees do not receive a step increment since they are at the top step (step 10) of the

guide. The uniform allowance payment for unit employees in the Department of Corrections remains at \$700 for the life of the contract. The uniform allowance in the Juvenile Justice Commission was decreased from \$700 to \$350. No allowance will be paid to employees who are not required to wear a uniform for work.

The State is negotiating an initial contract with IBEW Local 33, which represents DAsG in the Division of Law and the Division of Alcohol and Beverage Control.

The State is negotiating an initial contract with IBEW Local 30, State Government Managers Unit, which represents Managers in the Executive Branch.

The State is currently in negotiation with its Law Enforcement units which include: the New Jersey Policemen Benevolent Associations State Law Enforcement Unit (“SLEU”), New Jersey Law Enforcement Supervisors Association (“NJLESA”) and the New Jersey Superior Officers Law Enforcement Association (“NJLESOA”). These groups represent approximately 1,150 employees. The State interest arbitration with New Jersey Law Enforcement Commanding Officers Association (“NJLECOA”) representing Corrections Majors was dismissed by the Public Employer Relations Commission on September 6, 2012. The State is currently in negotiations with NJLECOA for the successor contract to the one that expired on June 30, 2011. NJLECOA represents approximately 50 members.

The State is currently in interest arbitration with the Chiefs subunit of NJLECOA. As of December 3, 2011, that subunit represented approximately six members in the title of Director of Custody Operations (“DOCOs/Chiefs”). The Civil Service Commission eliminated that title in the Department of Corrections, along with the title of Corrections Captain, and created the title of Corrections Major effective December 4, 2011. That title became part of the existing NJLECOA unit and the existing Corrections DOCOs and Corrections Captains became Corrections Majors. Accordingly, the pending interest arbitration is limited to the period starting October 9, 2009 through December 4, 2011. After December 4, 2011, as no DOCOs remained, the subunit no longer exists.

The State is in mediation with the State Investigators Unit represented by FOP Lodge 91, rank and file unit, the State Investigators Unit represented by the N.J. Division of Criminal Justice Non-Commissioned Officers Association, and the State Investigators Unit represented by the N.J. Division of Criminal Justice Superior Officers Association. These groups represent approximately 230 employees.

The contracts for 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 2,500 members, expired on June 30, 2012. Negotiations for new contracts have commenced.

Unless otherwise mentioned, the agreements reached by the State, as discussed herein, include the continuation of step increment payments.

## 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”). Listed in order of active membership based on the most recent actuarial valuation reports dated July 1, 2012, the Pension Plans and their active and retired membership are as follows:

<u>Plan</u>	<u>Membership at June 30, 2012</u>	
	<u>Active</u>	<u>Retired</u>
Public Employees’ Retirement System (“PERS”) . . . . .	280,158	153,625
Teachers’ Pension and Annuity Fund (“TPAF”) . . . . .	150,200	89,700
Police and Firemen’s Retirement System (“PFRS”) . . . . .	40,819	39,767
State Police Retirement System (“SPRS”) . . . . .	2,721	3,030
Judicial Retirement System (“JRS”) . . . . .	407	538
Consolidated Police and Firemen’s Pension Fund (“CP&FPF”) . . . . .	0	241
Prison Officers’ Pension Fund (“POPF”) . . . . .	0	135
Total: . . . . .	474,305	287,036

From June 30, 2007 to June 30, 2012, the total number of active members of all of the State-administered plans decreased by 48,595 or 9.3% and the total number of retired members increased by 47,713 or 20.0%.

The State is not the only employer sponsoring PERS and PFRS. Local governments within the State participate as employers. 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 and the local governments. As of June 30, 2012, those members of the PERS and PFRS for which the State is responsible for making contributions were, with respect to PERS, 84,910 active members and 49,341 retired members and, with respect to PFRS, 7,187 active members and 5,436 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”), which is valued at \$46.7 million as of the July 1, 2012 PERS actuarial valuation, continues 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, 2012 valued the Benefit Enhancement Fund in the local governmental portion of PERS at approximately \$259.1 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 the normal cost portion for the local governmental employers not covered by the assets in the Benefit Enhancement Fund. Since the establishment of the Benefit Enhancement Fund in 2002, no amounts have been credited to the Fund other than investment earnings. However, as of the July 1, 2012 PERS actuarial valuation, the level of assets in the Benefit Enhancement Fund continue to be sufficient to meet this obligation. With respect to PFRS, the State makes a contribution to active and retired members of the local governments to cover certain retirement benefit enhancements. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes a recommended contribution to the PFRS of \$170.6 million, of which \$73.2 million represents funding for local participant enhanced benefits. For Fiscal Years 2013 and 2012, the State contributed \$112.5 million and \$53.6 million, respectively, of which \$48.9 million in Fiscal Year 2013 and \$23.8 million in Fiscal Year 2012 was applied toward funding for enhanced benefits for local PFRS participants. Funding for PFRS enhanced benefits is increasing and is expected to continue to increase as a result of the State making phased-in contributions to the

Pension Plans over a seven year period beginning in Fiscal Year 2012 under the provisions of L. 2010, c.1 (“Chapter 1”). See “FUNDING PENSION PLANS—*Current and Historical Contributions and Funding Status*”, herein.

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.

*Required Actuarial Valuations.* 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-rprts-home.htm>. No information contained on the website of the Division of Pensions and Benefits is deemed incorporated herein by reference.

The purpose of an actuarial valuation is to calculate the actuarial accrued liability in each of the Pension Plans, which estimates on the basis of demographic and economic assumptions the present value of benefits each of the Pension Plans will pay to its retired members and active members upon retirement. The State contracts with the independent actuaries to 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 actuarially recommended contribution is determined in accordance with State statutes and is not the same as the Annual Required Contribution which is determined in accordance with Governmental Accounting Standards Board Statements No. 25 and 27 for purposes of meeting annual financial disclosure requirements. As is discussed below, the actual amounts that the State contributes to the Pension Plans each Fiscal Year are subject to annual appropriation by the State Legislature and can be and, over the last several years, have been less than the actuarially recommended contribution rates.

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 July 1, 2011 are applicable to the Fiscal Year ended June 30, 2013. 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. Other assumptions used in the actuarial valuations include the age of retirement of active members, 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. If the actual experience results in a material increase in the UAAL of the Pension Plans, the State’s future actuarially recommended rates of contribution would likely result in a material increase which would increase the State’s financial burden of its obligations to the Pension Plans in the long term. State law 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.

The July 1, 2012 actuarial valuation reflects changes to two key assumptions. The State Treasurer changed the current assumption regarding the assumed rate of return from 7.95% to 7.90%. Buck Consultants, the actuary for all Pension Plans except TPAF, considers the 7.90% assumed rate of return to be within the acceptable range of rates although at the high end. However, Milliman, Inc., the actuary for TPAF, considers the 7.90% assumed rate of return to be outside their reasonable range and recommends a further reduction in the assumption. This marks the second consecutive year the State has lowered the assumed rate of return. Last year, the State lowered the assumed rate of return from 8.25% to 7.95%.

In the case of the expected rate of return of assets, the actual rate of return of the Pension Plans depends on the performance of the investment portfolio. The investment portfolio of the Pension Plans can be highly volatile. The value of the securities in the investment portfolio 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 Years 2010 and 2011, the investment rate of return was 13.36% and 18.03% (excluding returns on PFRS mortgages for PFRS members), respectively, which had a positive impact on the overall UAAL of the Pension Plans. The investment rate of return for Fiscal Year 2012 was 2.52% (excluding returns on PFRS mortgages to PFRS members), which was below the assumed rate of return of 7.95% and caused the UAAL of the Pension Plans to increase. On a preliminary basis the annualized rate of return for Fiscal Year 2013 is in the 11-12% range and is subject to change. Annualized returns for the three-, five- and ten-year periods ending June 30, 2012 were 11.11%, 2.46% and 6.42%, respectively. 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.

For the second consecutive year, the assumption for future pay increases was also reduced. Last year, effective with the July 1, 2011 actuarial valuations, the assumed salary increase was reduced by an average of 2 percentage points for a five year period and 0.75 percentage points thereafter. This has been revised, effective with the July 1, 2012 actuarial valuations, to a 2 percentage point reduction for a ten year period beginning July 1, 2011 and a 1 percentage point reduction thereafter in PERS, PFRS, SPRS and JRS. In TPAF, effective with the July 1, 2012 actuarial valuations, there was a reduction in the assumption for future pay increases of 0.4 percentage points through June 30, 2016 which increased the reduction from 2 percentage points to 2.4 percentage points, no change over the next five years ending June 30, 2021 leaving the reduction at 1 percentage point, and an average reduction of 0.65 percentage points for the years after June 30, 2021 which increased the reduction from 0.75 percentage points to 1.4 percentage points.

The assumed rate of return of the Pension Plans is analyzed together with the salary growth assumption and the actual impact that changes in those two assumptions on the UAAL is the net change of both of these assumptions. Thus, although the reduction in the assumed rate of return caused the UAAL of the Pension Plans to increase, the reduction in the salary growth assumption had the opposite effect and caused the UAAL to decrease, and the net impact of the two assumption changes on the State's portion of the UAAL was minimal.

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 gains and losses in the market value of their 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, 2012, the aggregate market value of all of the assets of the Pension Plans, as determined by the Pension Plans' actuaries, was approximately \$74.4 billion, which amount includes contribution receivables from the State and local governmental 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, 2012, the aggregate actuarial value of all assets of the Pension Plans was \$85.9 billion. Based on these figures, the Pension Plans have a net unsmoothed loss of approximately \$11.5 billion, which is the difference between the market value of their assets and the actuarial value of their assets which is calculated using the smoothing method.

Effective with the July 1, 2010 actuarial valuation, the Pension Plans, except the CP&FPF and the POPF, use the level dollar amortization method in place of the level percent of pay method previously used, to calculate the amount of the UAAL that is included in the actuarially recommended rates of contribution, which means that the actuary assumes that the State will pay the same dollar amount to amortize the UAAL in each year of the amortization period. The UAAL is being amortized over an open-ended 30 year period through the July 1, 2018 actuarial valuation. 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 years, when the amortization period will revert to an open-ended 20 year period. For a discussion of the impact of this, see “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein.

*Contributions.* The State’s annual contribution to the Pension Plans is determined by the results of the actuarial valuation reports dated as of July 1 of each year. The actuarial funding method used to determine the State’s contribution is a matter of State law. Any change to the funding method requires the approval of the State Legislature and the Governor. The State’s annual contribution to the Pension Plans is contingent upon the enactment of the annual Appropriations Act and in the past the State Legislature has not funded the full actuarially recommended contribution to the Pension Plans. However, as described in more detail below, Chapter 1, as discussed above, established a seven year phase-in of the State’s contribution and L.2011, c.78 (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. See “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein.

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.* Almost 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. To qualify for full benefits under early retirement the member must be at least age 55 if enrolled before June 28, 2011. If the member is under age 55 an early retirement penalty applies. If the member enrolled on or after June 28, 2011 the member must be at least age 65 to receive full benefits.

Certain retirees also receive a cost-of-living adjustment in addition to their base retirement allowance under the State’s pension adjustment program. 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 retirees effective July 1, 2011. Under the suspension, retirees are no longer entitled to future cost-of-living

increases. However, cost-of-living benefits earned prior to the suspension continue to be paid. 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 fund the cost-of-living benefits and these cost-of-living benefits are included in the actuarial accrued liability of the Pension Plans. The State funds cost-of-living benefits in the CP&FPF and POPF on a “pay-as-you-go” basis.

*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.

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. See “FUNDING PENSION PLANS—*Pension and Health Benefit Reform*” herein for a description of the changes enacted under the 2011 Pension and Health Benefit Reform Legislation.

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 a law 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.

*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. In PERS and TPAF, the member contribution rate was increased from 5.5% to 6.5% with an additional 1% increase phased-in in equal increments over a seven-year period. In PFRS and SPRS, the member contribution rate increased from 8.5% to 10% and from 7.5% to 9%, respectively. In JRS, the member contribution rate is increasing an additional 9% from 3% to 12%. The JRS member contribution rate increase is being phased-in over a period of seven years. The reforms also include suspending pension adjustment benefits in all Pension Plans, limiting future retirement benefits payable to new members in the PERS and TPAF by increasing the service retirement age from 60 to 65 and 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 and early 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. However, no decision of the Pension Committees (or the State House Commission for the JRS) can be implemented if the direct or indirect result of the decision causes the funded ratio of the applicable Pension Plan to fall below the “targeted funded ratio”, as defined below, in any valuation period during the 30 years following the implementation of the decision as determined by the actuary for the applicable Pension Plan. The target funded ratio is initially set at 75% in Fiscal Year 2012 and increases annually in equal increments to 80% by Fiscal Year 2018. As of the July 1, 2012 actuarial valuations, none of the State-funded Pension Plans has a funded ratio above the target funded ratio. The SPRS reached the target funded ratio as of the July 1, 2011 actuarial valuation; however, it fell below the target funded ratio as of the most recent July 1, 2012 valuation. On the local government side, the PFRS-Local has a funded ratio above the target funded ratio as of the July 1, 2012 actuarial valuation. The PERS-Local reached the target funded ratio as of the July 1, 2011 actuarial valuation. However, it fell below the target funded ratio as of the most recent July 1, 2012 valuation. The pension committees for these three Pension Plans have been formed. The pension committees for PERS-State, TPAF and PFRS-State will be formed when the target funded ratio is reached in these Pension Plans.

The pension reforms also include 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 assumed to be paid in level dollars in each year of the amortization period. 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 years, 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 assumed to be retired in the year that the recommended rates calculated by the actuarial valuation are applied, assuming that the State makes the full actuarially recommended contribution. 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 less 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.

*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 increased and the State did not appropriate the actuarially recommended contributions. For 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, the annual Appropriations 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 the assets are included in the actuarial value of assets. The required normal contributions to provide retirement benefit increases under L 2001, Chapter 353 and Chapter 133 were charged against the State BEF. 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. 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.

In accordance with Chapter 1, the State has resumed making the actuarially recommended contributions to the Pension Plans on a gradual basis over a period of seven years beginning with Fiscal Year 2012. For Fiscal Year 2012, pursuant to Chapter 1 and as provided in the Fiscal Year 2012 Appropriations Act, the State made 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 July 1, 2010 valuations. For Fiscal Year 2013, pursuant to Chapter 1 and as provided in the Fiscal Year 2013 Appropriations Act, the State made a contribution of \$1.029 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 recommended contribution of all Pension Plans for Fiscal Year 2013 was \$3.600 billion determined on the basis of the July 1, 2011 actuarial valuations. For Fiscal Year 2014, pursuant to Chapter 1 and as provided in the Fiscal Year 2014 Appropriations Act, the State is expected to make a contribution of \$1.676 billion which represents 3/7th of the full actuarially recommended contribution for PERS, TPAF, PFRS, SPRS and JRS and the full recommended contribution for CP&FPF. The full recommended contribution of all Pension Plans for Fiscal Year 2014 determined on the basis of the July 1, 2012 actuarial valuations is \$3.909 billion. In each subsequent fiscal year, Chapter 1 provides for the State's contribution to 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. 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 language may limit the State's ability to reduce or limit pension contributions in response to future budgetary constraints. Notwithstanding the foregoing, the State's contributions are subject to annual appropriation by the State Legislature. See "FUNDING PENSION PLANS—Impact of Pension Reforms on Overall Financial Condition of the Pension Plans" herein.

**FUNDING STATUS**  
**PENSION FUND ACTUARIAL LIABILITIES AND ASSETS(1)**  
**Actuarial Valuations as of July 1, 2012**  
**(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>
<b>State</b>					
PERS .....	\$ 9,512.1	\$ 19,383.6	\$ 9,871.5	49.1%	\$ 8,390.0
TPAF .....	31,214.2	52,637.3	21,423.1	59.3%	26,038.0
PFRS .....	2,074.1	4,027.0	1,952.9	51.5%	1,829.4
CP&FPF .....	6.3	8.0	1.7	78.8%	5.8
SPRS .....	1,969.8	2,767.8	798.0	71.2%	1,755.4
JRS .....	278.5	605.2	326.7	46.0%	243.7
POPF .....	9.0	5.4	(3.6)	167.6%	9.0
<b>Subtotal</b> .....	<u>45,064.0</u>	<u>79,434.3</u>	<u>34,370.3</u>	<u>56.7%</u>	<u>38,271.3</u>
<b>Local</b>					
PERS .....	19,374.5	26,009.0	6,634.5	74.5%	16,785.7
PFRS .....	21,500.5	27,705.2	6,204.7	77.6%	19,296.2
<b>Subtotal</b> .....	<u>40,875.0</u>	<u>53,714.2</u>	<u>12,839.2</u>	<u>76.1%</u>	<u>36,081.9</u>
<b>Total</b> .....	<u>\$85,939.0</u>	<u>\$133,148.5</u>	<u>\$47,209.5</u>	<u>64.5%</u>	<u>\$74,353.2</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2012.

- (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 2012 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 ("CAFR"). 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 GASB for purposes of presentation in the CAFR. 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 Plans 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 Plans, 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 July 1, 2006 through July 1, 2012**  
**(in Millions)**

<u>Valuation Year Ending June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Market Value of Assets</u>
<b>State</b>					
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	76,805.7	30,108.1	60.8%	40,795.3
2012 .....	45,064.0	79,434.3	34,370.3	56.7%	38,271.3
<b>Local</b>					
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 .....	38,849.8	49,520.7	10,670.9	78.5%	31,853.2
2011 .....	40,024.1	51,657.7	11,633.6	77.5%	36,042.2
2012 .....	40,875.0	53,714.2	12,839.2	76.1%	36,081.9

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information was derived from the actuarial valuation reports as of July 1, 2006 through July 1, 2012 for all the Pension Plans.

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

**SCHEDULE OF STATE & 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>
<b>State</b>			
PERS .....	\$ 924.4	\$ 264.1	\$ 660.3
TPAF .....	2,151.0	614.6	1,536.4
PFRS (4) .....	393.6	112.5	281.1
CP&FPF .....	0.9	0.9	0.0
SPRS .....	89.5	25.6	63.9
JRS .....	40.8	11.6	29.2
POPF .....	0.0	0.0	0.0
<b>Subtotal</b> .....	<u>3,600.2</u>	<u>1,029.3</u>	<u>2,570.9</u>
<b>Local</b>			
PERS .....	740.6	740.6	—
PFRS .....	750.0	750.0	—
<b>Subtotal</b> .....	<u>1,490.6</u>	<u>1,490.6</u>	<u>—</u>
<b>Total</b> .....	<u>\$5,090.8</u>	<u>\$2,519.9</u>	<u>\$2,570.9</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the revised July 1, 2011 actuarial valuation reports for PERS, TPAF, PFRS, SPRS and JRS, which take into account changes to the investment return and salary growth assumptions, and the actuarial valuation reports as of July 1, 2011 for CP&FPF and POPF. Information regarding the actual contributions for the State is based on Chapter 1 which requires the State to make a contribution of at least 2/7th of the full actuarially recommended contribution in Fiscal Year 2013. Information with respect to the contributions of local governments paid in Fiscal Year 2013 was derived from the revised July 1, 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 July 1, 2011. The July 1, 2011 actuarial valuations for PERS, TPAF, PFRS, SPRS and JRS were revised to reflect changes to the economic assumptions. Specifically, the assumed rate of return on investments was lowered from 8.25% to 7.95%, and the salary growth assumption was lowered by an average of 2% for the next five years and 0.75% thereafter. As a result of these changes to the economic assumptions, the actuarially recommended contributions for the State decreased by \$146.5 million from \$3.747 billion to \$3.600 billion, and the minimum 2/7th expected contribution decreased by \$41.8 million from \$1.071 billion to \$1.029 billion. On the local employer side, the actuarially recommended contribution decreased by \$108.0 million from \$1.608 billion to \$1.5 billion. 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 Chapter 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 \$112.5 million for Fiscal Year 2013, \$48.8 million represents contributions on behalf of local participants.
- (5) Estimated.

**SCHEDULE OF STATE & LOCAL EMPLOYER CONTRIBUTIONS TO PENSION PLANS**  
**For the Fiscal Year Ending June 30, 2014**  
(In Millions)

<u>Pension Plan</u>	<u>Actuarially Recommended Contributions (1)</u>	<u>Expected Contributions (2)(5)</u>	<u>Amount Unfunded (3)(5)</u>
<b>State</b>			
PERS .....	\$1,050.1	\$ 450.0	\$ 600.1
TPAF .....	2,308.1	989.2	1,318.9
PFRS (4) .....	398.1	170.6	227.5
CP&FPF .....	0.9	0.9	0.0
SPRS .....	107.0	45.8	61.2
JRS .....	44.7	19.1	25.6
POPF .....	0.0	0.0	0.0
<b>Subtotal</b> .....	<u>3,908.9</u>	<u>1,675.6</u>	<u>2,233.3</u>
<b>Local</b>			
PERS .....	822.1	822.1	—
PFRS .....	750.2	750.2	—
<b>Subtotal</b> .....	<u>1,572.3</u>	<u>1,572.3</u>	<u>—</u>
<b>Total</b> .....	<u>\$5,481.2</u>	<u>\$3,247.9</u>	<u>\$2,233.3</u>

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the actuarially recommended contributions was derived from the July 1, 2012 actuarial valuation reports. Information regarding the expected contributions for the State is based on Chapter 1 which requires the State to make a contribution of at least 3/7th of the full actuarially recommended contribution in Fiscal Year 2014. The State's expected contribution to the Pension Plans has been included in the Fiscal Year 2014 Appropriations Act. Information with respect to the expected contributions of local governments was derived from the July 1, 2012 actuarial valuation reports for PERS and PFRS.

- (1) The actuarially recommended contributions to the indicated Pension Plans in Fiscal Year 2014 are based on the information contained in the actuarial valuations for the Pension Plans as of July 1, 2012. The PERS and PFRS local employer pension contribution excludes early retirement incentive (ERI) contributions payable in Fiscal Year 2014 by local government employers who have adopted ERI programs for their employees.
- (2) Pursuant to Chapter 1, the State's minimum contribution to the Pension Plans in Fiscal Year 2014 is 3/7th 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 \$170.6 million for Fiscal Year 2014, \$73.2 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, 2008 through June 30, 2014 (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>
<b>State</b>			
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(4) .....	3,600.2	1,029.3	2,570.9
2014 .....	3,908.9	1,675.6	2,233.3
<b>Subtotal</b> .....	<u>\$20,800.3</u>	<u>\$ 4,341.8</u>	<u>\$16,458.5</u>
<b>Local</b>			
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 .....	1,512.6	1,512.6	—
2013(4) .....	1,490.6	1,490.6	—
2014 .....	1,572.3	1,572.3	—
<b>Subtotal</b> .....	<u>9,725.7</u>	<u>9,505.2</u>	<u>220.5</u>
<b>Total</b> .....	<u>\$30,526.0</u>	<u>\$13,847.0</u>	<u>\$16,679.0</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 July 1, 2006 through July 1, 2012. Information regarding the actual contributions of the State for Fiscal Years 2008 through 2013 was provided by the Division of Pensions and Benefits. Information regarding expected contributions of the State for Fiscal Year 2014 is as set forth in the Fiscal Year 2014 Appropriations Act. 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 July 1, 2006 through July 1, 2012.

- (1) Please refer to the footnotes of the immediately preceding table for an explanation of the categories set forth in the columns of this table. Each of the columns of this table reflects an aggregate of all of the Pension Plans. Thus, each of indicated categories reflects a sum of that category of all of the Pension Plans (except with respect to the Funded Ratio which is a weighted average Funded Ratio of all of the Pension Plans)
- (2) For all pension plans, 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 July 1, 2012 will be made in Fiscal Year 2014.
- (3) Pursuant to Chapter 1, the State's minimum contribution to the Pension Plans in Fiscal Year 2014 is 3/7th of the full actuarially recommended contribution amount, as determined based on the July 1, 2012 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.
- (4) Revised to reflect changes to the investment return and salary growth assumptions used in the July 1, 2011 actuarial valuations for PERS, TPAF, PFRS, SPRS and JRS, which reduced the actuarially recommended contribution for the State by \$146.5 million from \$3.747 billion to \$3.6 billion and the minimum 2/7th expected contribution by \$41.8 million from \$1.071 billion to \$1.029 billion. On the local employer side, the actuarially recommended contribution decreased by \$108.0 million from \$1.599 billion to \$1.491 billion.

*Impact of Pension Reforms and the State's Funding Actions on Pension Plans.* The UAAL of the Pension Plans has consistently risen since Fiscal Year 2004 in part as a result of the State not contributing the full amount of the actuarially recommended contributions with respect to the Pension Plans since Fiscal Year 2003. See "FUNDING PENSION PLANS—*Current and Historical Contributions and Funding Status*" herein. These low levels of State funding coupled with investment losses in Fiscal Years 2008 and 2009 have caused funding levels to decrease substantially. Between the July 1, 2004 and July 1, 2010 actuarial valuations, the aggregate Funded Ratio of the Pension Plans declined from approximately 85.4% to 56.4%. As a result of this decline in the Funded Ratio of the Pension Plans, the actuarially recommended contributions of the State increased significantly. To address the deteriorating financial condition of the Pension Plans, the 2011 Pension and Health Benefit Reform Legislation was enacted, which had an immediate impact on the overall funded status of the Pension Plans (see "FUNDING PENSION PLANS—*Pension and Health Benefit Reform* for a description of the pension reform changes.) As a result of the 2011 Pension and Health Benefit Reform Legislation, the overall funded ratio of the Pension Plans improved from 56.4% to 65.2% and the total UAAL included in the revised actuarial valuations of the Pension Plans decreased by an aggregate of \$11.5 billion from \$37.1 billion to \$25.6 billion as of the revised July 1, 2010 actuarial valuations. The increase in the overall Funded Ratio and reduction in the UAAL as of June 30, 2010 was primarily due to the suspension of cost-of-living adjustments on pension benefits as of July 1, 2011. Chapter 1, a pension reform enacted previous to the 2011 Pension and Health Benefit Reform Legislation, required the State to resume making contributions to the Pension Plans on a phased-in basis over a seven-year period beginning in Fiscal Year 2012. Under this phase-in approach, the State would begin making full actuarially recommended contributions to the Pension Plans beginning in Fiscal Year 2018.

A fundamental objective of the 2011 Pension and Health Benefit Reform Legislation was to improve the long-term solvency of the Pension Plans while slowing the rapid growth of governmental costs to fund the Pension Plans. The combination of increased employee contributions, the suspension of cost-of-living adjustments, benefit reductions and a commitment to a structured employer contribution schedule was intended to improve the funded level of the Pension Plans and reduce or minimize the growth in employer contribution requirements over a 30 year projected period. Incorporating the seven-year phase-in of the State's full actuarially recommended contributions to the Pension Plans pursuant to Chapter 1, the projected Funded Ratios of the Pension Plans after the enactment of the 2011 Pension and Health Benefit Reform Legislation were anticipated to decrease until Fiscal Year 2018 (as occurred in Fiscal Year 2011 and Fiscal Year 2012). Beginning in Fiscal Year 2018, when the State is required to begin making the full actuarially recommended contribution to the Pension Plans pursuant to Chapter 1 and as a result of the 2011 Pension and Health Benefit Reform Legislation, the Funded Ratio of the Pension Plans is projected to begin to improve steadily for the remainder of the 30 year projected period. If the 2011 Pension and Health Benefit Reform Legislation had not been enacted and based on the assumptions with respect to the Pensions Plans in place prior to the enactment of the 2011 Pension and Health Benefit Reform Legislation and the continued phase-in of contributions pursuant to Chapter 1, the State's full actuarially recommended contribution to the Pension Plans for Fiscal Year 2018, as of June 28, 2011, was projected to be \$5.5 billion, and the UAAL and Funded Ratio of the Pension Plans as of June 30, 2018 were projected to be \$65.7 billion and 40.5%, respectively. In contrast, based on current internal 30 year projections post-enactment of the 2011 Pension and Health Benefit Reform Legislation, if all of the assumptions of the Pension Plans are realized and the State continues the phased-in contributions provided for in Chapter 1, the State's actuarially recommended contribution for Fiscal Year 2018, which is the first year the State is assumed to make the full actuarially recommended contribution to the Pension Plans, is currently projected to be approximately \$4.8 billion and, as of June 30, 2018, the UAAL and Funded Ratio of the Pension Plans are projected to be \$41.6 billion and 52.3%, respectively.

The various reform measures are expected to positively impact State finances, lowering, over the long term, the actuarially recommended contributions required of the State from levels projected prior to the enactment of the 2011 Pension and Health Benefit Reform Legislation. After Fiscal Year 2018, the State expects the funded status of the Pension Plans will begin to improve and the UAAL will begin to decrease. These expectations assume the State will make full actuarially recommended contributions beginning in Fiscal Year 2018 and that the Pension Plans will otherwise have actual results that will match the assumptions 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 or as to the achievement of the other assumptions.

In the short term, the State expects that the amount of its actuarially recommended contributions to the Pension Plans will substantially increase through Fiscal Year 2018. The main factors contributing to this short term increase are the phased-in contributions of the State to the Pension Plans pursuant to Chapter 1 and a change in the amortization method of the UAAL as set forth in the 2011 Pension and Health Benefit Reform Legislation. In addition, the UAAL of the Pension Plans is expected to increase and the overall Funded Ratio is expected to decrease through Fiscal Year 2018 resulting from the State making less than full actuarially recommended contribution and other factors, including the fact that the State still has a substantial unrecognized loss of \$11.5 billion as of the July 1, 2012 actuarial valuations. To illustrate how the Funded Ratio has continued to deteriorate since the various pension reforms were enacted, between the July 1, 2010 actuarial valuations and the most recent July 1, 2012 valuation, the overall Funded Ratio of the State worsened and decreased from 65.2% to 56.7%. The deterioration of the financial condition of the Pension Plans in the short-term will increase the amount of future actuarially recommended contributions of the State, thus deferring a substantial portion of the State's current funding responsibilities to future Fiscal Years.

*Impact of Financial Deterioration of Pension Plans on Benefit Payments.* The continued financial deterioration of the Pension Plans will reduce the amount of assets the Pension Plans have to pay benefits to their members. 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. To illustrate, from Fiscal Year 2007 to Fiscal Year 2012 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, decreased by \$12.0 billion from \$86.9 billion to \$74.9 billion, while total expenditures incurred by the Pension Plans over the same period increased by \$2.7 billion from \$6.0 billion to \$8.7 billion. The amount of these expenditures is expected to increase in future Fiscal Years. This resulted in an increase in the Annual Expenditures to Net Assets Ratio from 6.9% for Fiscal Year 2007 to 11.63% for Fiscal Year 2012. 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.

Although the accumulation of assets in the Pension Plans does not jeopardize the payment of pension benefits in the short term, the long-term impact of continuation of a funding policy that allows the State to contribute less than the actuarially recommended contributions could impact, at some point, the Pension Plans' ability to meet their obligations absent significant additional contributions by the State, increased investment returns or actions resulting in changes to liabilities of the Pension Plans. Future increased contributions by the State in future Fiscal Years, depending on the magnitude, would likely create a significant burden on all aspects of the State's finances. No assurances can be given as to the level of the State's pension contributions in future fiscal years.

*Risk Measures.* The ratio of market value of assets to the prior year's benefit payments also provides an indication of the ability of the Pension Plans to meet their benefit obligations. The July 1, 2012 actuarial reports, which set forth the actuarial valuations as of June 30, 2012, 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 2012 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, between June 30, 2011 and June 30, 2012, the ratio of market assets to the prior year's benefit payment worsened and decreased by 16% from 8.1 to 6.8. Between



June 30, 2010 and June 30, 2011, the ratio improved and increased by 1.3% from 8.0 to 8.1. For TPAF, between June 30, 2011 and June 30, 2012, the ratio of market assets to the prior year's benefit payment decreased by 10.7% from 8.4 to 7.5. Between June 30, 2010 and June 30, 2011, the ratio decreased by 3.4% from 8.7 to 8.4.

*Litigation Affecting Pension Plans.* See below under the captions "LITIGATION— "*—Powell v. State,*" "*—Berg v. Christie*" and "*—New Jersey Education Association, et al. v. State of New Jersey, et al.*" for a description of claims pending against the State relating to 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 seven investment carriers for this program are ING Life Insurance and Annuity Company, Met Life, TIAA- CREF, VALIC, AXA Financial (Equitable), The Hartford and Prudential Retirement. 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 Years 2012 and 2013, the State contributed \$178.5 million and \$181.6 million, respectively, to cover pension contributions and to provide funding for noncontributory group life insurance and long-term disability benefits. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$186.6 million 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, L. 2007,c.92, amended by L. 2007, c.103, L. 2008, c.89, and 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 that are 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 Years 2012 and 2013, the State contributed \$719,578 and \$969,981, respectively, on behalf of enrolled State employees to cover pension benefit costs. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$1,280,000 as the State's contribution to the DCRP to cover pension benefit costs. With regard to noncontributory group life and long-term disability insurance benefits, for Fiscal Year 2012 and 2013, the State contributed \$58,128 and \$216,484, respectively, to cover noncontributory insurance benefit costs. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$349,000 to fund noncontributory insurance 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; therefore benefit costs can fluctuate from year to year. For Fiscal Years 2012 and 2013, the State expended \$67.5 million and \$79.5 million, respectively, to cover noncontributory insurance benefit costs of the Pension Plans. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$75.2 million to fund noncontributory insurance benefit costs.

*Recent Accounting Changes Affecting Pension Plans Generally.* On June 25, 2012, GASB approved two new standards designed to improve the accounting and financial reporting of public employee pensions by state and local governments and enhance the usefulness of pension information for making decisions and assessing accountability. New GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces GASB Statement No. 25, and revises existing guidance for the financial reports of public pension plans. New GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces GASB Statements No. 27 and No. 50, and revises and establishes new financial reporting requirements for governmental employers that provide their employees with pension benefits. Although these new GASB Statements are intended to improve comparability between public pension plans by standardizing the way certain financial data relating to these plans are disclosed, they do not require plans to change their methods used to compute actual employer contributions to the plan. Employer contributions to the Pension Plans continue to be calculated per the requirements of the governing State statutes using generally accepted actuarial procedures and practices.

The new GASB Statements have been formally issued; however, their impact has not yet been identified. It is anticipated, however, that the changes will have a material impact on the Pension Plans' liabilities and funded level as currently disclosed. The changes are expected to increase pension liabilities, and decrease funded levels for disclosure purposes.

New GASB Statements No. 67 and 68 will require governmental plans to utilize the entry age normal actuarial cost method to compute pension liabilities and annual actuarially required contributions for disclosure purposes as opposed to the projected unit credit actuarial cost method, currently the statutorily required method used by the Pension Plans to calculate actual employer contributions. Under the entry-age normal actuarial cost method, pension liabilities are projected to the members' assumed retirement date and the annual normal cost of each member's pension is allocated as either a level amount or a level percent of payroll between the time employment starts (entry age) and the assumed retirement date. The goal is to spread the normal cost evenly over the career of the member. Under the projected unit credit actuarial cost method, pension liabilities are represented as the benefits that have accrued to members as of the valuation date and the normal cost represents the cost of benefits accrued to members during the plan year. By comparison, the entry-age normal actuarial cost method results in a more level contribution pattern. The projected unit credit generates costs which are directly attributable to the value of benefits being earned.

The new GASB Statements will require that the discount rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-year, AA- or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. It is anticipated that this change may result in a discount rate which is lower than the 7.90% rate currently used to discount the projected benefits of the Pension Plans.

As with the former standards, new GASB Statements No. 67 and 68 relate only to accounting and financial reporting and do not address how governments are to approach pension plan funding (i.e. the computation of actual employer contributions). The provisions in new GASB Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in new GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

## FUNDING POST-RETIREMENT MEDICAL BENEFITS

In addition to the pension benefits, the State provides post-retirement medical (PRM) benefits for certain State and other retired employees meeting the service credit eligibility requirements. This includes retired State employees of PERS, TPAF, PFRS, SPRS, JRS and ABP; local retired TPAF and other school board employees; and some local PFRS retirees. To become eligible for this State-paid benefit, a member of these Pension Plans must retire with 25 or more years of pension service credit or on a disability pension. These benefits are provided through the State Health Benefits Program (SHBP) and the School Employees' Health Benefits Program (SEHBP). The SHBP and the SEHBP are administered by the Division of Pensions and Benefits. The benefits provided include medical, prescription drug, and Medicare Part B and Part D reimbursement for covered retirees, spouses and dependents. In Fiscal Year 2013, the State paid PRM benefits for 130,448 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 2012 and Fiscal Year 2013, the State contributed \$1.225 billion and \$1.398 billion, respectively, to pay for PRM benefits for the eligible retirees in these groups mentioned above. For Fiscal Year 2014, the Fiscal Year 2014 Appropriations Act includes \$1.558 billion in funding for pay-as-you-go PRM costs. The increase in the State's pay-as-you-go contribution is attributable to rising health care costs as well as an increase in the number of participants qualifying for State-paid PRM benefits at retirement. The State expects that funding to cover the pay-as-you-go PRM benefit costs will continue to increase going forward; however, as a result of health reform measures enacted by the State in 2011, including a requirement that certain future retirees eligible for State-paid coverage contribute toward such coverage, the rate of growth in the State's contribution should begin to decrease in the future. (See "FINANCING POST-RETIREMENT MEDICAL BENEFITS — *Pension and Health Benefits Reform*" herein.

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 Hewitt in May 2013, the Fiscal Year 2012 actuarial accrued liability of the State to provide PRM to active and retired members of the Pension Plans, which is based upon GASB Statement No. 43 results as of July 1, 2012, has been measured to be \$51,502.6 million, an increase of \$2,553 million or 5.22% as compared to the Fiscal Year 2011 actuarial accrued liability of \$48,949.7 million. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits' website at <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. GASB Statement No. 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 Statement No. 43 Results(\$ millions) as of July 1, 2012		
	State	Education-State	Total
Actuarial Accrued Liability*			
Active .....	\$10,277.1	\$18,087.8	\$28,364.9
Retired .....	\$ 9,042.6	\$14,095.1	\$23,137.7
Total .....	\$19,319.7	\$32,182.9	\$51,502.6

\*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 \$12,378.1 million. The State has no legal responsibility with respect to the PRM obligations of Local Governmental Employers.

Aon Hewitt 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 Hewitt and approved by the State, and which conform to the requirements of GASB Statement No. 43 and Statement No. 45. Aon Hewitt

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 Statement No. 43 and Statement No. 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 Hewitt assumed that pre-age 65 healthcare expenses would increase at a rate of 8.5% in Fiscal Year 2013 and decrease to a 5.0% long-term trend for all medical benefits after 8 years, post-age 65 healthcare expenses for the HMO plans would increase at a rate of 8.5% in Fiscal Year 2013 and decrease to a 5.0% long-term trend after 8 years and post-age 65 healthcare expenses for the PPO plans would increase at a trend rate of 5% per year and (2) Aon Hewitt assumed that prescription drug expenses would increase at a rate of 8.5% for current and future retirees in Fiscal Year 2013 and decrease to a 5.0% long-term trend rate after 8 years. 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, 2012 State of New Jersey, Postemployment Benefits Other Than Pension Actuarial Valuation. An informational copy of the valuation report will be posted on the Division of Pensions and Benefits' website at: <http://www.state.nj.us/treasury/pensions/financial-rprts-home.htm>. The valuation reports for the years July 1, 2006 through July 1, 2011 are posted on the web site.

**SCHEDULE OF ACTUARIAL STATUS OF POST-RETIREMENT MEDICAL BENEFITS**  
**Actuarial Valuations as of July 1, 2006 through July 1, 2012**  
(In millions)

<u>Actuarial Valuation Date</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAA as a Percentage of Covered Payroll</u>	<u>Actual Pay-As You-Go Contribution</u>
<b>State &amp; Education</b>					
7/1/2006 .....	\$58,059.0	0%	n/a	n/a	\$ 955.8
7/1/2007 .....	\$50,649.5	0%	n/a	n/a	\$1,021.6
7/1/2008 .....	\$55,913.5	0%	\$20,180.2	277.1%	\$1,055.7
7/1/2009 .....	\$56,782.5	0%	\$20,794.4	273.1%	\$1,045.7
7/1/2010 .....	\$59,282.0	0%	\$20,870.0	284.1%	\$1,111.8
7/1/2011 .....	\$48,949.7	0%	\$20,286.7	241.3%	\$1,191.6
7/1/2012 .....	\$51,502.6	0%	\$20,513.9	251.1%	\$1,221.8
<b>Local</b>					
7/1/2006 .....	\$10,774.6	0%	n/a	n/a	\$ 159.5
7/1/2007 .....	\$ 9,096.6	0%	n/a	n/a	\$ 159.2
7/1/2008 .....	\$ 8,840.5	0%	\$ 2,411.7	366.6%	\$ 145.2
7/1/2009 .....	\$10,010.4	0%	\$ 2,607.2	384.0%	\$ 142.0
7/1/2010 .....	\$12,089.8	0%	\$ 2,844.1	425.1%	\$ 173.6
7/1/2011 .....	\$11,127.0	0%	\$ 2,831.0	393.0%	\$ 204.7
7/1/2012 .....	\$12,378.1	0%	\$ 2,937.0	421.4%	\$ 245.5

Source: New Jersey Department of the Treasury, Division of Pensions and Benefits. Information regarding the unfunded actuarial accrued liability, funded ratio, and covered payroll was derived from the Postemployment Benefits Other Than Pension Actuarial Valuation Reports dated July 1, 2006 through July 1, 2012. Information regarding the actual pay-as-you-go contributions was provided by the Division of Pensions and Benefits.

- (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 of 1.5% of salary 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, which commenced in July 2012, most employees were required to pay a higher contribution based on the new percentage as reflected on the 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 provided they retire with 25 or more years of pension service credit. However, the percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

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 High Deductible Health Plans with a Health Savings Account 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.

As shown in the *Schedule of Funding Progress for Post-Retirement Medical Benefits* above, the total unfunded actuarial accrued liability (UAAL) for post-retirement medical benefits for which the State is liable increased by \$2.553 billion or 5.22% between the July 1, 2011 and July 1, 2012 actuarial valuations from \$48.950 billion to \$51.503 billion. This increase in the post-retirement medical UAAL is attributable to the State continuing to fund post-retirement medical benefits on a pay-as-you-go basis as opposed to prefunding benefits by making the actuarially recommended normal contribution and making a contribution toward the unfunded liability. The reduction in the post-retirement medical UAAL between the July 1, 2010 and July 1, 2011 actuarial valuations was mainly attributable to a change in the prescription drug Medicare integration from the Retiree Drug Subsidy (RDS) to an Employer Group Waiver Program (EGWP) effective January 1, 2012. In addition, GASB regulations allow such federal payments and reimbursements under EGWP to be reflected in the total UAAL. As a result of the change in the prescription drug Medicare integration, the State's portion of the total UAAL for post-retirement medical benefits decreased by an estimated \$9.437 billion or 16% as of the July 1, 2011 actuarial valuation. The reduction in the State's portion of the total post-retirement medical UAAL between the July 1, 2010 and July 1, 2011 actuarial valuations was also attributable to the health reform measures included in the 2011 Pension and Health Benefits Reform Legislation, which lowered unfunded accrued liabilities by approximately 4.0% or \$2.5 billion as of July 1, 2011.

## 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.

*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 against the Department of Environmental Protection (“DEP”). 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, and 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. The trial court denied FiberMark's motion for a new trial on April 27, 2012. On June 18, 2012, FiberMark filed a notice of appeal. Briefing of this matter is complete. The parties await scheduling of oral argument. 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 DEP, the Commissioner of DEP, 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 DEP as trustee for natural resources within the Newark Bay Complex, (d) a judgment finding DEP liable for aiding and abetting discharges of polluting matter into the Passaic River, and an injunction prohibiting DEP 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 DEP is liable for public nuisance in the event that all or part of the Newark Bay Complex is determined to be a public nuisance, (g) an order imposing on the Plaintiffs an equitable share of any relief the court might order on the Plaintiffs' public nuisance claims, (h) 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 (i) 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 denials of the motions to dismiss were affirmed by the Appellate Division on April 24, 2012. On September 21, 2012, the court ordered a ninety day stay of certain third party proceedings, including those against NJDOT and NJDA, pending the outcome of settlement negotiations. This stay has been continued until further order of the court.

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, the current owner of Diamond Shamrock's Lister Avenue Site, knowingly took title to the contaminated Lister Avenue Site. The court also granted Occidental's motion for partial summary judgment against Tierra, finding that Tierra was liable to Occidental in contribution on the same basis. 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. On May 21, 2012, the court granted the State's motion for partial summary judgment against Maxus on liability, finding Maxus, as the alter ego of Tierra, strictly liable, jointly and severally under the Spill Act for all cleanup and removal costs associated with the hazardous substances discharged at and from the Lister Avenue site. The judgment against Maxus concluded the liability phase of the action. The damages phase of this litigation has been stayed until further order of the court.

Both the Plaintiffs and Occidental have alleged that Repsol and YPF committed a fraud upon both parties by systematically stripping assets from Maxus leaving Maxus unable to satisfy any Passaic River cleanup liabilities that may be imposed on it. On January 22, 2013, attorneys for the Plaintiffs and several hundred Third-Party Defendants (including NJDOT and NJDA) informed the court that they reached preliminary agreement on a proposed Consent Judgment to settle certain claims. On March 23, 2013, the State informed the court that a super-majority of the Third-Party Defendants had approved the Consent Judgment. The Consent Judgment was posted on the DEP's website on March 27, 2013. Notice of the Consent Judgment was published in the New Jersey Register on May 6, 2013 for a 60-day comment period, which expired on July 5, 2013. DEP received one comment, which it will consider in determining whether to approve the Consent Judgment. If approved by the DEP, the Consent Judgment will be submitted to the court for approval.

On April 15, 2013, attorneys for the Plaintiffs and defendants Tierra; Maxus; Maxus International Energy Company; Repsol; YPF; YPF Holdings, Inc.; YPF International S.A., and CLH Holdings, Inc. (collectively, the "Settling Defendants") informed the court that they had agreed on a confidential term sheet setting forth a framework to resolve the claims between them and also informed the court that they had reached preliminary agreement on a proposed Settlement Agreement. On June 7, 2013, the Plaintiffs reported to the court that the Settling Defendants had approved the Settlement Agreement. The Settlement Agreement was posted on the DEP's website on June 7, 2013. Notice of the Settlement Agreement was published in the July 1, 2013 New Jersey Register for a 30-day comment period. DEP has received several comments, which it will consider and



determine whether to approve the Settlement Agreement. If approved by the DEP, the Settlement Agreement will be submitted to the court for approval.

Defendant Occidental Chemical Corporation is not participating in the Settlement Agreement. If the Settlement Agreement is approved by the court, certain State claims against Occidental would continue to be litigated. Occidental's fraudulent conveyance claims against Repsol, S.A. and YPF, S.A. would also continue to be litigated. The trial dates for both sets of claims will be set by future order of the court. 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, Mercer County, subsequently transferred to 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 court bifurcated the State Legislative Branch Defendants' motion to dismiss from the State Executive Branch Defendants' motion to dismiss. The court granted the State Legislative Branch Defendants' motion to dismiss on August 24, 2012. Oral argument on the State Executive Branch Defendants' motion to dismiss was scheduled for September 28, 2012. However, on September 27, 2012, Judge Baldwin adjourned on his own initiative, the oral argument on the State Executive Defendants' motion to dismiss. Judge Baldwin also adjourned on his own initiative the hearing on the State Executive Defendants' motion to dismiss. On March 8, 2013, the court granted the State Executive Defendants' motion to dismiss. The State employees did not appeal. However, three municipal firefighters appealed. Their brief was filed on July 31, 2013. 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 allege 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. On April 16, 2012, the New Jersey Education Association and other labor organizations (collectively, the "NJEA") filed a motion to intervene or, in the alternative, to be permitted to submit an amicus brief. On April 20, 2012, the Plaintiffs and the State submitted letters opposing NJEA's motion to participate as an intervenor or amicus. On April 23, 2012, the court granted NJEA's motion to intervene permissively. On June 7, 2012, the court entered an Order granting the State's motion to dismiss, denying Plaintiffs' cross-motion for summary judgment, and dismissing Plaintiffs' Complaint. On June 20, 2012, the court issued an amended Order that 1) converted the State's motion to dismiss into a motion for summary judgment, 2) granted the State's motion for summary judgment, 3) denied the Plaintiffs' cross-motion for summary judgment, 4) dismissed the Plaintiffs' Complaint, 5) dismissed NJEA's Complaint-in-Intervention, and 6) vacated its June 7, 2012 Order. Plaintiffs filed an appeal on August 1, 2012. The NJEA, as Plaintiff-Intervenors, filed a notice of appeal and a motion to consolidate their appeal with the appeal that the Berg Plaintiffs' have filed. On October 4, 2012, the Appellate Division consolidated *Berg v. Christie* and the appeal of the NJEA Plaintiff-Intervenors which challenged the provision of Chapter 78 that temporarily suspends future COLA payments. The Appellants have submitted their initial merits brief. The State's opposition brief was filed on June 24, 2013. The State is vigorously defending this matter.

*New Jersey Education Association, et al. v. State of New Jersey, et al.* Plaintiffs, active and retired members of PERS, PFRS, and TPAF, challenge the constitutionality of Chapter 78, claiming the suspension of cost of living adjustments, increased pension contributions, delegation of authority to pension committees, and increased contributions for medical benefits in retirement violate the State and federal constitutions.

Additionally, the plaintiffs challenge Chapter 78 on constitutional grounds, including impairment of contract, substantive and procedural due process, takings, and promissory estoppel. Plaintiffs seek declaratory and injunctive relief. On April 12, 2012, Plaintiffs filed a complaint in the Law Division, Mercer County. The State's responsive pleading was filed on May 17, 2012. The parties agreed to hold the new State case in abeyance pending the Law Division's decision in *Berg v. Christie* (see above). The Court ordered the parties to submit letters regarding whether the case should continue to be held in abeyance pending resolution of all appeals in *Berg v. Christie*. The State's submission was made on July 9, 2012; NJEA's submission was made on July 27, 2012. On August 24, 2012, Plaintiffs filed an Amended Complaint dismissing their claims regarding the temporary suspension of pension adjustments. On October 5, 2012, the State filed a motion to dismiss the complaint that the NJEA filed in the Law Division challenging the increased pension and health care contributions mandated by Chapter 78. Oral argument on the State's motion to dismiss was held on February 21, 2013. On June 13, 2013, the Court granted the State's motion to dismiss. The Plaintiffs have not yet appealed the dismissal of their complaint.

*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"), challenged the New Jersey Tax Court's affirmance of the facial constitutionality of the Corporation Business Tax ("CBT") "Throw-Out Rule," which affected the amount of taxable income taxpayers "allocate" to the State through 2010. 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 their 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 with respect to Whirlpool's "as applied" constitutional challenge. Whirlpool has filed a motion for partial summary judgment. 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 case is currently in 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 court gave a preliminary ruling in favor of New Cingular with a published opinion expected to follow. The State is vigorously defending this matter.

*DeVry Educational Development Corporation v. Director, Division of Taxation.* On February 23, 2012, DeVry Educational Development Corporation (“DeVry”) filed a complaint in the Tax Court of New Jersey, contesting the Division’s November 22, 2011, Final Determination. The Division concluded that DeVry is subject to CBT commencing July 1, 2002 and is required to file returns. DeVry alleges that it is not subject to tax, and alternatively if it is subject, that the repealed Throw Out Rule is unconstitutional, on its face and as applied. The Division filed an Answer to Complaint on June 6, 2012. Discovery is ongoing. The State intends to vigorously defend this matter.

*James Liik, et al v. N.J. 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 “2009 Case”), 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 filed a motion for partial summary judgment on the issue of damages on April 11, 2012. The State is vigorously defending this matter.

*In re Failure of Council on Affordable Housing to Adopt Trust Fund Commitment Regulations.* On July 2, 2012, Fair Share Housing Center (“FSHC”) sought and received permission to file an emergent motion with the Superior Court, Appellate Division to obtain an immediate preliminary injunction, and subsequently upon briefing and argument, a permanent injunction against the Council on Affordable Housing (“COAH”) from requiring municipalities to transfer balances in their municipal affordable housing trust funds uncommitted within four years from the date of collection to the “New Jersey Affordable Housing Trust Fund” (the “AH Trust Fund”), established pursuant to section 20 of L.1985, c.222 (C.52:27D-320), as amended by L.2008, c.46 (C.52:27D-329.1 et al.), until COAH adopts regulations that define what constitutes a “commitment” by the municipality to spend such monies. Pursuant to the Fiscal Year 2013 Appropriations Act, an amount not to exceed \$200 million of monies received in the AH Trust Fund shall be deposited in the State General Fund as State revenue. Amounts appropriated in the Fiscal Year 2013 Appropriations Act for the provision of programs for affordable housing for households and individuals with low and moderate incomes shall be credited against such funds deposited into the State General Fund from the AH Trust Fund. Oral argument in this matter was held on July 13, 2012. The Appellate Division denied the request for restraint. While denying injunctive relief, the Appellate Division noted that it expected the State to provide affected municipalities with adequate notice and an opportunity to contest a transfer of municipal affordable housing trust funds. On August 10, 2012, in a separate, distinct matter, in response to FSHC’s motion to enforce litigant’s rights, the Appellate Division issued an order enjoining the transfer or request for transfer of uncommitted municipal affordable housing trust funds until COAH meets and authorizes the transfer or request for transfer of such funds. On September 6, 2012, FSHC served a motion for summary disposition, or in the alternative, preliminary injunction. In response, the State filed a cross-motion for summary judgment. The Appellate Division denied both motions by order dated October 24, 2012. Subsequently, the Appellate Division granted motions by the League of Municipalities and several towns to intervene. On May 1, 2013, COAH adopted a resolution authorizing COAH staff to send out updated letters requiring municipalities to submit by May 22, 2013 their reasons as to why they disagreed with COAH staff’s determination of how much of the municipalities affordable housing trust fund is uncommitted. COAH also approved the Appellate Division’s definition of “uncommitted”. The total amount of “uncommitted” in the updated letters sent out by COAH is approximately \$165 million. On May 10, 2013, FSHC filed an emergent application for a stay of the implementation of COAH’s May 1, 2013 resolution. On May 13, 2013, the Appellate Division issued an order granting FSHC’s emergent application for a stay and set forth a briefing schedule. On May 20, 2013, the State sought interlocutory relief from the Supreme Court from the Appellate Division’s May 13, 2013 order. On May 28, 2013, the New Jersey Supreme Court partially vacated the stay, permitting COAH to gather and evaluate municipalities’ submissions. On June 7, 2013, the Appellate Division vacated the remainder of the stay entered on May 13, 2013, subject to the following conditions: (1) the letters sent by COAH dated May 1, 2013 to the municipalities are vacated; (2) municipalities affected by COAH’s letter have 30 days to respond to COAH; (3) COAH shall provide 15 days notice of its board meeting to the municipalities prior to allowing the seizure of any funds; (4) any affected municipality may then appeal COAH’s action to seize any funds, to the Appellate Division. On June 28, 2013 COAH sent out updated letters consistent with the Appellate Division’s order. The State is vigorously defending this matter.

*East Cape May Associates v. New Jersey Department of Environmental Protection.* This matter is a regulatory taking case in which the plaintiff claims that it is entitled to in excess of \$30 million in damages for a taking of its property without just compensation. The property is approximately 96 acres of freshwater wetlands in the City of Cape May. Plaintiff filed its complaint in Superior Court, Law Division, on December 8, 1992, after the DEP denied an application for 366 single family homes. On motion for summary judgment, the trial court ruled that the State was liable for a regulatory taking as of December 1992. Thereafter, the New Jersey Appellate Division held that DEP could avoid liability by approving development on the property under Section 22(b) of the Freshwater Wetlands Protection Act. In addition, the Appellate Division remanded the case for a determination of whether the “property” also included 100 acres previously developed by the plaintiff’s principals. On remand from the Appellate Division, the trial court ruled on October 8, 1999 that the “property” did not include the 100 acres previously developed, and that DEP could not approve development of the 80 remaining acres without first adopting rules. Since DEP had not adopted rules, the trial court held that DEP’s development offer of 64 homes on the 80 acres was ineffective and DEP was liable for a taking of the property. The State filed an appeal of the trial court’s decision and East Cape May Associates filed a cross-appeal. Oral argument was held on May 14, 2001. On July 25, 2001, the Appellate Division affirmed the trial court’s decision,

and found that before DEP could approve limited development to avoid a taking, it was required to adopt rules. The Appellate Division remanded the case for such rule-making, the making of a development offer under the rules, and a determination by the trial court as to whether the new offer complies with the rules and avoids a taking. East Cape May Associates petitioned the New Jersey Supreme Court for certification of this decision, which was denied. Upon remand from the Appellate Division, DEP promulgated regulations to implement Section 22(b), which took effect on January 22, 2002. On July 1, 2009, the parties reached a settlement of the case, and submitted a consent order and stipulation of dismissal to the trial court contingent upon federal approval from the United States Army Corps of Engineers. The relevant federal agencies have expressed opposition to the proposed settlement. On May 25, 2012, East Cape May Associates served notice asserting its rights to terminate the settlement, demanding that within 60 days DEP initiate the reconsideration process. The DEP has initiated the reconsideration process pursuant to the regulations. The State is vigorously defending this matter.

*Medicaid, Tort, Contract, Workers' Compensation and Other 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 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.

Prior to July 1, 2013, there were various numbers of claims and cases pending against the University of Medicine and Dentistry of New Jersey ("UMDNJ") and its employees, seeking recovery of monetary damages

that were primarily paid out of the UMDNJ 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 \$148,897,000 for tort and medical malpractice claims for UMDNJ pending as of December 31, 2012. As a result of the enactment of the New Jersey Medical and Health Sciences Education Restructuring Act, L. 2012, c. 45 (the "Restructuring Act"), all of UMDNJ has been transferred to Rutgers, The State University ("Rutgers"), with the exception of the School of Osteopathic Medicine which has been transferred to Rowan University ("Rowan"), and University Hospital in Newark, New Jersey now exists as a separate instrumentality of the State. All claims and liabilities of UMDNJ associated with the transferred facilities have been transferred to Rutgers, Rowan and University Hospital, as applicable. Pursuant to the Restructuring Act, Rutgers and Rowan each entered into a memorandum of understanding with the State Treasurer pursuant to which the State shall pay from a self-insurance reserve fund established for each entity medical malpractice claims occurring prior to and post the effective date of the transfers, which was July 1, 2013. The Restructuring Act also provides for University Hospital's medical malpractice claims to be covered by a self-insurance reserve fund established by the State Treasurer and University Hospital entered into a memorandum of understanding with the State Treasurer for such claims. All claims, other than medical malpractice claims, incurred by UMDNJ with respect to the UMDNJ facilities transferred to Rutgers will be paid for by Rutgers out of its own funds. All claims, other than medical malpractice claims, incurred by Rowan will be paid from the Tort Claims Fund. 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, 2012**

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, 2012 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**  
**2013**

<u>Company</u>	<u>New Jersey Employees</u>
Wakefern Food Corp. ....	35,734
Wal-Mart Stores, Inc. ....	17,661
UPS .....	16,067
Verizon Communications .....	15,400
Johnson & Johnson .....	14,500
The Home Depot .....	13,628
United Continental Holdings .....	13,600
The Great Atlantic & Pacific Tea Co. (A&P) .....	12,373
Caesar's Entertainment .....	12,194
Bank of America .....	12,000
PSEG .....	10,000
AT&T, Inc. ....	9,733
Wawa, Inc. ....	8,546
FedEx .....	8,489
Target Corporation .....	8,467
CVS Caremark .....	8,400
Merck & Company, Inc. ....	8,316
TD Bank .....	8,200
Prudential Financial, Inc. ....	8,185
The Stop & Shop Supermarket Co. ....	7,930
Macy's .....	7,400
Lowe's Companies Inc. ....	6,551
Bristol-Myers Squibb Company .....	6,300
Wells Fargo .....	6,300
JP Morgan Chase & Company .....	6,129
Borgata Hotel Casino & Spa .....	6,053
Bed Bath & Beyond .....	6,000
Bayada Home Health Care .....	5,236
Lockheed Martin .....	5,200
Aramark .....	5,060

Source: New Jersey Business Magazine, August 2013

**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
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**  
**2002-2012 (Dollars in Millions)**

Calendar Years	Total Personal Income			
	New Jersey	New York	Pennsylvania	United States
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 .....	430,956	902,385	496,664	11,852,715
2010 .....	443,742	952,673	514,352	12,308,496
2011 .....	462,495	995,185	538,909	12,949,905
2012 .....	475,393	1,019,514	556,692	13,401,869

Calendar Years	Total Personal Income As A Percent of 2000 Base			
	New Jersey	New York	Pennsylvania	United States
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 .....	132.2	137.2	134.3	138.5
2010 .....	136.1	144.8	139.0	143.9
2011 .....	141.9	151.3	145.7	151.4
2012 .....	145.8	155.0	150.5	156.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of March 27, 2013.

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

**TABLE IV**

**2012 PER CAPITA PERSONAL INCOME FOR  
NEW JERSEY, SELECTED NEIGHBORING STATES AND THE UNITED STATES**

	<u>2011 Amount</u>	<u>2012 Amount</u>	<u>2012 Percent of National Average</u>	<u>Rank United States</u>	<u>Percent Change 2011 - 2012</u>
United States .....	41,560	42,772	100.0%	—	2.9%
New Jersey .....	52,430	53,629	125.4	3	2.3
New York .....	51,126	52,240	122.1	4	2.2
Pennsylvania .....	42,291	43,611	102.0	19	3.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of June, 2013.

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  
2002-2012**

<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>
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 .....	49,221	46,739	39,210	38,637
2010 .....	50,428	49,119	40,444	39,791
2011 .....	52,430	51,126	42,291	41,560
2012 .....	53,629	52,240	43,611	42,772

<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>
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 .....	127.4	121.0	101.5	100.0
2010 .....	126.7	123.4	101.6	100.0
2011 .....	126.2	123.0	101.8	100.0
2012 .....	125.4	122.1	102.0	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis as of June, 2013.

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, 2002-2012**  
**(In thousands)**

<u>Year</u>	<u>Total Non-farm Employment</u>	<u>Manufacturing</u>	<u>Natural Resources &amp; Mining</u>	<u>Construction</u>	<u>Trade, Transportation &amp; Utilities</u>	<u>Information</u>	<u>Financial Activities</u>	<u>Services and Miscellaneous*</u>	<u>Government</u>
2002 .....	3,983.6	367.5	1.6	162.6	881.4	113.2	276.7	1,567.1	613.5
2003 .....	3,976.9	350.5	1.6	160.5	874.7	102.0	276.2	1,589.6	622.0
2004 .....	3,998.0	338.3	1.6	165.8	873.9	98.0	276.9	1,610.0	633.5
2005 .....	4,038.1	330.5	1.7	169.1	877.0	97.1	279.6	1,641.5	641.6
2006 .....	4,069.4	323.7	1.7	174.9	874.1	97.5	279.3	1,671.2	647.2
2007 .....	4,076.6	311.3	1.7	172.4	872.7	96.0	275.7	1,698.8	647.9
2008 .....	4,048.9	298.9	1.6	164.4	860.2	91.2	270.4	1,712.8	649.3
2009 .....	3,893.6	266.3	1.5	138.6	817.3	84.3	255.6	1,677.8	652.2
2010 .....	3,848.2	257.1	1.4	129.5	808.4	79.3	251.5	1,681.5	639.6
2011 .....	3,846.7	251.5	1.3	129.9	814.6	76.6	249.5	1,704.6	618.7
2012 .....	3,895.8	245.4	1.3	130.4	822.7	77.5	249.0	1,749.4	620.2

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**  
**2002-2012**

<u>Calendar Years</u>	<u>New Jersey</u>	<u>United States</u>
2002 .....	5.8%	5.8%
2003 .....	5.9%	6.0%
2004 .....	4.9%	5.5%
2005 .....	4.5%	5.1%
2006 .....	4.7%	4.6%
2007 .....	4.3%	4.6%
2008 .....	5.5%	5.8%
2009 .....	9.0%	9.3%
2010 .....	9.6%	9.6%
2011 .....	9.4%	8.9%
2012 .....	9.5%	8.1%

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**  
**2002-2012**

<u>Calendar Years</u>	<u>New Jersey</u>	<u>New York</u>	<u>Pennsylvania</u>
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 .....	18.31	18.54	16.28
2010 .....	18.80	18.39	16.88
2011 .....	19.03	18.46	17.49
2012 .....	19.23	18.61	18.26

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

**TABLE IX**  
**NEW VEHICLE SALES**  
**NEW JERSEY**  
**2002-2012**

<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%
2012 .....	498,054	41,505	8.7%

\* 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: 2012**

	<u>New Jersey</u>		<u>United States</u>	
	<u>No. of Jobs(000)</u>	<u>% of Total</u>	<u>US Jobs(mil.)</u>	<u>% of Total</u>
Total Nonfarm .....	3,895.8	100.0%	133.7	100.0%
Manufacturing .....	245.4	6.3	11.9	8.9
Natural Resources & Mining .....	1.3	0.0	0.9	0.6
Construction .....	130.4	3.3	5.6	4.2
Trade, Transportation and Utilities .....	822.7	21.1	25.5	19.1
Information .....	77.5	2.0	2.7	2.0
Financial Activities .....	249.0	6.4	7.8	5.8
Services .....	1,749.4	44.9	57.4	42.9
Government .....	620.2	15.9	21.9	16.4

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 2012**

<u>Calendar Year</u>	<u>Estimated Nonresidential Costs (\$M)</u>	<u>% Change</u>
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%
2012 .....	5,576.1	-8.5%

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.

*P.L.* 2012, c. 35, amends the “Urban Transit Tax Hub Credit Act” to increase the cap on the total amount of tax credits authorized under such Act for eligible businesses making capital investments in the State. The cap is increased from \$1.5 billion to \$2.5 billion.

*P.L.* 2013, c. 14, known as the “New Jersey Angel Investor Tax Credit Act,” provides tax credits against Corporation Business Taxes and Gross Income Taxes for qualified investments made by high net worth individuals into high-risk start-up ventures. Subject to certain limitations, tax credits equal 10% of a taxpayer’s qualifying investment in an emerging technology company, up to a maximum allowed credit of \$500,000 per year for each qualifying investment.

### **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 2011 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 2011 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 2014, only applicants whose income for the 2011 tax year did not exceed \$80,000 and whose income for the 2012 tax year did not exceed \$70,000 are eligible to receive a 2012 PTR provided they met all the other program requirements. Residents whose 2012 income was over \$70,000 but not over \$82,880 will not receive PTRs for 2012. However, by filing a 2012 application, these residents can establish their eligibility for benefits in future years.

### **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 forgoing, 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:* 23/4%. 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*.

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**APPENDIX II**

**SUMMARY OF THE RESOLUTION**

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## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a general summary of certain provisions of the Resolution. Summaries of certain definitions contained in the Resolution are set forth below. Other terms defined in the Resolution for which summary definitions are not set forth are indicated by capitalization. This summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. A copy of the Resolution may be obtained from the Authority upon request.

### Definitions

The following are definitions in summary form of certain terms contained in the Resolution and used herein:

*Act* shall mean the New Jersey Educational Facilities Authority Law (being Chapter 72A of Title 18A of the New Jersey statutes, as enacted by Chapter 271 of the Laws of 1967, as amended and supplemented).

*Additional Bonds* shall mean Bonds authenticated and delivered upon original issuance pursuant to the General Resolution and includes Refunding Bonds.

*Additional Equipment* shall mean Equipment or Item(s) of Equipment acquired with the proceeds of a Series of Bonds issued pursuant to a Supplemental Resolution.

*Additional Rent* shall mean all amounts payable by a College to the Authority under its Agreement, including, but not limited to, the annual Trustee's fee and annual Authority Administrative Expenses allocated to the College as set forth in the respective Agreements, professional fees incurred for any arbitrage calculation, arbitrage rebate expenses and all direct and indirect costs and expenses incurred by the Authority related to the enforcement of the Agreements and the State Contract, including reasonable attorneys fees related thereto.

*Agreement or Agreements* shall mean the Lease Agreement or Lease Agreements, as applicable, by and between the Authority and the Colleges, and any and all modifications, alterations, amendments and supplements thereto which are made in accordance with the provisions of the Agreements and the Resolution.

*Annual Administrative Fee* shall mean the annual fee for the general administrative expenses of the Authority for each College that has entered into an Agreement with the Authority, in such amount as shall be determined by an Authority Officer, in a certificate signed by such Authority Officer.

*Authority Administrative Expenses* shall mean the expenses of the Authority and its agents and employees incurred or to be incurred by or on behalf of the Authority in the administration of its responsibilities under the Resolution and the Agreements, including, but not limited to, (i) the Annual Administrative Fee and all fees and expenses, including,

but not limited to, indemnification expenses, if any, incurred in connection with the issuance of any Bonds, (ii) all fees and expenses, including, but not limited to, indemnification expenses, if any, of counsel, fiduciaries and others, and (iii) any fees and expenses, including, but not limited to, indemnification expenses, if any, incurred by the Paying Agent, the Bond Registrar or the Trustee in connection with the performance of their respective fiduciary responsibilities under the Resolution and the Agreements, all to the extent not capitalized pursuant to the requirements of the Resolution, which Authority Administrative Expenses shall be paid as Additional Rent by the Colleges participating in the Program, all as set forth in the Agreements.

*Authority Officer* shall mean the means the Chair, Vice Chair, Executive Director, Deputy Executive Director, Director of Project Management, Director of Risk Management, Secretary, any Assistant Secretary, Assistant Treasurer and any such officers designated as “acting” or “interim,” and, when used with reference to an act or a document, also means any other person who shall be authorized by resolution of the Authority to perform such act or to execute such document;

*Authorized College Representative* shall mean any person or persons authorized to act on behalf of the College by virtue of a written certificate, duly executed on behalf of the College, setting forth such authorization and containing the specimen signature of each such person.

*Authorized Newspaper* shall mean The Bond Buyer or any other newspaper or publication of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the City of Trenton or the City of Newark, State of New Jersey, as designated by the Authority.

*Basic Rent* shall mean each College’s allocable share of the sum of money necessary to amortize 25% of the Debt Service Requirement on the Outstanding Bonds which shall be payable by each College pursuant to the terms of its respective Agreement and as described therein.

*Bond or Bonds* shall mean any of the bonds of the Authority including Additional Bonds and Refunding Bonds, authenticated and delivered under and pursuant to the terms of the Resolution.

*Bondholder or Holder* or any similar term when used with reference to a Bond or Bonds shall mean any person who shall be the registered owner of any Outstanding Bonds.

*Bond Proceeds Fund* shall mean the fund for any Series of Bonds so designated established by the Authority pursuant to the Resolution.

*Bond Year* shall mean the 12 month period set forth in a Supplemental Resolution authorizing a Series of Bonds.

*Business Day* shall mean any day that is not a Saturday, Sunday or legal holiday in the State or the State of New York, a day when the New York Stock Exchange is closed or a day on which the Trustee, Registrar, or any Paying Agent is legally authorized to close.

*Certificate of Authority Officer* shall mean any certificate executed by an Authority Officer for any purpose provided in the Resolution or in any Supplemental Resolution of the Authority.

*Code* shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time, and the regulations promulgated thereunder.

*College* shall mean all Private Colleges of Higher Education and Public Colleges of Higher Education that have entered into Agreements with the Authority pursuant to the terms of the Resolution.

*Cost or Costs of a Project* shall mean and shall be deemed to include, together with any other proper item of cost which is not specifically mentioned in the Resolution, whether incurred prior to or after the date of adoption of the Resolution (a) costs and expenses of the Authority which are incurred for labor and/or materials and payments to contractors, subcontractors, vendors, suppliers and materialmen in connection with the acquisition and installation of any part of any Project for any College; (b) the cost of contract bonds and insurance of any kind for any component of any Project; (c) the costs and expenses of the Authority for estimates and plans and specifications, if any, for any component of any Project; (d) compensation and expenses of the Trustee, Paying Agent, Registrar and/or other fiduciaries, financial advisory, legal, accounting, financial and printing expenses, fees and all other expenses incurred in connection with the issuance of the Bonds; (e) all other costs which the Authority shall be required to pay under the terms of any contract or contracts for the acquisition or installation of the Project; (f) any sums which are required to reimburse the appropriate College or the Authority for advances made by either or any of them for any of the above items, or for any other costs which are properly incurred and for work done by either or both of them, properly chargeable to the Project; (g) deposits into the Debt Service Fund for payment of interest on the Bonds and deposits in any other fund or account under the Resolution, all as shall be provided in the Resolution; (h) the payment of any Project Notes or similar evidences of indebtedness of the Authority issued temporarily to finance the payment of any item or items of cost of the Project (including any interest and redemption premiums thereon); (i) the administrative expenses of the Authority incurred in connection with the financing of the Project; and (j) such other expenses which are not specified in the Resolution as may be necessary or incidental to the construction, acquisition and installation of any Project, the financing thereof and the placing of the same in use and operation.

*Counsel's Opinion* shall mean an opinion which shall be signed by an attorney or firm of attorneys of recognized standing (who may be counsel or of counsel to the Authority) which shall be selected by the Authority, and, if such opinion is required to be

delivered to the Trustee, which firm shall be satisfactory to the Trustee.

*Debt Service Fund* shall mean the fund for any Series of Bonds so designated established by the Authority pursuant to the terms of the Resolution.

*Debt Service Requirement* shall mean, for any Series of Bonds for any period as of the date of calculation, an amount which is equal to the sum of:

1. The amount required to pay interest on Outstanding Bonds of such Series on the interest payment dates for such Bonds during such period except to the extent that such interest shall have been provided by payment into the Debt Service Fund out of Bond proceeds or by payment of investment income required or permitted to be transferred into the Revenue Fund or the Debt Service Fund;

2. The amount required to pay the principal of Outstanding Bonds of such Series on the date established for the payment of such principal of the Bonds during such period; provided, however, that, for the purpose of this calculation, the principal amount of Term Bonds shall be reduced by an amount which is equal to the Sinking Fund Installments which have been made prior to the date on which the Term Bonds mature; and

3. The Sinking Fund Installment, if any, for such Series of Bonds required to be made on the date established for the payment of Sinking Fund Installments with respect to such Bonds during such period.

*Defeasance Securities* shall mean (i) any direct and general obligation of, or any obligations unconditionally guaranteed by, the United States of America, including but not limited to interest obligations of the Resolution Funding Corporation or any successor thereof, (ii) any obligations of any state or political subdivision of a state (“Refunded Bonds”) which are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations unconditionally guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holders of the Refunded Bonds, (iii) certificates of ownership of the principal or interest of direct and general obligations of, or obligations guaranteed by, the United States of America, which obligations are held in trust by a commercial bank which is a member of the Federal Reserve System, (iv) obligations described in clause (ii) of the definition of “Investment Obligations,” and (v) obligations described in clause (x) of the definition of “Investment Obligations” which are rated, at the time of purchase, in the highest rating category, without regard to rating sub-categories, by any two Rating Agencies then rating the Bonds.

*DTC* shall mean the Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of State of New York, in its capacity as a securities depository for the Bonds.

*Equipment or Item(s) of Equipment* shall mean the capital equipment described in the Agreements and purchased and acquired with the proceeds of the Bonds which shall be comprised of “Higher Education Equipment” as defined in the Act.

*Event of Non-Appropriation* shall mean the failure by the New Jersey Legislature to appropriate funds to the Authority for any Fiscal Year in an amount sufficient to pay when due the Debt Service Requirement on the Bonds coming due in such Fiscal Year.

*Fiduciary* shall mean the Trustee, the Registrar or the Paying Agent, or any or all of them, as the case may be.

*General Fund* means the fund so designated established and created by the Authority for a Series of Bonds pursuant to the Resolution.

*Higher Education Equipment Leasing Fund* shall mean the fund so designated which is established and created by the Authority for any Series of Bonds pursuant to the Resolution.

*Investment Agreement* shall mean an investment agreement with (i) a commercial bank or trust company or a national banking association in any case having a capital stock and surplus of more than \$100,000,000, or (ii) an insurance company with the highest rating provided by A.M. Best Company, or (iii) a corporation; provided that the credit of such commercial bank or trust company or national banking association, insurance company or corporation, as the case may be, is rated (or, in the case of a corporation, whose obligations thereunder are guaranteed by a corporation whose credit is rated) not lower than the rating category of any two Rating Agencies then rating the Bonds required to maintain the rating then in effect or to obtain the rating to be obtained on the Bonds in respect of which such Investment Agreement is entered into, which agreement provides for the investment of funds held in the Funds and Accounts, which funds shall be collateralized by at least one hundred two percent (102%) in principal amount of Investment Obligations, as the same may be amended from time to time.

*Investment Obligations* shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Authority’s funds:

- (i) Defeasance Securities;
- (ii) Bonds, debentures, notes or other evidences of indebtedness issued by any agency or instrumentality of the United States to the extent such obligations are unconditionally guaranteed by the United States or by another such agency, the obligations (including guarantees) of which are unconditionally guaranteed by the United States;
- (iii) Bonds, debentures notes or other evidences of indebtedness issued by any corporation chartered by the United States, including, but not limited to, Governmental National Mortgage Association, Federal Land Banks, Federal Home Loan Mortgage

Corporation, Federal National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers Home Administration, Resolution Funding Corporation, Export-Import Bank, Federal Financing Bank and Student Loan Marketing Association;

(iv) Negotiable or non-negotiable certificates of deposit (or other time deposit arrangements) issued by any bank, trust company or national banking association, including a Fiduciary, which certificates of deposit shall be continuously secured or collateralized by obligations described in subparagraphs (i) or (ii) of this definition, which shall have a market value at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit;

(v) Uncollateralized negotiable or non-negotiable certificates of deposit (or other time deposit arrangements) issued by any bank, trust company or national banking association, the unsecured obligations of which are rated, at the time of purchase, in one of the two highest rating categories, without regard to rating sub-categories, by any two Rating Agencies;

(vi) Repurchase agreements collateralized by obligations described in subparagraphs (i), (ii) or (iii) of this definition with any registered broker/dealer subject to the Securities Investors Protection Corporation jurisdiction, which has an unsecured, unsecured and unguaranteed obligation rated in one of the two highest rating categories, without regard to rating sub-categories, by any two Rating Agencies, or any commercial bank with the above ratings, provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction, which characterizes the transaction as a purchase and sale of securities;

(b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$75,000,000, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee;

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. or a successor provision in such securities is created for the benefit of the Trustee;

(d) the repurchase agreement has a term of six months or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is



not restored within two Business Days of such valuation;

(e) the repurchase agreement matures or may be drawn upon in full on or before an interest payment date (or, if held in a Fund other than the Debt Service Fund, other appropriate liquidation period); and

(f) the fair market value of the securities in relation to the amount of the repurchase obligation is equal to the collateral levels established by a Rating Agency for the rating assigned by the Rating Agency to the seller.

(vii) Banker's acceptances, Eurodollar deposits and certificates of deposit (in addition to the certificates of deposit provided for by subparagraphs (iv) and (v) above) of the domestic branches of foreign banks having a capital and surplus of \$1,000,000,000 or more, or any bank or trust company organized under the laws of the United States of America or Canada, or any state or province thereof, having capital and surplus, in the amount of \$1,000,000,000; provided that the aggregate maturity value of all such banker's acceptances and certificates of deposit held at any time as investments of funds under this Resolution with respect to any particular bank, trust company, or national association shall not exceed 5% of its capital and surplus; and provided further than any such bank, trust company, or national association shall be rated in one of the two highest rating categories, without regard to rating sub-categories, by any two Rating Agencies;

(viii) Other obligations of the United States of America or any agency thereof which may then be purchased with funds belonging to the State or which are legal investments for savings banks in the State;

(ix) Deposits in the New Jersey Cash Management Fund;

(x) Obligations of any state, commonwealth or possession of the United States or a political subdivision thereof or any agency or instrumentality of such a state, commonwealth, possession or political subdivision, provided that at the time of their purchase such obligations are rated in either of the two highest rating categories, without regard to rating sub-categories, by any two Rating Agencies then rating the Bonds;

(xi) Commercial paper with a maturity date not in excess of 270 days rated by the Rating Agencies at least equal to the rating assigned by the Rating Agencies to the applicable Series of Bonds and in no event lower than the "A" category established by a Rating Agency (which may include sub-categories indicated by plus or minus or by numbers) at the time of such investment, issued by an entity incorporated under the laws of the United States or any state thereof;

(xii) Shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which is then rated in any of the three highest rating categories by each Rating Agency which is then rating the Bonds or money market accounts of the Trustee or any bank or trust company organized under the laws of the United States or any state thereof which has a

combined capital and surplus of not less than \$75,000,000;

(xiii) Investment contracts (a) providing for the future purchase of securities of the type described in (i), (ii), (iii) and (viii) above, which contracts have been approved for sale by a national securities exchange and all regulatory authorities having jurisdiction or (b) the obligor under which or the guarantor thereof shall have a credit rating such that its long term debt is rated in one of the two highest rating categories, without regard to rating sub-categories, by any two Rating Agencies then rating the Bonds;

(xiv) Investment Agreements; and

(xv) Any other investment approved in writing by the Treasurer.

*Lease Payment* shall mean the Rental Payment consisting of Basic Rent and, as applicable, Additional Rent payable pursuant to the terms of the Agreements.

*Lease Term* shall mean the period during which each Agreement is in effect as specified in such Agreement.

*Outstanding*, when used with reference to Bonds of any Series and as of any particular date, describes all Bonds of such Series theretofore and thereupon being authenticated and delivered except (a) any Bond of any Series which has been cancelled by the Authority or by the Registrar on or prior to said date; (b) any Bond of such Series for the payment or redemption of which either (i) cash, in an amount which is equal to the principal amount and redemption premium, if any, thereof, as the case may be, with interest accrued and unpaid and interest to accrue to the date of maturity or the redemption date, as the case may be, or (ii) moneys and/or Investment Obligations in the amounts, of the maturities and otherwise conforming with the provisions of the Resolution relating to defeasance, shall have theretofore been deposited with the Trustee in trust whether upon or prior to the maturity date or the redemption date of such Bonds and, except in the case of a Bond to be paid at maturity, of which notice of redemption shall have been given or provided for in accordance with the Resolution; and (c) any Bond of such Series in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution.

*Paying Agent* shall mean any paying agent for the Bonds appointed by the Authority in accordance with the Resolution, and its successor or successors, and any other corporation or association that may at any time be substituted in its place pursuant to the terms of the Resolution.

*Private College of Higher Education* shall mean independent colleges or universities incorporated and located in the State, which by virtue of law or character or license are nonprofit educational institutions authorized to grant academic degrees and which provide a level of education equivalent to the education provided by the State's public institutions of higher education as attested by the receipt of and continuation of regional accreditation by the Middle States Association of Colleges and Schools and

which are eligible to receive State aid.

*Program* shall mean the Higher Education Equipment Leasing Fund Program established by the Authority pursuant to the terms of the Act.

*Project or Projects* shall mean any Equipment or Additional Equipment acquired by the Authority with the proceeds of any Series of Bonds for lease to Colleges for use by such Colleges in furtherance of the Program and pursuant to the terms of the Resolution and the Agreements.

*Project Notes* shall mean any of the project notes of the Authority which are authenticated and delivered under and pursuant to the terms of any Project Note Resolution.

*Project Note Resolution* shall mean a resolution of the Authority providing for temporary financing of any Project.

*Public College of Higher Education* shall mean Rutgers, The State University of New Jersey, the New Jersey Institute of Technology, Kean University, Montclair State University, New Jersey City University, Ramapo College of New Jersey, The Richard Stockton College of New Jersey, Rowan University, The College of New Jersey, Thomas Edison State College, William Paterson University, the county colleges and any other public university or college now or hereinafter established or authorized by law.

*Rebate Fund* shall mean the fund so designated established by the Authority pursuant to the Resolution.

*Record Date* shall mean, with respect to a particular Series of Bonds, (a) fifteenth (15<sup>th</sup>) day (whether or not a business day) of the calendar month next preceding each interest payment date, in the event that the interest payment date is the first (1<sup>st</sup>) day of a month, (b) the first day (whether or not a business day) of the calendar month next preceding each interest payment date in the event that the interest payment date is the fifteenth (15<sup>th</sup>) day of the month or (c) as otherwise provided for a Series of Bonds in a Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of such Series of Bonds.

*Redemption Price*, shall mean, when used with respect to any Bond, the principal amount of such Bond (or portion thereof) plus the applicable redemption premium, if any, which is payable upon redemption thereof in the manner contemplated in accordance with its terms and in accordance with the terms of the Resolution, together with interest accrued thereon to the date fixed for redemption.

*Refunding Bonds* shall mean the Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to the Resolution, and any Refunding Bonds thereafter authenticated and delivered in lieu of or in substitution for such Refunding Bonds.

*Rent, Rental(s) or Rental Payment* shall mean the sum of Basic Rent and Additional Rent described in the Agreements.

*Registered Owner* shall mean the owner of any Bond issued in fully registered form, as determined on the Record Date and as reflected on the registration books of the Authority kept and maintained by the Registrar on behalf of the Authority.

*Registrar* shall mean the registrar or bond registrar for the Bonds which shall be appointed by the Authority pursuant to the Resolution, and its successor or successors, and any other corporation or association which may at any time be substituted in its place pursuant to the terms of the Resolution.

*Resolution* shall mean the Higher Education Equipment Leasing Fund Program General Bond Resolution, as the same may be amended and supplemented from time to time.

*Revenue Fund* shall mean the fund so designated established and created by the Authority for any Series of Bonds pursuant to the terms of the Resolution.

*Revenues* shall mean (i) all amounts appropriated and paid to the Authority by the State pursuant to the terms of the State Contract, (ii) any other amounts appropriated and paid by the State to the Authority or received from any other source by the Authority and pledged by the Authority as security for the payment of Bonds and (iii) any investment income derived from the investment of any funds held by the Trustee and deposited in the Revenue Fund pursuant to the terms of the Resolution.

*Series* shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction and so designated by the Supplemental Resolution of the Authority authorizing such Series of Bonds, regardless of variations in maturity, interest rate or other provisions, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for any of such Bonds pursuant to the terms of the Resolution.

*Sinking Fund* shall mean the fund so designated established and created by the Authority for any Series of Bonds pursuant to the Resolution.

*Sinking Fund Installment* shall mean the amount of money required by the terms of a Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of any Bonds of a Series to be paid from the Sinking Fund toward the retirement of any Term Bonds of such Series. However, Term Bonds does not include any amount payable by reason only of a maturity of a Bond.

*State* shall mean the State of New Jersey.

*State Contract* shall mean the Contract, as amended and modified from time to time, to provide for the payment of the Debt Service Requirement for each Series of

Bonds, by and between the Authority and the Treasurer pursuant to which the Treasurer, subject to available appropriation, shall pay the amount necessary to pay the Debt Service Requirement on all Outstanding Bonds and Project Notes, if any, issued by the Authority under the Resolution.

*Supplemental Resolution* shall mean any resolution of the Authority amending or supplementing the Resolution which is duly adopted and which becomes effective in accordance with the Resolution.

*Term Bonds* shall mean the Bonds of a Series which shall be stated to mature on one date, rather than serially, and which shall be subject to retirement by operation of the Sinking Fund.

*Treasurer* shall mean the Treasurer of the State.

*Trustee* shall mean the trustee for the Bonds which shall be appointed by the Authority pursuant to the Resolution, and its successor or successors, and any other corporation or association which may at any time be substituted in its place pursuant to the terms of the Resolution.

### **Authorization for the Resolution; Obligations of the Authority**

The Resolution is adopted pursuant to the provisions of the Act, and the Authority has determined that each and every act or matter for which provision is made in the Resolution is necessary in order to carry out the purposes of the Authority in accordance with the Act, to carry out powers expressly given to the Authority in the Act and to further secure the payment of the principal of, redemption premium, if any, and interest on the Bonds.

The provisions of the Resolution shall constitute contracts between the Authority, the Trustee and the holders of the Bonds of a Series. Any pledge made in the Resolution, and the covenants and agreements of the Authority contained therein, shall be for the equal benefit, protection and security of the holders of the Bonds of such Series, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds of any Series except as provided in the Resolution.

The Bonds of any Series shall be special and limited obligations of the Authority. The principal of, redemption premium, if any, and interest on such Bonds shall be payable from the Revenues pledged for such series, as provided in the Resolution. All Bonds and Bondholders shall be entitled to the benefit of the continuing pledge and lien created by the Resolution to secure the full and final payment of the principal of, redemption premium, if any, and interest on the Bonds.

### **Authorization for the Program**

The Resolution authorizes the Authority to issue Bonds in one or more Series from time to time to finance any Project constituting part of the Program as determined by resolution of the

Authority. The particular amounts and terms of any Series of Bonds for any particular Project or Projects shall be set forth in a Supplemental Resolution.

### **No Recourse on Bonds**

No recourse shall be had for the payment of the principal of, redemption premium, if any, of or the interest on the Bonds or for any claim based thereon or on the Resolution against any member or officer of the Authority or any person executing the Bonds, including the Trustee or the Registrar, as the case may be. THE BONDS SHALL NOT, IN ANY WAY, BE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY AND SHALL NOT CREATE OR CONSTITUTE ANY INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OR BE OR CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF.

### **General Provisions for Issuance of Each Series**

The Trustee shall not deliver to the Authority, or upon its order, any Bonds pursuant to the terms of the Resolution unless theretofore or simultaneously therewith there shall have been delivered or paid the Trustee the following:

- a. A copy of the General Bond Resolution, and a copy of each amending resolution of the Authority, if any, which has been duly adopted prior to the authentication and delivery of such series of Bonds certified by the Secretary of the Authority;
- b. A copy of the Supplemental Resolution of the Authority, if any, certified by the Secretary of the Authority fixing the rate or rates of interest on such Series of Bonds and all other terms and provisions of such Series of Bonds which are not fixed by the terms of the General Bond Resolution and a copy of each amending resolution of the Authority, if any, duly adopted prior to the authentication and delivery of such Series of Bonds in accordance with the Resolution, each certified by the Secretary of the Authority;
- c. The written order of the Authority as to the delivery of the Series of Bonds, signed by an Authority Officer and stating the amount of the proceeds derived from the sale of the Bonds and the application of such proceeds in accordance with the Resolution;
- d. A Counsel's Opinion stating, in the opinion of the signer, that (i) the Resolution and each Supplemental Resolution and each amending resolution adopted in connection with the issuance of the Bonds have been duly and lawfully adopted by the Authority, are in full force and effect and are valid and binding on the Authority and are enforceable in accordance with their terms; (ii) the Resolution creates the valid pledge which it purports to create of the Revenues, including payments made to the Authority from the State pursuant to the Act and as provided in the State Contract, subject to and dependent upon appropriations being made from time to time by the New Jersey State Legislature for such purpose; and (iii) the Bonds of such Series have been duly and validly authorized and issued by the Authority in accordance with the Constitution and the statutes of the State, including the Resolution and are entitled to the benefits of the Resolution and the Act and are enforceable in accordance with their terms and the terms of the

Resolution; provided however that such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;

e. A copy of all executed Agreements in existence at the time of issuance of such Series of Bonds, certified by the Secretary of the Authority;

f. Certified copies of the authorization proceedings, if any, related to the State Contract and a fully executed copy of the State Contract;

g. A Counsel's Opinion stating, in the opinion of the signer, that the Agreements (i) have been duly authorized pursuant to law, (ii) have been properly executed by the Authority and (iii) are valid and legally binding and enforceable agreements of the Authority, in accordance with their terms; provided, however, that such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization, or other laws affecting creditors' rights generally;

h. Duly certified copies of each College's resolution approving and authorizing the execution of its Agreement along with duly certified copies of the authorization proceedings related thereto;

i. The written consent of the Treasurer with respect to the issuance of such Series of Bonds;

j. The amounts required to be delivered to the Trustee pursuant to the terms of the Resolution relating to the disbursement of proceeds of sale; and

k. Any additional documents required to be executed and delivered pursuant to the terms of any contract which is executed by or on behalf of the Authority in connection with the sale of the Series of Bonds, unless waived by the purchaser of such Series of Bonds.

All of the Bonds of each Series of like maturity shall be identical in all respects, except as to denominations, numbers and letters. After the original issuance of the Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series.

### **Additional Bonds**

One or more Series of Additional Bonds may be authenticated and delivered upon original issuance for the purpose of paying for Additional Equipment upon (i) the prior written consent of the Treasurer consenting to such Series of Additional Bonds and confirming that such Additional Bonds will be entitled to the benefits of the State Contract and (ii) compliance with the terms and conditions for the issuance of each Series as set forth in the Resolution.

The proceeds, including accrued interest, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Additional Bonds, as provided in the Supplemental Resolution authorizing such Series.

## **Refunding Bonds**

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all or any portion, as determined by the Authority, of any Outstanding Bonds of one or more Series or one or more maturities within the Series of Bonds upon the prior written consent of the Treasurer consenting to such Series of Refunding Bonds and confirming that such Refunding Bonds will be entitled to the benefits of the State Contract.

Prior to or simultaneously with the delivery of each such Series of Refunding Bonds, the Trustee shall receive, in addition to the items required by the general provisions for the issuance of each Series as set forth in the Resolution:

- a. Irrevocable written instructions to the Trustee to give due notice of redemption of all the Bonds, if any, to be redeemed on a redemption date specified in such instructions;
- b. If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable written instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in the Resolution to the holders of the Bonds being refunded, except in the case where any Series of Bonds is not by its terms subject to redemption; and
- c. Executed copies of amendments, if required in connection with such Refunding Bonds, to the applicable Agreements certified to by an Authorized Authority Officer and an Authorized College Representative and acknowledged and accepted by the State as being in full force and effect.

The proceeds, including accrued interest, of the Refunding Bonds of such Series shall be applied simultaneously with the delivery of such Refunding Bonds, as provided in the Supplemental Resolution authorizing such Series. Upon the defeasance of the Bonds being refunded, the refunded Bonds shall no longer be entitled to the benefit of the State Contract.

## **Bond Proceeds Fund**

The Authority shall establish and create the Bond Proceeds Fund. The Trustee shall provide for the payment into such Bond Proceeds Fund of the amount of the proceeds derived from the sale of such Series of Bonds designated by the applicable Supplemental Resolution to be deposited in such Bond Proceeds Fund for disbursement, in accordance with the provisions of the Resolution and the applicable Supplemental Resolution, (i) to fund the acquisition and installation of Equipment for Colleges pursuant to the Program through deposits to the Higher Education Equipment Leasing Fund; (ii) to pay costs incurred in connection with the issuance of Bonds; and (iii) to pay a portion of the purchase price of Investment Obligations, if any, to be held by the Trustee pursuant to the provisions of the Resolution and the applicable Supplemental Resolution. Amounts which are deposited in the Bond Proceeds Fund shall be held by the Trustee in trust and shall be applied in accordance with and subject to the limitations of the Resolution and such moneys are pledged, pending application of such amounts, to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds and such moneys shall at all times be subject to the lien of such pledge.



## **Higher Education Equipment Leasing Fund**

The Authority shall establish and create the Higher Education Equipment Leasing Fund into which shall be deposited any moneys received by the Authority from any source for payment of Costs related to the acquisition and installation of any Project. Amounts deposited into the Project Fund shall be held by the Trustee in trust and shall be applied to pay the Cost of the Project, exclusive of costs of issuance, and such moneys are pledged, pending application to the payment of such Cost, to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds. The Trustee shall establish within the Higher Education Equipment Leasing Fund a separate account for each individual project identified in any particular Agreement for a College comprising any Project described in any Supplemental Resolution.

Except as otherwise provided in the applicable Supplemental Resolution, the Trustee shall transfer from the Bond Proceeds Fund and deposit to the credit of each separate account within the Higher Education Equipment Leasing Fund the amount as set forth in a Certificate of Authority Officer upon execution of each Agreement with a College and receipt by the Trustee of (i) a certificate signed by an Authority Officer or a duly authorized agent of the Authority with respect to the approval of the acquisition and installation of the Equipment for such College, and (ii) a certificate of an Authorized College Representative as to, among other things, the validity of the Agreement. Nothing in the Resolution shall prohibit the deposit of monies or investments in any account from sources other than the proceeds of sale of a Series of Bonds.

The Trustee shall make payment from the Higher Education Equipment Leasing Fund for the Cost of the individual Items of Equipment constituting a Project in accordance with the Resolution. All payments from the Higher Education Equipment Leasing Fund shall be subject to the provisions and restrictions set forth in the Resolution, and the Authority shall not cause or permit to be paid from the Higher Education Equipment Leasing Fund any sums except in accordance with such provisions and restrictions.

## **Payments from Bond Proceeds Funds and Higher Education Equipment Leasing Fund**

(1) As soon as practicable after the delivery of each Series of Bonds, the Authority shall direct the Trustee to pay from the Bond Proceeds Fund to the firms, corporations or persons entitled thereto the legal, administrative, financing and incidental expenses of the Authority relating to the issuance of each Series of Bonds.

(2) Except as otherwise provided in the Resolution or any applicable Supplemental Resolution, any moneys deposited in such Higher Education Equipment Leasing Fund shall be used only to pay the costs of each Project, necessary incidental expenses and reimbursement to each College and costs and expenses paid by each College in connection with its Project as are approved by the Authority. Such payments shall be made in accordance with procedures set forth in the Resolution.

(3) Payments pursuant to paragraph (1) above shall be made in accordance with a certificate or certificates signed by the Treasurer or the Director of the Office of Public Finance

of the State, stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment. Payments pursuant to paragraph (2) above shall be made in accordance with a certificate or certificates signed by an Authorized Officer of the Authority stating the names of the payees, the purpose of each payment in terms sufficient for identification and the respective amounts of each such payment, substantiated by a certificate filed with the Authority describing the reasonable detail the purpose for which such moneys were used and the amount thereof, and further stating the opinion that such purposes constitute a necessary part of the cost of each Project, such substantiating certificate to be signed by an Authorized College Representative. If a College requests a copy of any certificate issued by the Authority pursuant to the Resolution, the Authority shall comply with such request.

(4) Upon completion of each Project, the Authority shall deliver to the Trustee a certificate signed by an Authorized Officer of the Authority and a College Representative certifying the completion of the Project.

(5) Unless otherwise provided in the Supplemental Resolution authorizing such Series of Bonds, any balance remaining in the Bond Proceeds Fund on the date which is ninety (90) days following the date of issuance of the related Series of Bonds shall be transferred by the Trustee to the Revenue Fund, such amounts to be used to make deposits into the Debt Service Fund for application toward the payment of interest on such Series of Bonds.

The Trustee, when directed in writing by an Authority Officer, shall apply the balance on deposit in the Higher Education Equipment Leasing Fund of a Series of Bonds or, more particularly, in any subaccount maintained for any particular College, as provided in the Resolution. Before any such application shall be made, the Authority shall file a Certificate of Authority Officer with the Trustee and such certificate shall state that the portion of the Project for which the funds were deposited in the Higher Education Equipment Leasing Fund or applicable subaccount thereof has been completed and that the sum stated in the certificate is sufficient to pay, and is required to be reserved in the Higher Education Equipment Leasing Fund to pay, all items of Cost of such portion of the Project which, as of the date of such certificate, remain unpaid, including an estimate of the amount of any such items which is not finally determined and all claims against the Authority arising out of the acquisition and installation thereof.

Upon receipt of such Certificate of Authority Officer, the Trustee shall transfer the balance in the Higher Education Equipment Leasing Fund or applicable subaccount thereof, in excess of the amount stated in such certificate, to the Revenue Fund. Such amounts shall be used to make deposits into the Debt Service Fund for application toward the payment of interest on the related Series of Bonds

### **Establishment of Additional Funds**

In addition to the Bond Proceeds Fund and Higher Education Equipment Leasing Fund for a Series of Bonds, the Authority shall establish the following special funds for such Series: (a) Revenue Fund; (b) Debt Service Fund; (c) Sinking Fund, if applicable; (d) General Fund; and (e) Rebate Fund. Each of said funds shall be held by the Trustee.

Other funds may be created by Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of a particular Series of Bonds. However, prior to the creation of any such fund, the Authority shall deliver a written opinion of Bond Counsel to the Authority and the Trustee stating that, the creation of such fund will not adversely affect the rights of existing Bondholders.

### **Pledge Securing Bonds**

The Revenues (except Revenues consisting of investment earnings that are required to be rebated the Federal Government pursuant to the provisions of the Code in order to insure that interest on the Bonds is excluded from gross income for Federal income tax purposes) and all moneys, securities and funds held or set aside pursuant to the terms of the Resolution or held in any funds established under the Resolution (except the Rebate Fund) are pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds. The Projects themselves are not pledged, and there is no specific lien on such Projects as security for the Bonds. This pledge shall be valid and binding from and after the date of the first delivery by the Trustee of the first Bond authenticated and delivered under the terms of the Resolution. Except to the extent provided above, the Revenues and other moneys, securities and funds so pledged and thereafter received by the Authority, and any other moneys pledged in accordance with the Resolution, shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act. The lien of this pledge and the obligation to perform the contractual provisions made by the Resolution shall have priority over any or all other obligations issued by the Authority and all other liabilities of the Authority. The lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

### **Revenue Fund**

From and after authentication and delivery of the first Bond authenticated and delivered under the terms of the Resolution, all Revenues shall be collected by the Authority and deposited in the name of the Trustee with a depository or depositories, each of which shall be fully qualified under the provisions of the Resolution and shall have been designated by the Authority to receive the same as deposits of moneys held by the Trustee. Statements giving the amount of each such deposit and the name of the depository shall be forwarded promptly to the Trustee by the Authority and by such depository. The Trustee shall be accountable only for moneys which are actually so deposited. All such Revenues shall be deposited by the Trustee into the Revenue Fund unless otherwise provided in the Resolution. Any moneys held in the Revenue Fund shall be invested, at the oral direction of an Authority Officer (promptly confirmed in writing), by the Trustee in Investment Obligations.

The Trustee shall, as of the first Business Day prior to the next occurring interest payment date, principal maturity date and/or Sinking Fund Installment due date (in each case, the "Next Payment Date") make payments out of any moneys on deposit in the Revenue Fund into the following funds, but only within the limitation indicated and only after maximum payment within such limitation into every such fund:

(1) Into the Debt Service Fund to the extent, if any, needed to increase the amount on deposit in the Debt Service Fund to equal the Debt Service Requirement on the Next Payment Date; provided, however, that for purposes of this Section, "Debt Service Requirement" shall not include any amounts which are payable into the Sinking Fund below;

(2) Into the Sinking Fund, to the extent, if any, needed to increase the amount on deposit in the Sinking Fund to the amount equal to the amount of all Sinking Fund Installments due and payable on or before the Next Payment Date; and

(3) Into the General Fund, to the extent any funds are available.

### **Debt Service Fund**

Immediately prior to each interest payment date established for the Bonds, the Trustee shall withdraw from the Debt Service Fund an amount equal to the interest due on the Bonds on such interest payment date and shall deposit such amount with the Paying Agent who shall apply the same to the payment of said interest when due. If such withdrawals with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Debt Service Fund, prior to each principal maturity date of the Bonds, an amount equal to the principal amount of Bonds, if any, maturing on said day and shall deposit such amount with the Paying Agent who shall apply such amounts to the payment of the principal of said Bonds. If both of these withdrawals with respect to the same and every prior date have been made, the Trustee shall withdraw from time to time from the Debt Service Fund and pay into any account maintained in the Sinking Fund the amount sufficient to reimburse said account for any amounts theretofore paid from said account for or on account of accrued interest on Bonds purchased in accordance with the Sinking Fund provisions of the Resolution.

As soon as reasonably practicable, the Trustee shall withdraw from the Debt Service Fund the amount of any prior interest, principal or Redemption Price payments which remain unpaid by reason of the occurrence of an Event of Non-Appropriation and cause the same to be deposited with the Paying Agent who shall apply such amounts to the payment of interest, principal and/or Redemption Price, as applicable, on such Bonds.

Any moneys on deposit in the Debt Service Fund shall be invested at the oral direction of an Authority Officer (promptly confirmed in writing) by the Trustee in Investment Obligations. However, the maturity of every such Investment Obligation shall not be later than the time when such funds are needed to pay interest on or principal of any Bonds. Any investment income derived from the investment of moneys on deposit in the Debt Service Fund shall be deposited in the Revenue Fund. However, at the written direction of an Authority Officer investment income derived from the investment of moneys which represent capitalized interest on Bonds and which were deposited in the Debt Service Fund from the proceeds derived from the sale of any Bonds may be deposited in the Bond Proceeds Fund. No amount shall be withdrawn from or paid out of the Debt Service Fund except as expressly provided in the Resolution.

## **Sinking Fund**

The Trustee shall establish in the Sinking Fund a separate account for each Series of Term Bonds for which Sinking Fund Installments are established in accordance with the Resolution. Moneys paid into the Sinking Fund pursuant to the terms of the Resolution relating to periodic withdrawals from the Revenue Fund shall be set aside in such accounts in proportion to the respective amounts of the Sinking Fund Installments payable at the next Payment Date with respect to the particular Term Bonds for which each such account is maintained. Moneys paid into the Sinking Fund pursuant to the terms of the Resolution relating to application of the Sinking Fund shall be set aside in the account which is maintained therein with respect to which such payment is a reimbursement. Moneys which are paid into Sinking Fund on account of any particular Sinking Fund Installment shall be set aside in the account which is maintained therein for the particular Term Bonds which are entitled to said Sinking Fund Installment. All other moneys paid into the Sinking Fund, including any income derived from the Investment of any moneys held therein, shall be set aside by the Trustee in such accounts in proportion the respective principal amount of Term Bonds for which each such account is maintained.

The Trustee shall apply the moneys in any account established in the Sinking Fund to the purchase or redemption of the Bonds for which such account is maintained or to the payment of the principal thereof at maturity. If on any date there shall be moneys in any such account and none of the Term Bonds for which such account was established shall be Outstanding, said account shall be closed and the moneys on deposit therein shall be withdrawn therefrom by the Trustee and set aside in the other amounts in the Sinking Fund as if paid into the Sinking Fund by the Authority on said date pursuant to the Resolution, or, if no other accounts shall be maintained in the Sinking Fund, such amount shall be deposited into the Revenue Fund.

The purchase price paid by the Trustee for any Bond purchased pursuant to the terms of the Resolution relating to the Sinking Fund shall not exceed its Redemption Price. Subject to certain limitations set forth in the Resolution, at the written direction of the Treasurer, the Trustee shall purchase Bonds at such times, for such prices, such amounts and in such manner as the Trustee in its sole discretion may determine and as may be possible with the amount of moneys which are available therefor in the Sinking Fund.

As soon as practicable after the sixtieth (60<sup>th</sup>) day and before the thirtieth (30<sup>th</sup>) day prior to the date of each Sinking Fund Installment, the Trustee shall select for redemption on such Sinking Fund Installment due date such amount of Term Bonds of the Series for which the Sinking Fund Installment was established as will exhaust all moneys which are required to have been deposited in the Sinking Fund as of such Sinking Fund Installment due date. Accrued interest on the Bonds which are to be redeemed shall be paid from Debt Service Fund and all expenses which are incurred by the Trustee in connection with such redemption shall be paid as Additional Rent by the Colleges pursuant to the respective Agreements. Prior to the date fixed for redemption the Trustee shall withdraw from the Sinking Fund the amount of the Redemption Price of such Bonds, and such amount shall be transferred to the Paying Agent by the Trustee and such amount shall be applied by the Paying Agent to the redemption of such Bonds on the dated fixed for redemption.

In lieu of purchasing or redeeming Term Bonds prior to their stated maturity date in accordance with the Sinking Fund provisions of the Resolution, the Authority may elect to retain the funds which have been deposited into the Sinking Fund, or any portion thereof, until the stated maturity date of such Bonds, and an Authority Officer may direct the Trustee to invest such funds in Investment Obligations. However, each such Investment Obligation shall mature not later than the stated maturity date of such Bonds. Such election shall be made, as to all or part of the Term Bonds of such Series, on or prior to the date that such Term Bonds are authenticated and delivered. Any funds retained in the Sinking Fund at the election of the Treasurer pursuant to the terms of this paragraph shall be invested by the Trustee at the oral direction of the Authority (promptly confirmed in writing). In the event any Investment Obligations purchased mature or are redeemed by the issuer thereof prior to the maturity date of the Term Bonds for which the Sinking Fund Installments were made, the Trustee, at the oral direction of the Treasurer (promptly confirmed in writing) shall either reinvest the moneys in accordance with the terms of this paragraph, purchase Term Bonds with respect to which the Sinking Fund Installments were made at any time at prices not exceeding the principal amount thereof or redeem such Term Bonds in accordance with the provisions of the Resolution authorizing redemption of such Term Bonds at the option of the Treasurer.

Moneys on deposit in the Sinking Fund shall not be used to pay more than the principal amount of the Bonds which are to be redeemed. The Treasurer shall not make any such election unless, in the opinion of Bond Counsel to the Authority, such election and investment will not cause the interest on the Bonds to become subject to Federal income taxation.

Investment income derived from the investment of any funds held in the Sinking Fund shall be deposited by the Trustee in the Revenue Fund.

Any moneys on deposit in the Sinking Fund shall be invested in Investment Obligations at the oral direction of an Authority Officer (promptly confirmed in writing). However, other than in connection with investment income deposited in the Revenue Fund as described above, the maturity of every such Investment Obligation shall not be later than the time when such funds are needed for the purposes of the Sinking Fund.

If, immediately prior to the date which is established for the payment of a Sinking Fund Installment, all withdrawals or payments from the Sinking Fund required to be made pursuant to any other provision of the Resolution with respect to the same and every prior date shall have been made, and the amount which is on deposit in the Sinking Fund exceeds the aggregate principal amount of all Bonds which are then Outstanding for which Sinking Fund Installments have been established, such excess may be transferred by the Trustee upon the written direction of the Treasurer into the Revenue Fund.

## **General Fund**

Whenever at any date in any Bond Year (a) the amount on deposit in the Debt Service Fund equals or exceeds the Debt Service Requirement, (b) the amount on deposit in the Sinking Fund, if any, equals or exceeds the aggregate amount of all Sinking Fund Installments due at or before the next succeeding date established for the payment of Sinking Fund Installments for the

Bonds and (c) the Authority is not in default in the payment of the principal of, redemption premium, if any, or interest on any of the Bonds, the Trustee shall, upon the direction of the Authority, withdraw from and pay out of the General Fund, free and clear of any lien or pledge created by the terms of the Resolution, any amount which is then on deposit in the General Fund in excess of the amount then reasonably required in the opinion of the Authority for the payment or the security of the Bonds and for any current or anticipated Project. All amounts so withdrawn by the Trustee from the General Fund shall be paid to the Treasurer. Unless otherwise specifically provided by the Treasurer, all amounts so paid to the Treasurer shall, upon withdrawal, be forever free and clear of any lien or pledge created by the terms of the Resolution. Any amounts so withdrawn may be re-deposited by the Trustee in the Revenue Fund at the written direction of the Treasurer. All moneys in the General Fund shall be invested by the Trustee at the oral direction of an Authority Officer (promptly confirmed in writing). However, the maturity of every such Investment Obligation shall not be later than three (3) years from the date of such investment. All income which is derived from the investment of moneys which are not on deposit in the General Fund shall be deposited in the Revenue Fund. No amount shall be withdrawn from or paid out of the General Fund except as expressly provided in the Resolution.

### **Rebate Fund**

The Authority and the Trustee shall deposit amounts in the Rebate Fund, and the Trustee shall apply such amounts to make payments to the United States pursuant to Section 148 of the Code, all as provided in the arbitrage and tax certificate or similar certificates delivered in connection with the issuance of each Series of Bonds or as otherwise advised in writing by Bond Counsel. Moneys which are on deposit in the Rebate Fund shall be invested by the Trustee, at the oral direction of an Authority Officer (promptly confirmed in writing), in Investment Obligations; provided, however, that such investments shall mature in such amounts and at such times as will permit funds to be available when needed to make payments to the United States in accordance with the terms of the Resolution. All income from such Investment Obligations shall be held within the Rebate Fund. The Trustee shall, upon receipt of the written direction of the Authority, withdraw from and pay out of the Rebate Fund, any amount which is then on deposit in the Rebate Fund in excess of the amount which is then reasonably required, in the opinion of the Authority, to be reserved for the payment to the United States pursuant to Section 148 of the Code. All amounts which are so withdrawn by the Trustee from the Rebate Fund shall forthwith upon withdrawal be paid and/or deposited in accordance with the written direction of the Authority.

### **Assignment of State Contract**

All rights of the Authority to receive payments from the State under the provisions of the State Contract are pledged for the benefit and security of the holders of the Bonds in order to secure the punctual performance by the Authority of all of its obligations under the terms and provisions of the Resolution with respect to such Bonds and, for said purpose, such rights are assigned by the Authority to the Trustee. All payments to be received by the Authority pursuant to the terms of the State Contract are to be paid directly to the Trustee. Prior to or simultaneously with the delivery of the Bonds, or any Series thereof, an Authority Officer shall deliver notification of such assignment to the Treasurer.

## **Obligations of the Trustee**

The Trustee shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms and conditions of the Agreements with the Colleges, including, without limitation, the prompt payment of all Basic Rent and Additional Rent and all other amounts due to the Trustee thereunder, and the observance and performance of all duties, covenants, obligations and agreements thereunder. The Trustee shall not release the duties, covenants, obligations or agreements of the Colleges under the Agreements and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Authority, the State and the Holders under or with respect to each Agreement. However, this provision shall not be construed to prevent the Trustee, with the written consent of the Authority and the State, from settling a default under the Agreements on such terms as the Trustee shall determine to be in the best interests of the Authority and the Holders. The Authority shall appoint the Trustee its agent and attorney-in-fact for purposes of enforcing all rights, title and interests of the Authority under the Agreements, subject to the provisions of the Resolution relating to the Agreements.

## **Redemption of the Bonds**

The Bonds of any Series which are subject to redemption prior to maturity at the option of the Authority shall be subject to redemption pursuant to procedures set forth in the Resolution and any applicable Supplemental Resolution. In all such cases, the Bonds shall be redeemed at the Redemption Prices set forth in said Bonds.

## **Supplemental Resolutions**

For any one or more of the following purposes and in accordance with the Resolution, a resolution of the Authority supplementing the Resolution may be adopted:

- (1) To close the Resolution against, or provide limitations and restrictions (in addition to the limitations and restrictions contained in the Resolution) on the issuance in the future of Bonds, or of project notes, bonds, obligations or other evidences of indebtedness;
- (2) To add other covenants or agreements to be observed by the Authority to the covenants or agreements of the Authority which are contained in the Resolution; provided, however, that such other covenants and agreements are not contrary to or inconsistent with the terms of the Resolution as theretofore in effect;
- (3) To add other limitations or restrictions to be observed by the Authority to the limitations or restrictions which are contained in the Resolution; provided, however, that such other limitations or restrictions are not contrary to or inconsistent with the terms of the Resolution as theretofore in effect;
- (4) To surrender any right, power or privilege which is reserved to or conferred upon the Authority by the terms of the Resolution;



(5) To confirm, as further assurance, any pledge which is created under, and the subjection to any lien or pledge created or to be created by, the terms of the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To specify, determine or authorize any and all matters and things relative to the Bonds or the proceeds which are derived or which are to be derived from the sale thereof which are not contrary to or inconsistent with the terms of the Resolution;

(7) To authorize Bonds to finance any Project constituting a part of the Program, or, in connection therewith, to specify, determine or authorize the matters and things which are referred to in the Resolution. and any other matters and things relative to such Bonds or to the proceeds derived from the sale thereof which are not contrary to or inconsistent with the terms of the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the authentication and delivery of the Bonds; and

(8) To make any other change in the Resolution that in the opinion of Bond Counsel to the Authority does not adversely affect the rights of the holders of any of the Bonds.

For any one or more of the following purposes and in accordance with the Resolution, a resolution of the Authority amending or supplementing the Resolution may be adopted:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; and

(2) To insert such provisions clarifying matters or questions arising under the terms of the Resolution as are necessary or desirable and which are not contrary to or inconsistent with the terms of the Resolution as theretofore in effect.

Additionally, a resolution of the Authority amending or supplementing the Resolution may be adopted modifying any of the provisions of the Resolution or releasing the Authority from any of the obligations, covenants, agreements, limitations, conditions or restrictions contained therein, in accordance with the Resolution if (1) no Bonds authenticated and delivered by the Trustee upon original issuance, or thereafter by the Registrar, prior to the adoption of such resolution remain Outstanding at the time such resolution becomes effective or (2) such resolution is consented to by or on behalf of Bondholders in accordance with the Resolution.

## **Amendments**

Any modification or amendment of the provisions of the Resolution or of any resolution amendatory thereof or supplemental thereto and of the rights and obligations of the Authority and of the holders of the Bonds may be made by resolution of the Authority with the written consent of the holders of at least two-thirds in aggregate principal amount of the Bonds which are then Outstanding, or, if said resolution affects only the holders of a certain Series of Bonds, the holders of at least two-thirds in aggregate principal amount of the Bonds of such Series which are Outstanding at the time such consent is given. However, no such modification or

amendment shall permit a change in the maturity or terms of redemption of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Redemption Price thereof or in the rate of interest thereon or any security therefor without the consent of the holder of such Bond. Further, no such modification or amendment shall reduce the percentages or otherwise affect the description of Bonds the consent of the holders of which is required to effect any such modification or amendment. The Trustee may in its sole discretion or upon reliance on an opinion of counsel determine whether or not in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity, or any particular holder, would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the Authority and on all the holders of the Bonds when such determination is delivered in writing to the Authority by the Trustee. Notwithstanding the foregoing, any provision of the Resolution may be amended without the consent of Bondholders if it is determined by the Authority and consented to by the Trustee that such amendment does not adversely affect the interests of such Bondholders.

### **Events of Default**

The occurrence of any of the following events shall constitute an Event of Default:

- (a) Default in the due and punctual payment of any interest on any Bond;
- (b) Default in the due and punctual payment of the principal or redemption premium, if any, on any Bond, whether at the stated maturity thereof;
- (c) Subject to the provisions of the Resolution relating to notice of and opportunity to cure Events of Default, failure by the Authority to observe and to perform any covenant, condition or agreement on the part of the Authority which is provided by Resolution or in the Bonds and the continuance of such failure for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, shall be given to the Authority by the Trustee; or
- (d) The filing of a petition by the Authority 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.

NOTWITHSTANDING ANYTHING CONTAINED IN THE EVENTS OF DEFAULT SECTION OF THE RESOLUTION TO THE CONTRARY, A FAILURE BY THE AUTHORITY TO PAY WHEN DUE ANY PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON ANY BONDS REQUIRED TO BE MADE UNDER THE RESOLUTION OR THE BONDS, OR A FAILURE BY THE AUTHORITY TO OBSERVE AND PERFORM ANY COVENANT, CONDITION OR AGREEMENT ON ITS PART TO BE OBSERVED OR PERFORMED UNDER THE RESOLUTION OR THE BONDS, RESULTING FROM THE OCCURRENCE OF AN EVENT OF NON-APPROPRIATION SHALL NOT CONSTITUTE AN EVENT OF DEFAULT UNDER THE RESOLUTION.

If an Event of Default shall have occurred and be continuing, then, and in each such case,

the Trustee or holder of any Bonds may (i) sue to collect sums due under such Bonds or to enforce and protect the rights of the holders of such Bonds and (ii) compel, to the extent permitted by law, by mandamus or otherwise, the performance by the Authority of any covenant made in this Resolution or the Bonds.

Nothing in the Resolution or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay, from the sources provided in the Resolution, on the respective interest payment dates, redemption dates or dates of maturity and places therein expressed, the principal or Redemption Price of and interest on the Bonds to the respective holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any holder to enforce such payment of its Bonds.

No remedy which is conferred upon or reserved to the Trustee or to the Bondholders by the terms of the Resolution is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such occurrence of any Event of Default or the acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default hereunder, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent Event of Default or shall impair any right or remedies consequent thereon.

If an Event of Default shall have occurred and shall be continuing and if requested to do so by the holders of not less than a majority in aggregate principal amount of the Bonds which are then Outstanding and if indemnified as provided in the Resolution, the Trustee shall be obligated to exercise such one or more of the rights and the remedies conferred by the Resolution as the Trustee shall deem to be in the interests of the Bondholders and which are not contrary to law.

### **Application of Moneys after Event of Default**

(i) If an Event of Default has occurred and is continuing, all moneys which are received by the Trustee pursuant to any right which is given or any action which is taken under the provisions of the Resolution pertaining to an Event of Default shall be deposited into the Debt Service Fund after payment of the costs and the expenses of the proceedings resulting in the collection of such moneys and after payment of the fees and expenses which have been incurred or made by the Trustee, including legal fees, and all moneys which are on deposit in the various funds (except the Rebate Fund) established under the terms of the Resolution after payment of all costs and expenses of the Trustee, including counsel fee shall be applied as follows:

First: To the payment to the persons who are entitled thereto of all installments of

interest which are then due on the Bonds in the order of the maturity of the installments of such interest and, if the amount which is available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amount due on such installment, to the persons who are entitled thereto, without any discrimination or privilege; and

Second: To the payment to the persons who are entitled thereto of the unpaid principal or Redemption Price of any of the Bonds that shall have become due (other than principal of Bonds with respect to the payment of which moneys are held pursuant to the provisions of the Resolution), in the order of their due dates and, if the amount which is available shall not be sufficient to pay in full the Bonds which are due on any particular date, then to the payment ratably, according to the amount of principal or Redemption Price due on such date, to the persons who are entitled thereto without any discrimination or privilege.

(ii) Whenever all overdue installments of principal or Redemption Price of and the interest on all Bonds have been paid under the provisions of the section of the Resolution pertaining to the application of moneys after an Event of Default and all fees and expenses, including legal fees and charges of the Trustee have been paid, any balance which is remaining in the Debt Service Fund shall be deposited into the General Fund under the Resolution and thereafter paid to the Treasurer.

Whenever moneys are to be applied pursuant to the provisions of the section of the Resolution pertaining to the application of moneys after an Event of Default, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine having due regard to the amount of such moneys which are available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and on such date, interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and shall not be required to make payment to the holder of any Bond until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if paid in full.

If and whenever all Events of Default under the Resolution shall be cured to the satisfaction of the Trustee and all amounts due and payable to the Bondholders and the Trustee have been paid or provision deemed to be adequate by the Trustee for such cure or payment shall be made, the Authority and the Trustee shall be restored, respectively, to their former positions and rights with respect to Bonds under the Resolution. No such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

### **Application of Moneys after Event of Non-Appropriation**

From and after the occurrence of an Event of Non-Appropriation, and provided that there shall not have occurred and be continuing an Event of Default, all moneys which are received by the Trustee pursuant to any right which is given or any action which is taken under the

provisions of the Resolution pertaining to an Event of Non-Appropriation shall be deposited into the Debt Service Fund after payment of the costs and the expenses of the proceedings resulting in the collection of such moneys and after payment of the fees and expenses which have been incurred or made by the Trustee, including legal fees, and all moneys which are on deposit in the various funds (except the Rebate Fund) established under the terms of the Resolution after payment of all costs and expenses of the Trustee, including counsel fee, shall be applied as follows:

(i) To the payment of the interest and principal amount or Redemption Price then due on the Bonds as follows:

First: To the payment of interest then due on the Bonds in the order of the maturity of the installments thereof then due, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due in respect of each Bond, without priority or preference of any Bond over any other; and

Second: To the payment of the unpaid principal amount or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for mandatory sinking fund redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all Bonds due on any date, then to the payment thereof ratably, according to the amounts due in respect of each Bond, without priority or preference of any Bond over any other.

(ii) If any amounts remain after all payments under paragraph (i) above have been made, the balance shall be deposited into the General Fund under the Resolution and thereafter paid to the Treasurer.

If and whenever all amounts due and payable to the Bondholders and the Trustee as a result of the Event of Non-Appropriation have been paid or provision deemed to be adequate by the Trustee for such payment shall be made, the Authority and the Trustee shall be restored, respectively, to their former positions and rights with respect to Bonds under the Resolution. No such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent Event of Non-Appropriation or impair any right consequent thereon.

### **Trustee, Paying Agent and Registrar**

Such bank, trust company, national banking association or other banking institution doing business and having its principal office in the State and having trust powers as shall be named in a Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of any of the Bonds on original issuance, or, as may be designated in a Certificate of Authority Officer, as the case may be, shall be appointed to serve as Trustee. A copy of such Supplemental Resolution or Certificate of Authority Officer shall be certified by the Secretary of the Authority and delivered to such bank, trust company, national banking association or other banking institution. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the terms of the Resolution by executing the certificate of authentication endorsed upon the Bonds upon original issuance and by delivering a written acceptance thereof to the Authority.

By executing such certificate of authentication upon any Bond, the Trustee shall be deemed to have accepted such duties and obligations not only with respect to the Bond so authenticated, but also with respect to all the Bonds to be issued thereafter, but only, however, upon the terms and conditions set forth in the Resolution.

The Authority shall appoint one or more Paying Agents for the Bonds. Such Paying Agents shall be appointed pursuant to a Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of the Bonds, or shall be designated in a Certificate of Authority Officer, as the case may be, and the Authority may at any time or from time to time by Supplemental Resolution or by a Certificate of Authority Officer appoint one or more other Paying Agents for such Bonds. Each Paying Agent shall be a bank, trust company, national banking association or other banking institution doing business and having an office in the State of New Jersey and having trust powers if there be such a bank, trust company, national banking association or other banking institution willing and able to accept the office on reasonable and customary terms and which is authorized by law to perform all the duties imposed upon it by the terms of the Resolution. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the terms of the Resolution by executing and delivering a written acceptance thereof to the Authority and to the Trustee. The Trustee may be appointed and may serve as a Paying Agent for the Bonds.

The Authority shall appoint a Registrar for each Series of Bonds which are issued in registered form by a Supplemental Resolution of the Authority duly adopted prior to the authentication and delivery of such Bonds, or, by a Certificate of Authority Officer, as the case may be. Such Registrar shall be a bank, trust company, national banking association or other banking institution doing business and having an office in the State of New Jersey or in the Borough of Manhattan, City and State of New York, if there be such a bank, trust company, national banking association or other banking institution willing and able to accept the office on reasonable and customary terms and which is authorized by law to perform all of the duties which are imposed upon it by the terms of the Resolution. The Registrar shall signify its acceptance of the duties and obligations imposed upon it by the terms of the Resolution by executing and delivering a written acceptance thereof to the Authority and to the Trustee. The Trustee or the Paying Agent may be appointed and may serve as a Registrar for the Bonds.

### **Defeasance**

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the holders of all Bonds the principal of, redemption premium, if any, and 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 which are pledged under the terms of the Resolution, and all covenants, agreements and other obligations of the Authority to the Bondholders, shall thereupon cease, terminate and become void and shall be discharged and satisfied. In such event, the Trustee shall cause an accounting to be prepared and filed with the Authority for such period or periods as shall be requested by the Authority, and, upon the request of the Authority, the Trustee shall execute and deliver to the Authority, all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee and any Paying Agent shall pay over or deliver to the Authority all moneys or securities which are held by them

pursuant to the terms of the Resolution which are not required for the payment of the principal of, redemption premium, if any, and interest which is due or which is to become due on the Bonds. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the holders of all Outstanding Bonds of a particular Series or maturity within a Series the principal of, redemption premium, if any, and interest, which is due or which is 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 Authority to the holders of such Bonds shall thereupon cease, terminate and become void and shall be discharged and satisfied.

Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust shall be deemed to have been paid within the meaning and with the effect expressed above. All Outstanding Bonds of any Series or of any maturity within a Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee instructions to publish notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities (which are not redeemable at the option of the issuer) the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, which have been deposited with the Trustee at the same time shall be sufficient to pay when due the principal of, redemption premium, if any, and the interest which is due and which is to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee (in a form which is satisfactory to the Trustee) irrevocable written instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven (7) days between publications, in Authorized Newspapers of the Authority, a notice to the holders of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the terms of this Section and such notice shall state such maturity or redemption date upon which moneys are to be available for the payment of the principal of, redemption premium, if any, and interest on said Bonds. To the extent that the moneys or the principal of and interest on the Defeasance Securities to above are sufficient to provide for the defeasance of all Outstanding Bonds, any additional moneys which are generated or which are available may be paid over to the Treasurer by the Trustee and may be used by the Treasurer for any lawful purpose, free and clear of any trust, lien or pledge. Any deficiency in the amounts which are on deposit with the Trustee which are necessary to accomplish a defeasance of the Bonds in accordance with the terms of this Section shall be deposited promptly by the Authority with the Trustee for the purposes of accomplishing said defeasance.

### **Approval of the State Treasurer**

Notwithstanding anything contained in the Resolution to the contrary, the Authority agrees that it will not, without the prior written consent of the Treasurer, take any of the following actions with respect to any of the Bonds: (i) the exercise of any option to redeem Bonds; (ii) the purchase of any Bonds; (iii) the defeasance of any Bonds; (iv) the refunding of

any Bonds; (v) the adoption of any Supplemental Resolution; (vi) the removal of the Trustee or any other Fiduciary appointed under the Resolution or the appointment of any successor Trustee or other successor Fiduciary under the Resolution; and (vii) any amendment or modification of the terms of any Agreement.



**APPENDIX III**

**COPY OF THE STATE CONTRACT**

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AMENDED AND RESTATED CONTRACT

by and between the

TREASURER OF THE STATE OF NEW JERSEY

and the

NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY

Dated As Of: September 1, 2001

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**AMENDED AND RESTATED CONTRACT WITH RESPECT TO  
HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM**

**THIS AMENDED AND RESTATED CONTRACT**, is made as of the 1<sup>st</sup> day of September, 2001, by and between the Treasurer of the State of New Jersey (the "Treasurer"), acting on behalf of the State of New Jersey (the "State"), and the New Jersey Educational Facilities Authority (the "Authority"), a public body corporate and politic of the State.

WITNESSETH:

**WHEREAS**, pursuant to the provisions of the Higher Education Equipment Leasing Fund Act (P.L. 1993, c. 136) (the "Equipment Leasing Fund Act"), the New Jersey Educational Facilities Authority Law, constituting Chapter 72A of Title 18A, Education, of the New Jersey Statutes, as enacted by Chapter 271 of the Public Laws of 1967 was amended and supplemented to provide within the Authority a higher education equipment leasing fund to finance the purchase of higher education equipment at participating public and private institutions of higher education (the "Colleges") within the State; and

**WHEREAS**, the Authority is authorized, pursuant to the Equipment Leasing Fund Act, to issue bonds to finance the purchase of such higher education equipment for lease to the Colleges provided that the total outstanding principal amount of the bonds shall not exceed \$100,000,000 and the term of any bond issued shall not exceed ten (10) years; and

**WHEREAS**, in order to provide funds to pay the costs of acquiring and installing such higher education equipment, the Authority has heretofore issued its Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 1994 A (the "Series 1994 A Bonds"), and secured the same under the terms and provisions of the Higher Education Equipment Leasing Fund Program General Bond Resolution (the "Bond Resolution") adopted by the Authority on August 10, 1994, and the First Supplemental Higher Education Equipment Leasing Fund Program Resolution adopted by the Authority on August 10, 1994 (the "First Supplemental Resolution"); and

**WHEREAS**, pursuant to the Equipment Leasing Fund Act and in order to provide for the payment of debt service on the Series 1994 A Bonds and Additional Bonds issued pursuant to the Bond Resolution, the Authority has heretofore entered into a Contract With Respect to Higher Education Equipment Leasing Fund Program, dated as of August 17, 1994 (the "Original Contract"), with the Treasurer providing for the payment, subject to available annual appropriations, of debt service on the Series 1994 A Bonds and any other Additional Bonds issued pursuant to the Bond Resolution; and

**WHEREAS**, as of September 1, 2000 all of the Series 1994 A Bonds have been retired, such that no Series 1994 A Bonds remain outstanding under the Bond Resolution; and

**WHEREAS**, the Authority, by resolution duly adopted on July 25, 2001, has determined to proceed with one or more additional series of bonds under the higher education equipment leasing

fund program to provide financing to Colleges for the acquisition and installation of such higher education equipment; and

**WHEREAS**, in order to provide funds to pay the costs of acquiring and installing such higher education equipment, the Authority proposes to issue its Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2001 A (the "Series 2001 A Bonds") as a Series of Additional Bonds under the Bond Resolution, and to secure the same under the terms and provisions of the Bond Resolution, as heretofore amended and supplemented, and the Second Supplemental Higher Education Equipment Leasing Fund Program Resolution adopted by the Authority on July 26, 2001 (the "Second Supplemental Resolution"); and

**WHEREAS**, the Authority and the Treasurer propose to amend and restate the Original Contract in order to provide for the payment of debt service on the Series 2001 A Bonds and subsequent Additional Bonds issued pursuant to the Bond Resolution;

**NOW, THEREFORE**, in consideration of the mutual covenants, undertakings and agreements set forth herein, and intending to be legally bound, the Authority and the Treasurer hereby covenant and agree that the Original Contract is hereby amended and restated in its entirety, and hereby covenant and agree as follows:

## ARTICLE I. DEFINITIONS

**Section 1.01. Definitions.** Capitalized terms used herein shall have the meanings set forth below or, where not so defined, in the Bond Resolution.

"Bonds" or "Bonds" means any of the bonds of the Authority which shall be authenticated and delivered under and pursuant to the terms of the Bond Resolution, including Additional Bonds and Refunding Bonds;

"Bond Resolution" means the New Jersey Educational Facilities Authority Higher Education Equipment Leasing Fund Program General Bond Resolution adopted by the Authority on August 10, 1994, as the same may be amended and supplemented from time to time;

"Business Day" means any day that is not a Saturday, Sunday or legal holiday in the State or a day on which banking institutions chartered by the State or the United States are legally authorized to close;

"Code" means the Internal Revenue Code of 1986, as amended;

"Debt Service" means, for any period, as of any date of calculation and with respect to any Bonds, an amount equal to the sum of (i) the interest payable during such period on such Series of Bonds except to the extent such interest is to be paid from deposits made from Bond proceeds, and (ii) the amount payable in respect of the principal and premium, if any, and Sinking Fund Installments, if any, on such Series of Bonds during such period;

"Fiscal Year" means the fiscal year of the State, being the twelve (12) month period beginning on July 1 of each year and ending on June 30 of the succeeding year;

"Series 2001 A Bonds" means the \$87,385,000 aggregate principal amount of Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2001 A, issued by the Authority pursuant to the Equipment Leasing Fund Act, the Resolution and the Second Supplemental Resolution;

"State" means the State of New Jersey;

"State Treasurer's Contract" or "Contract" means this amended and restated agreement which is to be entered into by and between the Treasurer and the Authority, pursuant to Section 5a of the Equipment Leasing Fund Act, together with any and all amendments and supplements thereto;

"Treasurer" means the Treasurer of the State; and

"Trustee" means The Bank of New York, West Paterson, New Jersey, the trustee for the Series 2001 A Bonds appointed under the Second Supplemental Resolution, or any successor thereto.

**ARTICLE II.**  
**ESTABLISHMENT OF FUNDS**

Section 2.01. Revenue Fund. The Authority shall establish and maintain with the Trustee, in accordance with the Bond Resolution, the Revenue Fund.

Section 2.02. Funds and Accounts. The Authority shall establish and maintain with the Trustee the funds and accounts required by the Bond Resolution. Such funds and accounts shall be invested in accordance with the provisions of the Bond Resolution.



**ARTICLE III.**  
**ISSUANCE OF BONDS; APPROVALS OF STATE TREASURER**

**Section 3.01. Issuance of Bonds.** The issuance of the Series 2001 A Bonds and any other Series of Bonds issued pursuant to the Bond Resolution shall be subject to the prior written consent of the Treasurer.

**Section 3.02. Consents.** The Authority agrees that it shall not, without the prior written consent of the Treasurer, take any of the following actions with respect to any of the Bonds:

- (a) the exercise of any option to redeem Bonds;
- (b) the purchase of any Bonds;
- (c) the defeasance of any Bonds;
- (d) the refunding of any Bonds;
- (e) the adoption of any Supplemental Resolution;
- (f) the removal of the Trustee or any other fiduciary appointed under the Bond Resolution or the appointment of any successor trustee or other successor fiduciary under the Bond Resolution; and
- (g) any amendment or modification of the terms of any lease agreement with a participating College.

**Section 3.03. Approvals.** The Authority agrees to use its best efforts to take whatever action the Treasurer deems necessary or desirable to effectuate the purposes and provisions of the Equipment Leasing Fund Act and to request from the Treasurer any approval which is required to be obtained by the Authority under the Bond Resolution. The Treasurer further agrees, upon the request of the Authority, to deliver to the Authority, the State's enacted General Appropriation Act as soon as practicable after such act is available.

**Section 3.04. Disposition of Funds.** When provision has been made for the payment of all outstanding Bonds in accordance with the Bond Resolution, the Authority agrees to direct the Trustee to pay over to the State any available balances in the funds held under the Bond Resolution.

**ARTICLE IV.**  
**REPRESENTATIONS IN RESPECT OF FEDERAL TAX LAWS**

**Section 4.01. Representations in Respect of Federal Tax Laws.** (a) The Treasurer represents that he will not take any action, or fail to take any action that would adversely affect the exclusion from gross income of the holders of the Bonds of the interest on the Bonds. The Treasurer represents that he or she will not take any action or fail to take any action that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code and that the Treasurer will comply with all applicable requirements of Section 148 of the Code.

(b) The Treasurer and Authority agree that a change in the State Contract shall be permitted when necessary to assure continued compliance with Section 148(f) of the Code. The Treasurer and Authority are empowered to amend certain provisions of the State Contract to assure compliance with such Code Section; provided that, the Treasurer and Authority obtain and deliver to the Trustee an opinion of nationally recognized bond counsel to the effect that such change is necessary to assure compliance with the Code. The obligations of the Treasurer and the Authority with respect to the federal tax laws shall survive the payment, redemption or defeasance of the Bonds until the expiration of all statutes of limitation applicable to the Authority with respect to the Bonds and Section 148 of the Code.

**ARTICLE V,**  
**PAYMENTS**

**Section 5.01. Transfer from Revenue Fund.** The Authority shall cause the Trustee to transfer from the Revenue Fund for deposit to the appropriate Funds and Accounts established under the Bond Resolution all amounts on deposit in the Revenue Fund.

**Section 5.02. Pledge of Funds and Accounts.** The Authority and the Treasurer agree that from and after the date of issuance of the Series 2001 A Bonds and so long thereafter as any Bonds shall be Outstanding, the Revenue Fund and all other Funds and Accounts provided for in the Bond Resolution shall be maintained by the Trustee and shall be pledged and applied as provided therein for the benefit and security of the Holders of the Bonds (except the Rebate Fund).

**Section 5.03. Obligation to Pay Bonds.** The Treasurer, acting under this Contract on behalf of the State, hereby agrees to pay, solely from amounts appropriated by the State Legislature, the principal and interest on the Bonds as they become due and payable based on each "Schedule of Payments" delivered to the Treasurer by the Authority promptly after the issuance of any Bonds. Each "Schedule of Payments", shall identify the Bonds and their date of issuance, shall set forth the amounts and dates of principal and interest payments and state the date of approval of the issuance of the Bonds by the Treasurer. The Treasurer, at the sole option of the State, may prepay any such payments in amounts and subject to conditions determined by the Treasurer.

**Section 5.04. Manner of Payment of Bonds.** The Treasurer shall transfer the amounts required to pay principal and interest on the Bonds to the Trustee in immediately available funds at least one business day prior to the due date of such payments. Standing payment instructions shall be provided to the Treasurer by the Authority. All such amounts shall be deposited in the appropriate account of the Revenue Fund. The Authority will maintain that fund, and the appropriate accounts in the fund, with the Trustee until all Bonds have been "paid" (as such term is used in the Resolution).

**Section 5.05. Appropriation as Sole Source of Payment of Bonds.** It is expressly understood that the payment obligations of the Treasurer under this Contract are subject to and dependent upon appropriations being made from time to time by the State Legislature for the purposes of paying principal of and interest on the Bonds.

**Section 5.06. Payments Under Lease Agreements.** In accordance with Section 5 of the Equipment Leasing Fund Act, the Authority agrees to include in its lease agreements with the participating Colleges provisions requiring that each College shall pay an amount equal to 25% of the amount necessary to pay principal and interest on the Bonds issued by the Authority to finance the purchase of Equipment at that College. The Authority agrees to remit immediately to the Treasurer any such amounts received from the Colleges. The Authority shall also include in those lease agreements, an agreement of the College permitting the Treasurer to retain from State aid or an appropriation payable to the College an amount sufficient to satisfy any amount a College fails or is unable to pay under its lease agreement, which acknowledges that any such retention shall not obligate the State to make, nor entitle the College to receive, any additional appropriation or apportionment.

**Section 5.07. No Set Off Against Appropriations.** The Treasurer and the Authority acknowledge that the only source of payment for the Bonds are amounts appropriated by the State Legislature and that amounts appropriated by the State Legislature for the payment of principal of and interest on the Bonds shall be paid, solely from appropriations, in amounts sufficient to meet such principal and interest on the Bonds without set off, counterclaim or other reduction in amounts, including, without limitation, reductions in amounts for failure of an institution to make payments required to be made under any lease agreement.

**ARTICLE VI.**  
**SECURITY FOR BONDS**

Section 6.01. Assignment of State Contract. The parties hereto acknowledge that the Authority intends (a) to pledge and assign this Amended and Restated Contract to the Trustee for the benefit and security of the Bonds; and (b) to require the Trustee to covenant with the holders of the Bonds to enforce the provisions of this Amended and Restated Contract. The Treasurer consents to such pledge and assignment and acknowledges the obligation of the Trustee to enforce the provisions of this Amended and Restated Contract.

**ARTICLE VII.**  
**STATE OBLIGATION SUBJECT TO APPROPRIATIONS**

**Section 7.01. Obligation of State.** It is expressly understood and agreed by the parties hereto that the incurrence of any obligation by the State or the Treasurer under this Contract shall be subject to and dependent upon appropriations being made from time to time by the Legislature for the purposes set forth herein and in the Equipment Leasing Fund Act. The obligation of the State or the Treasurer to pay the amounts provided for herein shall not constitute a debt or liability of the State within the meaning of any constitutional or statutory provision or a pledge of the faith and credit of the State and shall be deemed executory only to the extent of moneys appropriated, and no liability shall be incurred by the State or the Treasurer beyond the moneys then appropriated. For all purposes of this Contract, the references to the State shall include, without limitation, the present and all future Legislatures of the State and the members thereof.

**Section 7.02. Appropriations.** (a) The Treasurer agrees in each Fiscal Year at such time as will be sufficient for it to be included in the Governor's budget message to the Legislature for the ensuing Fiscal Year, to request that the Governor include in such budget message an appropriation of all amounts necessary to pay Debt Service on all Bonds then outstanding as contemplated by this Amended and Restated Contract and provided for in the Equipment Leasing Fund Act.

(b) The Treasurer further agrees to give to the Authority and the Trustee prompt written notice of any failure by the Legislature to include in the enacted General Appropriations Act of the State for such ensuing Fiscal Year an appropriation of an amount equal to all amounts contemplated by this Amended and Restated Contract and provided for in the Equipment Leasing Fund Act.

(c) The Treasurer further agrees that in the event an appropriation has not been made as provided in this Section 7.02 above, the Treasurer shall request the Governor to ask the Legislature for a supplemental appropriation of all such amounts.

(d) The Treasurer shall promptly give written notice to the Authority and the Trustee of the passage of any such supplemental appropriation.

**ARTICLE VIII.**  
**MISCELLANEOUS**

**Section 8.01. Amendments.** This Amended and Restated Contract maybe amended or supplemented, from time to time, to implement further the provisions of the Equipment Leasing Fund Act without the approval of owners of the Bonds, provided that no such amendment or supplement to this Amended and Restated Contract shall adversely affect the interests of the owners of the Bonds. No amendment or waiver of the provisions of the Resolution shall be effective without the prior written consent of the Treasurer other than amendments or waivers that have no effect on the amounts payable by the Treasurer pursuant to this Amended and Restated Contract.

**Section 8.02. Notices.** Any notice to, or other instrument to be filed with, or demand upon the Trustee may be served, presented or made by being hand-delivered or sent by registered or certified United States mail or overnight courier service addressed to the Corporate Trust Department of the Trustee at 385 Rifle Camp Road, West Paterson, New Jersey 07424, or such other address as may be filed in writing by the Trustee with the Authority and the Treasurer. Any notice to, or other instrument to be filed with, or demand upon the Authority shall be deemed to have been sufficiently given or served, presented or made by the Trustee or others for all purposes by being hand-delivered or sent by registered or certified United States mail or overnight courier service addressed to the Authority at 101 College Road East, Princeton, New Jersey 08540, or at such other address as may be filed in writing by the Authority with the Trustee and the Treasurer. Any notice to, or other instrument to be filed with, or demand upon the Treasurer shall be deemed to have been sufficiently given or served, presented for all purposes by being hand-delivered or sent by registered or certified United States mail or overnight courier service addressed to the Treasurer in care of the Office of Public Finance at 50 West State Street, 5th Floor, P.O. Box 002, Trenton, New Jersey 08625, or at such other address as may be filed in writing by the Treasurer with the Trustee and the Authority; except that service of process upon the Treasurer shall be made upon the Attorney General of New Jersey pursuant to New Jersey Court Rule 4:4-4(f).

**Section 8.03. Effective Date of Agreement.** This Amended and Restated Contract shall become effective immediately upon its execution and delivery by the Treasurer and the Authority.

**Section 8.04. Termination of Agreement.** This Amended and Restated Contract shall not terminate unless (i) the Treasurer shall have paid or made provision for payment of all Bonds secured by this Amended and Restated Contract and (ii) the Treasurer shall deliver a written notice to the Authority to the effect that this Amended and Restated Contract has been terminated. When all Bonds have been paid (within the meaning of the Resolution) and fees and expenses required to be paid under the Resolution have been paid or provided for, all other available funds shall be turned over to the Treasurer.

**Section 8.05. Signatories.** None of the signatories to this Amended and Restated Contract shall have any personal liability or accountability as a result of their execution of this Amended and Restated Contract.

**Section 8.06. Construction.** This Amended and Restated Contract shall be construed and governed in accordance with the laws of the State of New Jersey.

**Section 8.07. Statutory Debt Limitation.** The aggregate Outstanding principal amount of bonds, notes or other obligations outstanding at any one time, exclusive of Refunding Bonds, pursuant to the Program and under the provisions of the Equipment Leasing Fund Act may not exceed \$100,000,000.


**Section 8.08. Severability of Invalid Provisions.** If any one or more of the covenants, representations or agreements provided in this Amended and Restated Contract to be performed on the part of the Authority or the Treasurer shall be determined to be contrary to law, then such covenant or covenants, representation or representations, or agreement or agreements shall be deemed severable from the remaining covenants, representations, or agreements contained herein and shall not in any way affect the validity of the other provisions of this Amended and Restated Contract.

**Section 8.09. Counterparts.** This Amended and Restated Contract may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute but one and the same instrument.



IN WITNESS WHEREOF, the Treasurer by its duly authorized deputy and the Authority by its duly authorized officer, each acting in their official capacities, have caused this Amended and Restated Contract to be executed and delivered as of September 1, 2001.

TREASURER OF THE STATE OF NEW JERSEY

By:   
Peter R. Lawrance  
Acting Treasurer

NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY

By:   
Victor Cantillo  
Executive Director

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**APPENDIX IV**

**FORM OF THE CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** (the “Disclosure Agreement”) is made as of the 30th day of January, 2014, by and among the TREASURER OF THE STATE OF NEW JERSEY (the “Treasurer”), the NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY (the “Authority”), a public body corporate and politic of the State of New Jersey (the “State”), and The Bank of New York Mellon, as Dissemination Agent (the “Dissemination Agent”), in its capacity as trustee under the Higher Education Equipment Leasing Fund Program General Bond Resolution adopted by the Authority on August 10, 1994 (the “General Bond Resolution”), as supplemented by the Fourth Supplemental Higher Education Equipment Leasing Fund Program Resolution, adopted by the Authority on December 12, 2013 and by a Series Certificate dated the date of the sale of the Series 2014 Bonds (defined below) (collectively, the “Resolution”). This Disclosure Agreement is entered into in connection with the issuance and sale of the Authority’s \$89,340,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014 (the “Series 2014 Bonds”) consisting of \$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014A and \$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014B.

**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 2014 Bonds (collectively, the “Bondholders” or the “Holders”) and in compliance with Rule 15(c)(2)-12(b)(5) of the Securities and Exchange Commission (the “SEC”), as it may be amended from time to time, including administrative or judicial interpretations thereof, as it applies to the Series 2014 Bonds.

**SECTION 2. Definitions.** In addition to the definitions set forth above and 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:

“**Continuing Disclosure Information**” shall mean, collectively, (i) Treasurer’s Annual Reports, (ii) any notice required to be filed with the MSRB pursuant to Section 3(c) of this Disclosure Agreement, and (iii) any notice of a Listed Event required to be filed with the MSRB pursuant to Section 5(c) of this Disclosure Agreement;

“**Listed Event or Listed Events**” shall mean any of the events listed in Section 5(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 Authority;

“**Rule**” shall mean Rule 15(c)(2)-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 Series 2014 Bonds; and

**“Treasurer’s Annual Report”** shall mean the Treasurer’s Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

**SECTION 3. Provision of the Treasurer’s Annual Report.**

(a) The Treasurer shall, no later than March 15, 2014 and March 15 of each year during which any of the Series 2014 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 4 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 the MSRB’s internet website 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 provided 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 3, the Dissemination Agent shall send a notice to the Treasurer and the Authority 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 A 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 3, 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 3.

(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 3 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 A hereto.

#### **SECTION 4. Contents of the 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 Authority circulated in connection with the issuance of the Series 2014 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 I-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 4.

(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 5. Reporting of Listed Events.**

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following listed events (the "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 Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds;
- (7) Modification to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances of the Series 2014 Bonds;
- (10) Release, substitution or sale of property securing repayment of the Series 2014 Bonds, if material;
- (11) Rating changes relating to the Series 2014 Bonds;
- (12) Bankruptcy, insolvency, receivership or similar event of the Authority;
- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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 for the Series 2014 Bonds or the change of name of a trustee for the Series 2014 Bonds, if material.

(b) The Treasurer shall in a timely manner not in excess of seven (7) Business Days after the occurrence of any Listed Event notify the Dissemination Agent in writing to report the event pursuant to subsection (c) of this Section 5. The Authority shall promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events notify the Treasurer in writing of the occurrence of such event, but shall not be required to give any such notice to the Dissemination Agent. In determining the materiality of any of the Listed Events specified in subsection (a) of this Section 5, the Treasurer and the Authority may, but shall not be required to, rely conclusively on an Opinion of Counsel.

(c) If the Dissemination Agent has been instructed by the Treasurer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB within three (3) Business Days of the receipt of such instruction, but in no event later than ten (10) Business Days after the occurrence of a Listed Event. In addition, notice of



Listed Events described in subsections (a)(8) and (9) of this Section 5 shall be given by the Dissemination Agent under this subsection simultaneously with the giving of the notice of the underlying event to the Holders of the affected Series 2014 Bonds pursuant to the Resolution.

(d) Notwithstanding anything to the contrary in this Disclosure Agreement, in order to expedite the transmission of the occurrence of Listed Events as set forth in this Section 5, the Treasurer shall have the option, but shall not be obligated to, file timely notice (which notice, if filed, shall not be filed in excess of ten (10) Business Days after the occurrence of any Listed Event), directly with the MSRB, copying the Dissemination Agent on any such notice.

**SECTION 6. Termination of Reporting Obligation.** The respective obligations of the Treasurer and the Authority under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series 2014 Bonds.

**SECTION 7. Amendment; Waiver.** Notwithstanding any other provisions of this Disclosure Agreement, the Authority 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 Treasurer, the Authority and the Dissemination Agent 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 8. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Treasurer or the Authority 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 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 Treasurer or the Authority chooses to include any information in any 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 Disclosure Agreement to update or continue to provide such information or include it in any future Treasurer's Annual Report or notice of occurrence of a Listed Event.

**SECTION 9. Default.**

(a) In the event of a failure of the Treasurer or the Authority 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 Series 2014 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 Authority 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. Notwithstanding the foregoing, the right of any Bondholder to challenge the adequacy of information provided pursuant to this Disclosure 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 Treasurer or the Authority 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 Treasurer or the Authority may, but shall not be required to, rely on an Opinion of Counsel with respect to matters of a legal nature.

**SECTION 10. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Dissemination Agent and the Bondholders, and each 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 11. Reimbursement of the Dissemination Agent.** The provisions of Section 1207 of the General Bond Resolution relating to reimbursement of a Fiduciary shall apply to the performance by the Dissemination Agent of its obligations as Dissemination Agent under this Disclosure Agreement.

**SECTION 12. 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 Authority:

New Jersey Educational Facilities Authority  
103 College Road East, 2<sup>nd</sup> Floor  
Princeton, New Jersey 08540  
Attn: Executive Director

(ii) If to the Treasurer:

New Jersey Department of the Treasury  
c/o Office of Public Finance  
50 West State Street, 5<sup>th</sup> Floor  
P.O. Box 005  
Trenton, New Jersey 08625  
Attn: Director, Office of Public Finance

(iii) If to the Dissemination Agent:

The Bank of New York Mellon  
385 Rifle Camp Road  
Woodland Park, New Jersey, 07424  
Attention: Corporate Trust Administration

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 12 for the giving of notice.

**SECTION 13. Successors and Assigns.** All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the Treasurer, the Authority or the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

**SECTION 14. 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 hereof.

**SECTION 15. 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 16. 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 17. Governing Law and Venue.** This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State. The parties hereto agree that the Authority, the Treasurer or the State may be sued, pursuant to Section 9 hereof, only in a State court in the County of Mercer in the State.

**SECTION 18. 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 Authority, and receives compensation or fees in excess of \$50,000 or more in the aggregate from public entities, such as the Authority, 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](http://www.elec.state.nj.us).

**SECTION 19. 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.

**IN WITNESS WHEREOF**, the parties hereto have caused this Disclosure Agreement to be executed and delivered by their proper and duly authorized officers as of the day and year first above written.

**TREASURER, STATE OF NEW JERSEY**

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ANDREW P. SIDAMON-ERISTOFF

**NEW JERSEY EDUCATIONAL FACILITIES  
AUTHORITY**

By: \_\_\_\_\_  
DEREK S. HANSEL  
Executive Director

**THE BANK OF NEW YORK MELLON,  
as Dissemination Agent**

By: \_\_\_\_\_  
JOSEPH MATE  
Vice President

EXHIBIT A

NOTICE OF FAILURE TO FILE AN ANNUAL REPORT

Name of Issuer: New Jersey Educational Facilities Authority

Name of Bond issue affected: \$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014A and \$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014B

Date of Issuance of the affected issues: January 30, 2014

NOTICE IS HEREBY GIVEN that the Treasurer of the State of New Jersey has not provided a Treasurer's Annual Report with respect to the above-named Bond issue as required by Section 3 of the Continuing Disclosure Agreement dated as of January 30, 2014 by and among the Treasurer, the New Jersey Educational Facilities Authority 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 Treasurer's Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**THE BANK OF NEW YORK MELLON,  
as Dissemination Agent**

By: \_\_\_\_\_  
Name:  
Title:

cc: State Treasurer  
NJ Educational Facilities Authority

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**APPENDIX V**

**FORM OF OPINION OF BOND COUNSEL**

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**NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY**

\$89,340,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue,  
Series 2014  
consisting of

\$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue,  
Series 2014A  
and

\$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue,  
Series 2014B

January 30, 2014

New Jersey Educational Facilities Authority  
Princeton, New Jersey

The Honorable Andrew P. Sidamon-Eristoff  
Treasurer, State of New Jersey  
Trenton, New Jersey

We have acted as bond counsel in connection with the issuance on the date hereof by the New Jersey Educational Facilities Authority (the “**Authority**”), a body corporate and politic constituting a public instrumentality of the State of New Jersey (the “**State**”), of its \$89,340,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014 (the “**Series 2014 Bonds**”) consisting of \$82,235,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program, Series 2014A (the “**Series 2014A Bonds**”), and \$7,105,000 Revenue Bonds, Higher Education Equipment Leasing Fund Program Issue, Series 2014B (the “**Series 2014B Bonds**”).

The Series 2014 Bonds are issued pursuant to (i) the New Jersey Educational Facilities Authority Law, L. 1967, c. 271, as amended and supplemented (the “**Act**”), (ii) the Higher Education Equipment Leasing Fund Act, L. 1993, c. 136, as amended and supplemented (the “**Equipment Leasing Fund Act**”) and (iii) a resolution of the Authority entitled “Higher Education Equipment Leasing Fund Program General Bond Resolution” adopted by the

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Authority on August 10, 1994, as amended and supplemented, including by a Fourth Supplemental Higher Education Equipment Leasing Fund Program Resolution adopted by the Authority on December 12, 2013 and a Series Certificate of the Authority dated the date of the sale of the Series 2014 Bonds (collectively, the “**Resolution**”). Capitalized terms used herein but not defined shall have the meanings given to them in the Resolution, unless the context clearly indicates otherwise.

Pursuant to the Act, the Authority has entered into a Contract With Respect to Higher Education Equipment Leasing Fund Program, dated as of August 17, 1994, with the Treasurer of the State (the “**Treasurer**”), as amended and restated by the Amended and Restated Contract With Respect to Higher Education Equipment Leasing Fund Program, dated as of September 1, 2001 (collectively, the “**State Contract**”), pursuant to which the Treasurer, subject to and dependent upon available appropriations by the New Jersey State Legislature, agrees to pay the amount necessary to pay principal of and interest on the Series 2014 Bonds.

The Equipment Leasing Fund Act, among other things, empowers the Authority to issue its obligations to obtain funds to finance the purchase of Higher Education Equipment (as such term is defined in the Act) at public and private institutions of higher education located in the State. The Series 2014A Bonds are being issued for the purpose of providing funds which will be used to (i) finance the cost of acquiring and installing Higher Education Equipment for public institutions of higher education located in the State, and (ii) pay the costs of issuance of the Series 2014A Bonds. The Series 2014B Bonds are being issued for the purpose of providing funds which will be used to (i) finance the cost of acquiring and installing Higher Education Equipment for private institutions of higher education located in the State, and (ii) pay the costs of issuance of the Series 2014B Bonds. In connection with the issuance of the Series 2014 Bonds, the Authority will enter into lease agreements, as lessor (each, a “**Lease**” and collectively, the “**Leases**”), with the public or private institutions of higher education in the State (each a “**Participant**” and collectively, the “**Participants**”) that finance the acquisition of Higher Education Equipment with the proceeds of the Series 2014 Bonds.

The Series 2014 Bonds are dated the date of issuance. Interest on the Series 2014 Bonds will be paid semi-annually on each June 1 and December 1, commencing December 1, 2014. The Series 2014 Bonds mature on the dates and in the principal amounts, bear interest at the respective rates per annum at the times, in the manner and upon the terms all as set forth in the Resolution.

The Series 2014 Bonds are issuable only in fully registered form without coupons and, when issued, will be registered initially in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York, an automated depository for securities and clearinghouse for securities transactions. Purchases of the Series 2014 Bonds will be in book-entry only form without certificates in the denominations of \$5,000 or integral multiples thereof. The Series 2014 Bonds of each series are lettered and numbered from one upward preceded by the letter “R” prefixed to the number.

As bond counsel and in connection with the opinions set forth below, we have examined an executed counterpart or certified copies of the Resolution, the State Contract, the form of the Series 2014 Bonds and applicable laws. In addition, we have examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents listed in the record of proceedings relating to the issuance of the Series 2014 Bonds, and such matters of law and other proofs, as we have deemed necessary for the purposes of the opinions rendered below. In such examination, we have assumed 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. We have relied upon the aforesaid instruments, certificates and documents as to any facts material to our opinion, when relevant facts were not independently established and on the performance of the covenants of the Authority contained in the Resolution. We have relied, as to the execution, authentication and delivery of, and payment for, the Series 2014 Bonds, on certificates of the Authority and the Trustee.

The Internal Revenue Code of 1986, as amended (the “**Code**”) contains provisions relating to the tax-exempt status of interest on obligations which apply to the Series 2014 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Series 2014 Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Authority and the Participants subsequent to the issuance and delivery of the Series 2014 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. We have examined the Tax Certificate of the Authority (the “**Authority Tax Certificate**”) and the Tax Certificates of the Participants (the “**Participant Tax Certificates**”) and together with the Authority Tax Certificate, the “**Tax Certificates**”), delivered in connection with the issuance of the Series 2014 Bonds, which contain provisions and procedures regarding compliance with the requirements of the Code. The Authority has represented in the Authority Tax Certificate that it expects and intends to comply, and to the extent permitted by law, will comply, with such requirements. In addition, the Participants have made covenants in the Participant Tax Certificates to comply with such applicable requirements.

Under Treasury Regulation Section 1.150-1(c)(3), the Authority has the ability to treat bonds that would otherwise be treated as one issue as separate issues for certain purposes of the Code if each series could otherwise qualify as a tax-exempt bond issue. The Series 2014A Bonds and the Series 2014B Bonds are being treated as separate issues for certain purposes of the Code; that is, the Series 2014A Bonds are being treated as traditional governmental bonds and the Series 2014B Bonds are being treated as qualified 501(c)(3) bonds. With respect to the Series 2014B Bonds, failure to comply with certain of the provisions relating to qualified 501(c)(3) bonds by the Series 2014B Bonds Participants could cause the interest on the Series 2014B Bonds to be includable in gross income of the Series 2014B Bondholders retroactive to the date of issuance of the Series 2014B Bonds, but may not cause the interest on the Series 2014A Bonds or the HETI Bonds (defined below) to be so includable in the gross income of those Bondholders as a result of the treatment of the Series 2014B Bonds as a separate issue

under Treasury Regulation Section 1.150-1(c)(3). However, under Treasury Regulation Section 1.150-1(c)(3), the Series 2014A Bonds and the Series 2014B Bonds may not be treated as separate issues for certain provisions of the Code, including those provisions relating to arbitrage and arbitrage rebate. As such, failure to comply with certain requirements under the Code relating to the Series 2014B Bonds could cause the interest on the Series 2014A Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds, and failure to comply with certain requirements under the Code relating to the Series 2014A Bonds could cause the interest on the Series 2014B Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds.

On or around January 30, 2014, the Authority is also issuing its Revenue Bonds, Higher Education Technology Infrastructure Fund Issue, Series 2014 (the “**HETI Bonds**”). The HETI Bonds will be used to finance grants to be made to public and private institutions of higher education for technology infrastructure pursuant to the Higher Education Technology Infrastructure Fund Act, N.J.S.A. 18A:72A-59 *et seq.* The HETI Bonds are issued under a separate bond resolution from the Series 2014 Bonds, are secured by a separate contract with the State Treasurer and are being sold pursuant to a separate official statement from the Series 2014 Bonds. Under the federal income tax regulations, generally, if two or more bond issues are sold at substantially the same time, pursuant to a common plan of finance and are reasonably expected to be paid from the same source of funds for federal income tax purposes, then for federal income tax purposes, such bond issues will be treated as one issue. The effect of being treated as one issue for federal income tax purposes is that the failure to comply with the federal income tax law requirements for one issue that must be satisfied by one issue could cause the interest on the other issue to be includable in gross income of the holders of the other issue retroactive to the date of issuance of such issue. The Series 2014 Bonds and the HETI Bonds are being treated as one issue for federal income tax purposes. As such, the failure to comply with certain of such requirements relating to the HETI Bonds could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds.

In rendering the opinion provided in paragraph (5) below, we have relied upon and assumed: (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of facts contained in the Tax Certificates with respect to matters affecting the exclusion of interest on the Series 2014 Bonds from gross income for federal income tax purposes under Section 103 of the Code; and (ii) compliance by the Authority and the Participants with the applicable provisions of the Tax Certificates as to such tax matters.

Based on the foregoing, we are of the opinion, on the date hereof, that:

(1) The Authority is a body corporate and politic constituting a public instrumentality of the State duly created and validly existing under and by virtue of the Act, and the Authority had and has the right, power and authority under the Act and the Equipment Leasing Fund Act to adopt the Resolution and to issue the Series 2014 Bonds.

(2) The Resolution has been duly adopted by the Authority, is in full force and effect and is valid and binding upon the Authority, enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Revenues, and all moneys, securities and funds which are held or set aside under the Resolution, subject to and dependent upon appropriations being made from time to time by the New Jersey State Legislature for such purpose, and subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

(3) The Series 2014 Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State, including the Act and the Equipment Leasing Fund Act, and the Resolution, constitute valid and binding special, limited obligations of the Authority as provided in the Resolution, are entitled to the benefits of the Resolution, the Act and the Equipment Leasing Fund Act and are enforceable in accordance with their terms and the terms of the Resolution.

(4) The State Contract is in full force and effect and is valid and binding upon the Authority and the Treasurer and is enforceable against the Authority and the Treasurer in accordance with its terms, and the Series 2014 Bonds are issued in compliance with and are entitled to the benefits of the State Contract. Payments to the Authority by the Treasurer pursuant to the State Contract are subject to and dependent upon appropriations being made from time to time by the New Jersey State Legislature for such purpose. The New Jersey State Legislature has no legal obligation to make such appropriations.

(5) Interest on the Series 2014 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the Authority and the Participants comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Series 2014 Bonds to be so includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. As discussed above, failure to comply with certain of such requirements applicable to the HETI Bonds could cause the interest on the Series 2014 Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. Additionally, failure to comply with certain requirements under the Code relating to the Series 2014B Bonds could cause the interest on the Series 2014A Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds, and failure to comply with certain requirements under the Code relating to the Series 2014A Bonds could cause the interest on the Series 2014B Bonds to be includable in gross income retroactive to the date of issuance of the Series 2014 Bonds. The Authority has represented in the Authority Tax Certificate that it expects and intends to comply, and to the extent permitted by law, will comply, with such requirements. In addition, the Participants have made covenants in the Participant Tax Certificates to comply with such requirements. We express no opinion regarding other federal tax consequences relating to the Series 2014 Bonds or the receipt of interest thereon.

Interest on the Series 2014 Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Series 2014 Bonds is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to the corporate alternative minimum tax.

(6) Under existing statutes, interest on and any gain realized from the sale of the Series 2014 Bonds is not includable in gross income under the existing New Jersey Gross Income Tax Act.

The foregoing opinions are qualified to the extent that the enforceability of the Resolution, the State Contract, the Series 2014 Bonds and all related obligations of the various parties thereto may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights and remedies of creditors generally, and general principles of equity. In addition, we wish to advise you that no opinion is being rendered as to the availability of any particular remedy under the Resolution, the State Contract or the Series 2014 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or interpretations thereof, that may hereafter occur.

Very truly yours,







**\$89,340,000 NEW JERSEY EDUCATIONAL FACILITIES AUTHORITY • REVENUE BONDS  
HIGHER EDUCATION EQUIPMENT LEASING FUND PROGRAM ISSUE • SERIES 2014**